

A large, stylized graphic on the left side of the page, composed of overlapping, rounded rectangular shapes in shades of green, teal, and blue, with a white arrow pointing to the right.

NEW ENCOUNTER

FOR SUSTAINABILITY

A horizontal line with a blue dot at the start and a white arrow pointing to the right.

2022 KT&G INTEGRATED REPORT

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ABOUT THIS REPORT

REPORT OVERVIEW

KT&G publishes the KT&G Report every year, which contains activities, achievements, and future plans for the company's sustainable growth and social value creation, as a way of communicating extensively with stakeholders and listening to their opinions. Always striving for harmonious development in environmental and social aspects, we at KT&G have carefully reviewed recommendations for the disclosure of ESG-related global initiatives and reflected these suggestions in the 2022 KT&G Report. Moving ahead, we plan to transparently disclose major sustainability management issues, activities, and achievements through the KT&G Report.

REPORTING PERIOD

This report covers sustainability business activities and performances for the fiscal year from January 1 through December 31, 2022. In addition, the quantitative data covers three-year data from 2020 to 2022 to show yearly trends and includes some activities for four-year data from 2019 to 2022. It may include significant sustainability business activities and performances in the first half of 2023 to provide timely information.

REPORTING SCOPE

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

REPORTING STANDARDS

This report has been prepared in accordance with the Global Reporting Initiative (GRI) Standards 2021, a set of international reporting guidelines for sustainability management. To accurately represent significant industry-related concerns, we have incorporated the Sustainability Accounting Standards Board (SASB) indicators. As well as this, we have additionally considered global sustainability management standards and initiatives such as the Sustainable Development Goals (UN SDGs) and Task Force on Climate-related Financial Disclosures (TCFD).

THIRD-PARTY ASSURANCE

To ensure the quality of reporting content and reliability of data, third-party assurance was conducted, thereby securing open data, authenticity of content, and fairness. The assurance statement is included in the ESG Factbook.

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INTERACTIVE PDF

This report has been published as an interactive PDF, allowing readers to move to pages in the report, and including shortcuts to related web pages and video clips.



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This report is available for download in PDF format at the KT&G Website.



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SOCIAL CONTRIBUTION REPORT

IMAGINE A BETTER TOMORROW

As a global corporate citizen, KT&G does its utmost to create a sustainable tomorrow in partnership with stakeholders. At KT&G, we promote various social contribution activities together with people, society, and the environment based on our management philosophy of being an “Inclusive Company” and disclose our achievements and plans in our social contribution activity report.

ENVISION

KT&S is shaping the future based on sustainability, from a global perspective.

As KT&G embarks on a new challenge to become a global Top-Tier firm, we systematically incorporate and strategically align ESG values to set our direction. As we are accelerating the pace of our actions to achieve the “New Vision”, we envision the creation of a new path toward sustainable growth.

President & CEO of KT&G
Baek, Bok-In

LETTER TO STAKEHOLDERS

We will build KT&G's unique, strong assets by proactively responding in times of uncertainty and change guided by our new vision based on "sustainability".

President & CEO
Baek, Bok-In



Environmental, social, and economic/geopolitical risks have become a part of daily life. As challenging and unpredictable as recent several years have been, sustainability has become a corporate imperative for survival.

KT&G understands that the core of ESG is "sustainability" and links ESG to our corporate value. We have therefore integrated it into our mid-to long-term growth strategy and set new vision and direction, going beyond passive response.

KT&G will achieve more than 60% of revenue in non-CC (conventional cigarette) businesses by 2027 by actively seizing growth opportunities for the NGP (Next Generation Products) business, that provides consumers with better choices, and by leveraging global wellness market opportunities, with the health functional food business taking the lead. This signifies a mid-to long-term transition of the Group's business portfolio. Within the next five years, KT&G will go beyond the nation's No. 1 and develop into a global Top-Tier firm, with global business revenue accounting for more than 50%, based on competitiveness of key growth businesses that are connected to ESG values, including NGP and health functional food.

KT&G Group has been making continuous efforts to establish a healthy ecosystem that will serve as a solid foundation of global growth as well.

In 2021, we established our 2030 environmental management vision, "KT&G Green Impact," and have been accelerating the pace of execution, generating practical outcomes. Our domestic and overseas business sites achieved GHG reductions of 7.5% over last two years despite increased production. In 2023, we are reinforcing execution with the goal of expanding renewable energy to more than 18% through photovoltaic power generation installed on rooftops of our business sites and other measures. In addition, we established a goal for promoting diversity & inclusion in 2023 to facilitate diversity of employees, the foundation and key competitiveness of KT&G, and to systematically foster global talent who will lead future innovative growth. Going forward, we will align this goal with our "Global Mobility" strategy and manage it based on a company-wide policy.

Sustainability-related disclosure needs to be managed more transparently and strictly amid the establishment of extensive ESG-related regulations in Korea and abroad. In response, we will make increased efforts to manage ESG risks and opportunities that may impact our business strategies and financial condition and to secure a considerable amount of reliable, high-quality data. In particular, as a way to systematically respond to the rise of global ESG disclosure standards and to improve our execution capabilities in important ESG areas, we established the 2030 KT&G Group Sustainability Management Goal, which covers such businesses as the health functional food business, major growth driver of the Group. Accordingly, it will enable us to spread our ESG execution capabilities to the Group subsidiaries and disseminate this culture to the entire value chain, thereby contributing to building and leading a sustainable business ecosystem.

To all of our stakeholders taking interest in and providing support to KT&G's journey,

Innovation comes from problems and limitations, rather than abundance and smooth sailing. I believe a bigger issue translates into a bigger opportunity, and greater limitations are the beginning of greater success.

KT&G Group is facing a turning point and a time of drastic change that is unprecedented in our history of 140 years, amid a sharp paradigm shift of the tobacco industry and growth opportunities of the global health functional food market. KT&G Group has been quickly adapting to the world's changes for 20 years after privatization and building strong assets that transform difficulties into success, and is now set to take on new challenge. I ask for your various opinions, continued interest, and warmhearted encouragement towards our journey to achieve the New Vision.

Thank you.

KT&G AT A GLANCE

Corporate Profile

Under our corporate philosophy of being “Exemplary,” “Progressive,” and “Inclusive,” KT&G imagines together with our customers as we strive to create a better life. We are generating performance in various business areas such as the health/functional food, pharmaceutical, bio, and real estate business as well as the next-generation tobacco business, which will be the engine of future growth. While evolving into a globally outstanding company through change and innovation, we continue to create social value and expanding sustainability management activities.

Company name	Establishment	CEO	Headquarters	No. of employee
KT&G Corporation	April 1, 1987	Baek, Bok-In	71, Beotkkot-gil, Daedeok-gu, Daejeon, Republic of Korea	4,469 ¹⁾ <small>¹⁾ As of December 31, 2022; and based on direct employment</small>

Milestones	Beginning of Korean Tobacco History	Development and Advancement through Innovation	Present Giant Global Company	
	1883-1980	1987-2002	2003-	
	<p>1883</p> <ul style="list-style-type: none"> Founded the Sunhwaguk <p>1965-1983</p> <ul style="list-style-type: none"> Completed construction of major manufacturing plants in Korea 	<p>1987</p> <ul style="list-style-type: none"> Founded the Korea Monopoly Corporation <p>1989</p> <ul style="list-style-type: none"> Founded the Korea Tobacco & Ginseng Corp. <p>1999</p> <ul style="list-style-type: none"> Listed on the Korea Stock Exchange Separation of Red Ginseng Business (Launched the KGC) <p>2002</p> <ul style="list-style-type: none"> Changed the corporation name from Korea Tobacco & Ginseng Corp. to KT&G Corp. 	<p>2003</p> <ul style="list-style-type: none"> Founded the KT&G Welfare Foundation <p>2005</p> <ul style="list-style-type: none"> Received the Presidential Award for employee job training <p>2006</p> <ul style="list-style-type: none"> Selected as the best corporation by the Korean Corporate Governance Improvement Support Center in its corporate governance performance evaluation <p>2007</p> <ul style="list-style-type: none"> Received the Excellence Award from the Korea Investors Relations Association (3 consecutive years) <p>2008</p> <ul style="list-style-type: none"> Established the KT&G Scholarship Foundation Established a local subsidiary in Russia and Iran Received the Grand Award from the Korea Investors Relations Association Awarded for reaching the USD 400 million export target <p>2010</p> <ul style="list-style-type: none"> Included in the DJSI World Completed construction of plant in Russia 	
	<p>2011</p> <ul style="list-style-type: none"> Acquired Trisakti (Indonesian tobacco company) Selected as the best corporation for corporate governance in 2011 <p>2012</p> <ul style="list-style-type: none"> Received A Level in the ESG evaluation by the Korea Corporate Governance Service (KCSG) <p>2013</p> <ul style="list-style-type: none"> Developed low ignition point tobacco and flavoring capsule for tobacco filters Selected as a No. 1 company in the tobacco category of the National Customer Satisfaction Index (NCSI) <p>2014</p> <ul style="list-style-type: none"> Won the Minister Prize of Trade, Industry and Energy at the 36th Energy Saving Competition <p>2015</p> <ul style="list-style-type: none"> Won the Presidential Prize at the 2015 Mecenat Award Won the Grand Prize at the Korea HRD training facility sector 	<p>2016</p> <ul style="list-style-type: none"> Won the Grand Prize at the 2016 Korea HRD Award Certified as a “leisure-friendly company” by the Ministry of Culture, Sports and Tourism and selected as “Excellent Institution for Culture and Arts Sponsorship” <p>2017</p> <ul style="list-style-type: none"> Launched heat-not-burn products “lil” and “Fiit” Selected as an excellent company in gender equality in employment by the Ministry of Employment and Labor Awarded the USD 400 million export tower Won the Grand Prize at the 2017 Korea HRD Award (2 consecutive years) <p>2018</p> <ul style="list-style-type: none"> Launched “lil HYBRID” Won A+ (the highest) Level in the ESG evaluation by the KCSG Won the Prime Minister Prize as a family-friendly company by the Ministry of Gender Equality and Family Won the Presidential Prize for contributing to law and order by the Ministry of Justice 	<p>2019</p> <ul style="list-style-type: none"> Won the Grand Prize for corporate governance by the KCSG Won the Minister of National Defense Award at the Korea Volunteer Grand Prize by the Korea United Nations Volunteer Corps Minister of Employment and Labor’s commendation for “person of merit in fostering social enterprises” <p>2020</p> <ul style="list-style-type: none"> Formed a partnership with PMI (Philip Morris International) Korea Intellectual Property Association “Intellectual Property Management Company of the Year” Commendation from the Commissioner of the Korean Intellectual Property Office Opened the SangSang Planet and SangSang Madang Busan <p>2021</p> <ul style="list-style-type: none"> Established a local subsidiary in Taiwan Received the AA rating in MSCI ESG Ratings (2 consecutive years) Won the Presidential Citation for Social Economy Promotion Merit 	<p>2022</p> <ul style="list-style-type: none"> Awarded the Korea Brand Hall of Fame (4 consecutive years in the category of cigarette-type e-cigarette) Awarded the Contribution to Shared Growth Award from the Minister of SMEs and Startups Awarded the Prime Minister’s Sustainability Management Excellence Award hosted by the Korea Productivity Center Received the Presidential Commendation for job creation from the Ministry of Employment and Labor <p>2023</p> <ul style="list-style-type: none"> Established a local subsidiary in Kazakhstan Signed the KT&G-PMI Global Collaboration Agreement

KT&G AT A GLANCE

Global Business Network



Global CoE

KT&G is focused on disseminating the proven business knowledge and experience accumulated by each functional organization at the head office, with a special focus on the CoE (Center of Excellence), to overseas organizations, with the goal of expanding and accelerating our global business, which is one of our growth engines.

We are strengthening and advancing the operation of CoE system with the ultimate goal of enabling all functional organizations, ranging from sales to marketing, finance, legal, manufacturing, and R&D, to implement optimized business strategies that encompass the head office and overseas organizations within their respective areas of expertise. Going forward, we plan to aggressively expand our global business and upgrade overseas operations by continuously enlarging the scale of CoE participants and operational tasks, thereby accelerating our leap towards a global top-tier company.

Highlights by Business Unit in 2022



Tobacco

- Sales KRW 3,573.8 billion
- Export destinations 126 countries (cumulative)
- Number of brands exported 642 SKU



Health Functional Food

- Sales KRW 1,388.9 billion
- Portion of overseas sales 20.5%
- No. of patents 289



Pharmaceuticals

- Sales KRW 218.0 billion
- New product approval and launch 16 items



Cosmetics

- Sales KRW 63.4 billion
- Number of new clients 31



Real Estate

- Sales KRW 607.3 billion
- Percentage of sales 10.4%

FINANCIAL HIGHLIGHTS

Statement of Income

Category	Unit	Consolidated			Separate		
		2020	2021	2022	2020	2021	2022
Sales	KRW billion	5,055.3	5,228.4	5,851.4	3,435.4	3,490.5	3,694.4
Operating profit	KRW billion	1,473.2	1,338.4	1,267.7	1,337.0	1,083.4	1,120.3
Net profit	KRW billion	1,171.6	971.8	1,005.3	1,075.3	852.9	958.0
Comprehensive income	KRW billion	1,121.8	1,061.2	1,082.6	1,043.6	890.1	986.3
Earnings per share	KRW	9,320	7,898	8,489	8,553	6,894	8,007

Summarized Financial Position

Category	Unit	Consolidated			Separate		
		2020	2021	2022	2020	2021	2022
Current assets	KRW billion	6,750.4	6,255.9	6,509.6	4,708.2	4,009.0	4,096.5
Non-current assets	KRW billion	4,718.0	5,381.4	5,792.1	5,171.3	5,772.7	6,060.4
Total assets	KRW billion	11,468.4	11,637.3	12,301.7	9,879.5	9,781.7	10,156.9
Current liabilities	KRW billion	1,991.5	2,063.9	2,527.3	1,718.0	1,715.4	2,037.7
Non-current liabilities	KRW billion	385.3	364.5	415.8	107.6	66.1	65.6
Total liabilities	KRW billion	2,376.8	2,428.4	2,943.1	1,825.6	1,781.5	2,103.3
Total shareholders' equity	KRW billion	9,091.6	9,208.9	9,358.6	8,053.9	8,000.1	8,053.6

Key Financial Ratios

Category	Unit	Consolidated			Separate		
		2020	2021	2022	2020	2021	2022
ROA	%	10.2	8.4	8.2	10.9	8.7	9.4
ROE	%	12.9	10.6	10.7	13.4	10.7	11.9
Operating profit margin	%	29.1	25.6	21.7	38.9	31.0	30.3
Current ratio	%	339.0	303.1	257.6	274.1	233.7	201
Debt-to-equity ratio	%	26.1	26.4	31.4	22.7	22.3	26.1

Voting Rights Status

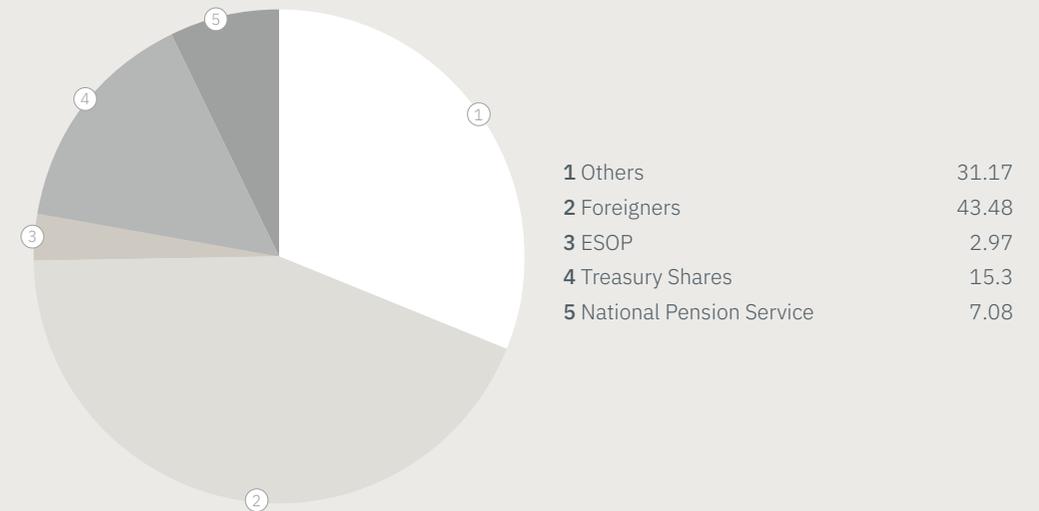
Category	Type	2022
Number of shares issued	Common share	137,292,497
Number of shares without voting rights	Common share	21,012,574
Number of shares with voting rights	Common share	116,279,923

Dividend Payment

Category	Unit	2019	2020	2021	2022
Total dividend paid	KRW million	556,952	595,584	575,904	581,400
Dividend payout ratio (consolidate basis)	%	53.8	50.8	58.9	57.2
Cash dividend yield ratio	%	4.5	5.5	5.7	5.2
Dividend per share	KRW	4,400	4,800	4,800	5,000

Shareholder Composition

(Unit : %)



*As of the end of December 2022

2022 ESG PERFORMANCE HIGHLIGHTS

<p>Perform environmental responsibility across the value chain</p> 	<p>Performance Improvement¹⁾</p>				<p>Establishment of Implementation System</p>		
	<p>Climate change response</p>  <p>GHG emissions 7.5%²⁾↓</p>	<p>Renewable energy consumption at all business sites</p>  <p>16% increased</p>	<p>Water withdrawal</p>  <p>4.3%²⁾↓</p>	<p>Circular economy</p>  <p>Waste recycling rate 81.4% achieved</p>	<p>Establishment and implementation of waste device recycling system</p>  <p>About 94.8kg of materials recycled</p>	<p>Establishment of product-level environmental management system</p>  <p>LCA completed for 10 key products</p>	<p>Scope 1,2,3 emissions at all Group manufacturing sites received</p>  <p>Third-party Verification</p>
<p>Build a sustainable business ecosystem</p> 	<p>Employees</p>		<p>Supply chain</p>		<p>Local communities</p>		
	<p>Human capital diversity management</p>  <p>Set the 2030 target³⁾</p>	<p>Increasing human capital diversity</p>  <p>Female managers 1.0%p↑ Locally hired managers in charge 2.7%p↑</p>	<p>Improving sustainability of farms by building and implementing</p>  <p>Sustainable Tobacco Program (STP)</p>	<p>Helping significant suppliers build</p>  <p>Environmental Management System⁵⁾</p>	<p>Social contribution projects in value chain contributions</p>  <p>KRW 3 billion Exceeded the target by KRW 1.4 billion⁴⁾</p>	<p>Social contribution impact</p>  <p>KRW 87.4 billion</p>	
<p>Advance governance and strengthen execution capability</p> 	<p>Creating ESG opportunities and managing risks</p>			<p>Upgrading compliance standards</p>			
	<p>Accelerating the development of global growth driver by Expanding CoE</p> 	<p>Promoting the establishment of integrated company-wide risk management system</p> 	<p>Established the Board Independence & Diversity Policy</p> 	<p>Established the Anti-Corruption & Bribery Policy</p> 	<p>Internalizing the KT&G Group Business Ethics Charter</p> 		

¹⁾ Based on domestic and overseas business sites
²⁾ Baseline as of 2020

³⁾ Aim to reach 20% for the percentage of female employees in domestic and overseas business sites, 15% for the percentage of female managers, and 30% for the percentage of locally-hired management and managers in charge by 2030

⁴⁾ Against the 2025 target
⁵⁾ 100% support for the establishment of GHG inventory and energy diagnosis for SMEs

ACCOLADES AND AWARDS

External Evaluation

 <p>Global ESG Ratings</p> <p>* Results from 2022 through June 2023</p>	 <p>AA</p> <p>Highest rating in the sector</p>	 <p>10%</p> <p>Top in the industry</p>	 <p>75points</p> <p>Included in the Korea Index</p>
	 <p>A-</p> <p>Leadership level achieved</p>	<p>CDP Water</p> <p>A-</p> <p>Leadership level achieved</p>	<p>CDP Supplier Engagement Rating</p> <p>A</p> <p>Leadership level achieved</p>
 <p>ESG Ratings in Korea</p> <p>* 2022 Results</p>	 <p>A</p> <p>Acquired A level or higher for 12 consecutive years</p>	 <p>AA</p> <p>Based on "Overall Rating"</p>	 <p>A+</p> <p>The highest level: S</p>
	 <p>AAA</p>	 <p>AAA</p>	 <p>AAA</p>
 <p>Credit Ratings</p> <p>* As of 2023</p>			

Awards

- 

Government Award
for sustainability management in 2022
(Prime Minister's Commendation, overall ESG category)
- 

Leadership ratings for Climate Change and Water Security sectors in
CDP Korea Awards
- 

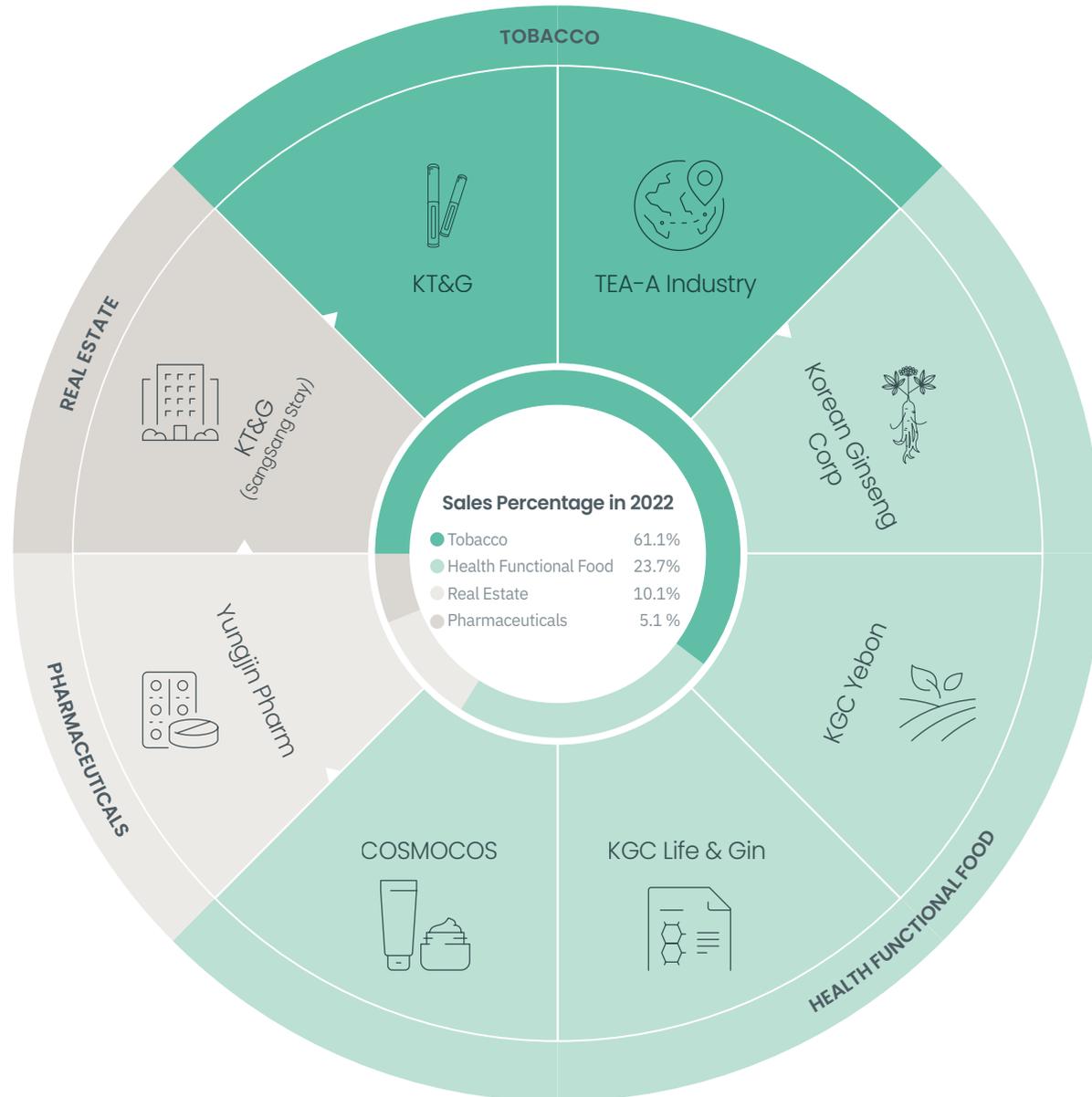
Grand Prize
from Chosun Biz in the overall ESG category in 2022
- 

Grand Prize
in ESG social category at the 4th ESG Korea Awards in 2023
- 

Presidential Commendation
for job creation from the Ministry of Employment and Labor in 2022
- 

Minister's Commendation
for joint growth from the Ministry of SMEs and Startups in 2022

KT&G BUSINESS



- 
Tobacco
 - KT&G: Manufacturing and sales of tobacco**
 KT&G boosts its enterprise values by creating a balanced business portfolio and implementing compliance and ethical management, thereby growing into a leading global company.
 - 
TEA-A Industry: Manufacturing of Reconstituent Tobacco Sheet
 As the only reconstituted tobacco leaf manufacturer in Korea, TAE A Industry is expanding its business territory to overseas markets.
- 
Health Functional Food
 - Korea Ginseng Corp.: Manufacturing and sales of health functional foods**
 As a leading manufacturer of red ginseng products that have inherited the proud tradition of Korean Ginseng, KGC is taking a leap forward as a “global comprehensive health company” that aims to create a healthier, happier tomorrow.
 - 
KGC Yebon: Material processing of medicinal herbs
 As a healthcare company focused on natural products, KGC Yebon is contributing to the life and health of humanity by offering safe and reliable natural materials and products of high quality.
 - 
KGC Life & Gin: Manufacturing and sales of health functional foods, cosmetics, and related products
 As a beauty and health distribution platform company specializing in digital and door-to-door sales of health functional foods and cosmetics, B2B corporate special sales, and online distribution, we are opening up a prosperous tomorrow based on tradition, trust, and technology.
- 
COSMOCOS: Manufacturing and sales of cosmetics and related products
 Based on our advanced technology, continuous R&D, and more than 30 years of expertise, we aim to provide the best solutions and the most fashionable products as a global beauty company that creates new values of beauty.
- 
Pharmaceuticals
 - Yungjin Pharm: Manufacturing and sales of pharmaceuticals**
 With the goal of providing excellent “medicines for life” that improve the lives of our customers and patients, we are taking a leap forward a global company by manufacturing and exporting high-quality antibiotic drugs based on our domestic ETC and OTC businesses.
- 
Real Estate
 - KT&G (SangSang Stay): Real estate development and operation and hotel business**
 KT&G promotes real estate development and operation business, SangSang Stay Hotel business, etc. using the land it owns, generating profits for corporate growth and the construction of better infrastructure for the development of society.

DOMESTIC TOBACCO BUSINESS

SALES PERCENTAGE

*Consolidated basis



28.4%

SALES (CONSOLIDATED)



KRW 1,659.3 billion

MARKET SHARE



65.4%

UNIT SALES



41.1 billion sticks

Reinforcing market leadership

MAJOR ACHIEVEMENTS

KT&G's domestic tobacco business has maintained a solid growth pace by achieving continuous growth of its odor-reducing, hypoallergenic and ultra-slim products. In 2022, the sales of our cigarette products amounted to 41.1 billion sticks, with the share of domestic cigarettes reaching 65.4%, a year-on-year increase of 0.8%p from 64.6%, thus maintaining the upward trend for eight consecutive years since 2015. The share of our odor-reducing products increased by 1.0%p to 6.1% compared to 5.1% in 2021, while the share of our ultra-slim products, including our proprietary micro slim type, increased by 1.35%p year-on-year to 38.1%, achieving remarkable growth.

FUTURE STRATEGIES

The domestic tobacco business is focused on strengthening its business competitiveness by improving product quality and developing product functions that meet diverse consumer needs. We will also secure our position as Korea's best tobacco products provider by aggressively investing in developing new competitive products that reflect the trend of hypoallergenic.



The domestic tobacco business is demonstrating overwhelming leadership on the back of continuous pursuit of innovation.

KT&G has succeeded in increasing its market share for eight consecutive years since 2015, and is the only company in the world to have maintained a market share of more than 60% among open market countries. This is because we have constantly pursued changes to meet the varied needs of sophisticated customers and deliver differentiated values. As marketing is an activity that creates a place for value exchange, we ensure that our customers are always at the center of it. Going forward, we will continue to maximize customer satisfaction through marketing innovations based on trends and needs, based on which we will lead the early achievement of our global top-tier vision, leveraging sustainable competitive advantage we have already gained.

Park Seong-sik
Chief of Marketing HQ



NGP BUSINESS

SALES PERCENTAGE

*Consolidated basis



SALES (CONSOLIDATED)



UNIT SALES OF STICKS



NGP SKU



Reaching new heights

MAJOR ACHIEVEMENTS

After introducing lil SOLID, a cigar-type e-cigarette, to the domestic market in 2017, we launched lil HYBRID, KT&G's first proprietary platform, in 2018, and lil AIBLE, the second independent platform, in 2022. Through a continuous series of innovations, lil SOLID has evolved into Plus, Mini, and 2.0 since the launch of 1.0, and lil HYBRID has also changed into 2.0 and Ez since the launch of 1.0. In addition to technological advancements, we are also strengthening our brand value in collaboration with various brands including Swarovski, TaylorMade, Volvik, and Soohyang. As a result of these innovations, KT&G increased its share of the domestic NGP market from 2% in the first year of its launch to 47.5% in 2022, consolidating its position as a market leader by beating the global top players. Furthermore, lil is attracting attention not only in Korea but also in the global market. In 2020 we entered the global market in earnest by forming a strategic alliance with Philip Morris International (PMI), the world's No. 1 tobacco company, which was followed by the signing of a new 15-year long-term partnership, paving the way towards a global top-tier company.

FUTURE STRATEGIES

With the aggressive market entry by global tobacco companies, and on the back of growing demand for less smell & reduced risk products, the NGP market is expected to grow at an average annual rate of 15%. In the NGP market, which will be the core of the future tobacco industry, KT&G has set the goal to achieve a share of over 60% in the domestic NGP market and expand its operation to more than 50 countries under the vision of becoming a global "Top-Tier" firm by 2025. To this end, we will make relentless efforts to improve existing platforms and also strive to create an innovative platform by boosting our capacity to develop science-based products and securing source technologies, thereby meeting the growing needs of smokers.



Innovation starts with thinking about how to increase consumer convenience.

Since the debut of lil in 2017, KT&G's NGP business has continued to innovate by releasing new models and upgrading platforms, and these innovations have been validated by our consumers' preferences. In 2022, KT&G achieved the No. 1 market share in the domestic NGP market while lil AIBLE, our second independent platform, launched in December, is showing rapid growth. KT&G's NGP business will continue to strengthen its product development capabilities through ceaseless innovation to provide better choices for adult smokers. In addition, we will leap towards a "Global Top-Tier NGP Player" by 2025 by making bold move targeting the global market and developing a successful business model.

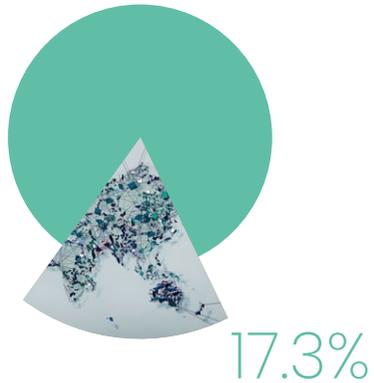
Lim Wang-seop
Chief of NGP Business HQ



OVERSEAS TOBACCO BUSINESS

SALES PERCENTAGE

*Consolidated basis



SALES (CONSOLIDATED)



KRW 1,010.2 billion

UNIT SALES (CONSOLIDATED)



49.4 billion sticks
(expert + overseas subsidiaries)

EXPORT DESTINATIONS



126 countries (cumulative)

SALES PROPORTION OF OVERSEAS SUBSIDIARIES / NO. OF EXPORT BRANDS

33.8%, 642 SKU

Expanding market presence

MAJOR ACHIEVEMENTS

In the overseas tobacco business, KT&G strives to grow into a global top-tier firm based on a business strategy aimed at mutual profitability and growth. In the export business, we are exporting products to 126 countries (cumulative) as of 2022 by diversifying our distribution network and subdivided business management by market stage through aggressive marketing strategies under the regulatory environment of each country. Despite the rapidly changing business environment, our overseas subsidiaries made concentrated efforts to improve field-oriented sales strategies and advance organizational operations, which in turn led to the sales of 16.7 billion sticks of cigarettes in 2022. In particular, our Indonesia subsidiary increased its sales by 75% year-on-year by strengthening its local customized marketing and successfully launching new products.

FUTURE STRATEGIES

We will expand our market share by continuously introducing new products tailored to the characteristics of the market, while laying the groundwork for long-term business growth by expanding direct business models such as overseas subsidiaries. To this end, we are systematizing data-based market analysis and expanding our local workforce to strengthen market-tailored business management. Moreover, based on the company-wide CoE system, we have established a close collaboration system with the related departments - such as marketing, finance, and manufacturing - in order to achieve solid results, while preparing for the rapid diversification of our business portfolio by strengthening our direct business.



KT&G is advancing to the global top-tier by implementing a bold global business expansion strategy.

We have been focused on facilitating the market in the Middle East, Latin America, and Africa in a drive to improve profitability, and have established a new Kazakhstan subsidiary in the CIS region to lay firm foundations for long-term growth. Furthermore, our overseas subsidiaries in Indonesia and Russia have created two-track results that will enhance growth and increase efficiency, based on the expansion of the organization to strengthen market management and the advancement of company-wide operations through CoE. Going forward, KT&G's overseas tobacco business will continue doing its best to enhance its status as Korea's leading tobacco company by remaining true to its role of providing excellent products that meet the diverse needs of consumers all around the world.

Cho Jae-young
Chief of Global HQ



HEALTH FUNCTIONAL FOOD BUSINESS

SALES PERCENTAGE

*Consolidated basis



23.7%

SALES (CONSOLIDATED)



KRW 1,388.9 billion

INTELLECTUAL PROPERTIES



289 patents,
7,557 trademarks

CONTRACT FOR FRESH GINSENG CULTIVATION



1,557 workers

Opening a new chapter

MAJOR ACHIEVEMENTS

Korea Ginseng Corporation (KGC) sales are generated from domestic and overseas markets. KGC's products are categorized into red ginseng root products, red ginseng products, general health functional foods, and cosmetics. In the domestic sector, we aim to increase demand by expanding the online distribution network and strengthening our offline competitiveness, centered on the "Jung Kwan Jang" brand, while continuously promoting the development of new products and carrying out customer-oriented marketing activities. As of the end of 2022, sales in the domestic segment accounted for 79.5% of KGC's total sales, of which about 66% generated from major offline channels such as affiliated stores, department stores, and hypermarkets. In the overseas segment, we are maintaining steady growth by strengthening marketing activities centered on our core market (Greater China) and expanding product-oriented markets in the U.S., Japan, and Southeast Asia. In particular, we strive to increase our brand awareness in the global market through product development and marketing with a focus on local customers.

FUTURE STRATEGIES

In order to leap forward as a global comprehensive health company, KGC plans to strengthen marketing centered on Greater China, its main market, and will expand its global presence to new markets such as the U.S., Japan, and Southeast Asia. In addition, by implementing a customer-centered marketing strategy in Korea, we intend to lead the health functional food market by expanding our distribution channels based on a business model that targets both online and offline sales channels.



From Korea to the global market, and from red ginseng to comprehensive health functional foods, KGC is opening a new chapter.

KGC is committed to product quality and safety based on the contract-based production and quality control system that we have established as a red ginseng pioneer in Korea. In addition, we do our utmost to meet customers' needs by enhancing the scientific value of key ingredients including ginseng through continuous R&D investment. Furthermore, to keep up with customers' increasingly dynamic needs and changing market situation, we are evolving into a "global comprehensive health and beauty company" through relentless changes and innovations. Our efforts include diversification of health food ingredients other than red ginseng, a beauty business centered on healthy beauty products, strengthening of our e-business to reflect the latest trends, and global expansion. Moreover, we are striving to become a company that contributes to society through various social contribution activities. KGC will continue to listen to the voices of customers, explore new paths, and move forward on the right path in order to deliver the beautiful value of "health and happiness" to all people around the world.

Her Chul-ho
CEO of KGC



REAL ESTATE BUSINESS

SALES PERCENTAGE

*Consolidated basis



10.4%

SALES (CONSOLIDATED)



KRW 607.3 billion

Creating greater synergy

MAJOR ACHIEVEMENTS

Drawing upon the tobacco business’s financial capacity and the vast expanses of idle land currently available for development, KT&G constantly seeks growth opportunities in the real estate business which can generate continuous profits. Starting with the Dongdaemun Shopping Mall project in 2002, we have promoted the Namdaemun Hotel Development Project, the Sejong Complex Development Project, and the Suwon Development Project based on our expertise in increasing the value of a number of idle sites through housing projects in Jeonju, Daejeon, Andong, and Daegu, along with office building projects in Migeundong, and Daechi-dong. In addition, we are efficiently operating twelve major assets nationwide, including offices, rental housing, and hotels, thereby realizing stable growth in real estate business.

FUTURE STRATEGIES

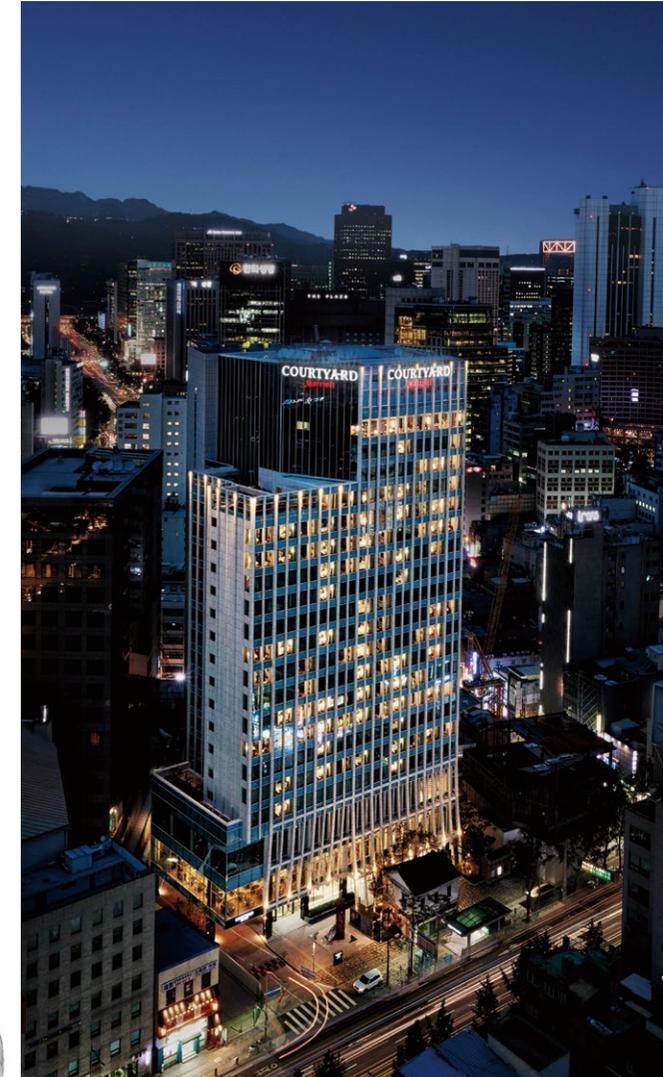
In response to rising volatility in the real estate market and the increase of risk factors, we are pursuing our real estate business centered on three strategies – securing mid- to long-term growth engines through a balanced business layout, promoting sustainable business operations by diversifying our product portfolios and their composition, and establishing growth-based continuity by stabilizing our rental asset operations. For development projects, we will develop short- to medium-term growth engines through a number of new projects, while securing additional large-scale complex development projects in the mid- to long-term in order to promote the balanced arrangement of all our development projects. In addition, we are focused on establishing profit models, based on research on social and demographic changes and market trends, in all areas of real estate including residential, commercial, office, knowledge industry centers (apartment-type factories), senior towns, and retail. Meanwhile, in the operation and management of twelve major assets, we will secure a stable foundation for growth by improving asset value and tenant satisfaction through efficient facility investment. Lastly, we will strengthen real estate ESG management by incorporating global ESG trends and complying with related laws. We will strive to fulfill our corporate social responsibilities by selecting important core tasks such as zero-energy building, preventing major industrial accidents, and preemptively establishing and implementing response strategies.



We focus on building a foundation for continuous growth of the real estate business and creating synergies in connection with the company’s purpose-driven business.

To this end, we will internalize the operation (leasing) business, which can generate stable profits, and engage in public offerings, biddings, and projects on large-scale land in consideration of changes in the market environment based on a balanced portfolio of development projects. Furthermore, we will actively promote the acquisition of new sites and the development of various product groups by diversifying our business structure to create a foundation for sustainable growth. We will also do our utmost to achieve sustainable growth by preemptively introducing real estate ESG management, such as zero-energy construction, in our efforts to meet environmental changes, industrial safety-related concerns, and social standards in the real estate industry.

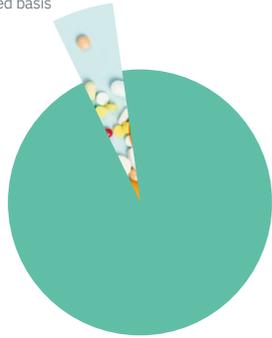
Park Kwang-il
Chief of Real Estate Business HQ



PHARMACEUTICAL BUSINESS

SALES PERCENTAGE

*Consolidated basis



3.6%

SALES (CONSOLIDATED)



KRW 218.0 billion

NEW PRODUCT APPROVAL AND LAUNCH



16 items

MAJOR CERTIFICATION



ISO 37001

Building growth momentum

MAJOR ACHIEVEMENTS

The pharmaceutical industry has maintained steady growth due to the increase in the elderly population, chronic diseases caused by population ageing, and the rising demand for better quality of life medicines in line with increasing household incomes. Yungjin Pharm plays a pivotal role in KT&G Group's bio-pharmaceutical business and is growing into a global pharmaceutical company by expanding its exports based on excellent pharmaceutical production and R&D capabilities. In 2022, due to the impact of the COVID-19 pandemic, sales grew year-on-year following a surge in demand for respiratory medications, the recovery in sales of large-sized products like Harmonilan, and major oral medications such as Fybro. The global business recorded similar sales figures to the previous year, despite the weak yen, thanks to higher exports of finished products and the raw materials of Cepha antibiotics by major Japanese clients. Furthermore, through active R&D investment, Yungjin Pharm accelerated its efforts to develop innovative and enhanced pharmaceuticals, while leading ethical management by adopting its own voluntary compliance program and striving to acquire the ISO 37001 (anti-bribery management system) certification. In 2022, the company advanced its ESG management by obtaining the ISO 14001 (environmental management system) and ISO 45001 (occupational health and safety management system) certifications. As a result of these efforts, we received an overall "A" grade from SUSTINVEST and a "B+" grade from KCGS.

FUTURE STRATEGIES

Yungjin Pharm will make concentrated efforts on profitability. To this end, our domestic business units will focus on expanding our in-house developed products and growing its business centered around chronic diseases, while the overseas business unit will secure mid-to long-term growth engines through new export businesses based on an increase of sales to existing clients. Our R&D unit will thoroughly comply with the release schedule of new products under development, and systematically establish and promote short-, mid-, and long-term development plans to discover new products for chronic disease groups. The production sector, meanwhile, will secure competitiveness as a global production base based on the high-quality capabilities and production efficiency offered by its excellent GMP facilities.



Yungjin Pharm is growing steadily on the back of domestic sales, contract business, and global exports.

We will seek to secure competitiveness by expanding in-house developed products in domestic market, focusing on chronic disease businesses, pioneering new export businesses by increasing sales to existing overseas clients, strengthening our R&D capabilities through open innovation, and improving our product quality and productivity. We are also committed to ESG management based on which we will grow into a top-tier pharmaceutical company both at home and abroad.

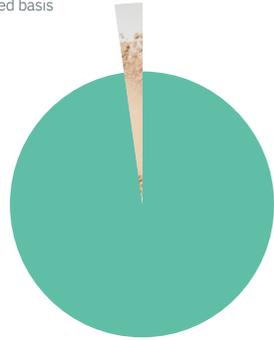
Lee Ki-su
CEO of Yungjin Pharm



COSMETICS BUSINESS

SALES PERCENTAGE

*Consolidated basis



1.1%

SALES (CONSOLIDATED)



KRW 63.4 billion

MAJOR CERTIFICATION

ISO 9001
(Quality Management System)

NUMBER OF NEW CLIENTS



31

Taking on new challenges

MAJOR ACHIEVEMENTS

The cosmetics industry is a global industry in which basic science and applied technology are now comprehensively applied, while the domestic cosmetics industry has continued to grow steadily despite the difficulties caused by the global economic recession and the COVID-19 crisis. Domestic conglomerates and multinational cosmetics companies are fiercely competing to dominate the latest consumption trends, and amid this environment, COSMOCOS is strengthening its competitiveness by operating ODM and brand business. In 2022, our ODM business recorded sales of KRW 46 billion, achieving robust growth of 38% year-on-year, and consolidated its position by nurturing excellent domestic and foreign clients as key partners. In addition to the existing flagship brands of Flor de Man and Danahan, our brand business has strengthened its portfolio by launching the Derma Clean Beauty and Zero Waste brands in line with global trends.

FUTURE STRATEGIES

COSMOCOS will strengthen its contact points with customers and secure future growth engines by diversifying its product portfolio, and discover competitive advantages by strengthening its base technology and continuously developing its inventory. In connection with this, we plan to boost our cost competitiveness by expanding our automation systems and securing production capability technology, while acquiring global certifications (U.S. FDA OTC, CPNP, etc.) and establishing advanced management systems to achieve global business competitiveness. As a part of this effort, we aim to secure R&D competitiveness in such categories as skincare, hair and body, makeup, and sun care cosmetics in order to grow into a “global beauty solutions company” based on ODM business, while actively targeting the global market with customized proposals of new materials and new formulations.



We will leap towards a global beauty solution provider through relentless change and innovation.

Despite the rapidly changing external environment, COSMOCOS has achieved solid growth, with ODM business sales increasing by 38% year-on-year. We are now concentrating our company-wide capabilities on restructuring our business portfolio, enhancing management efficiency, and improving our profit structure, with the goal of achieving sustainable business growth. In particular, we will focus on strengthening our ODM business portfolio. Furthermore, on the back of our advanced R&D capabilities and manufacturing expertise, we are seeking new growth opportunities by expanding our global businesses, discovering new partners, and attracting global big brands.

Lee Jung-hun
CEO of COSMOCOS



KT&G VISION

In January 2023, KT&G announced the “2027 KT&G Vision” which includes the Group’s goals and blueprint to develop into a global “Top-Tier” firm. KT&G Group achieved both quantitative and qualitative growth through strong execution of global growth of the core businesses. Refusing to become complacent with this achievement, however, we aim to demonstrate greater future growth potential. In addition, to actively respond to ESG management that has become a global megatrend, we established and publicly announced the Group’s mid to long-term vision and growth strategies, thereby making known our firm determination towards new growth.

In accordance with our new vision and growth strategies, we are concentrating our capabilities on three core businesses – Next Generation Products (NGP), Health Functional Food (HFF), and Global Conventional Cigarettes (CC). In the course of executing our goal, we will adopt “Global, ESG, Core Expansion” as keywords and focus on fostering businesses that create positive impact, while accelerating global expansion of the core businesses to achieve sustainable growth. In addition, we will expand to adjacent business areas and connect this to expansion of business areas, thereby solidifying our status as a global Top-Tier firm.

2027 New Vision



¹⁾ Excluding real estate business

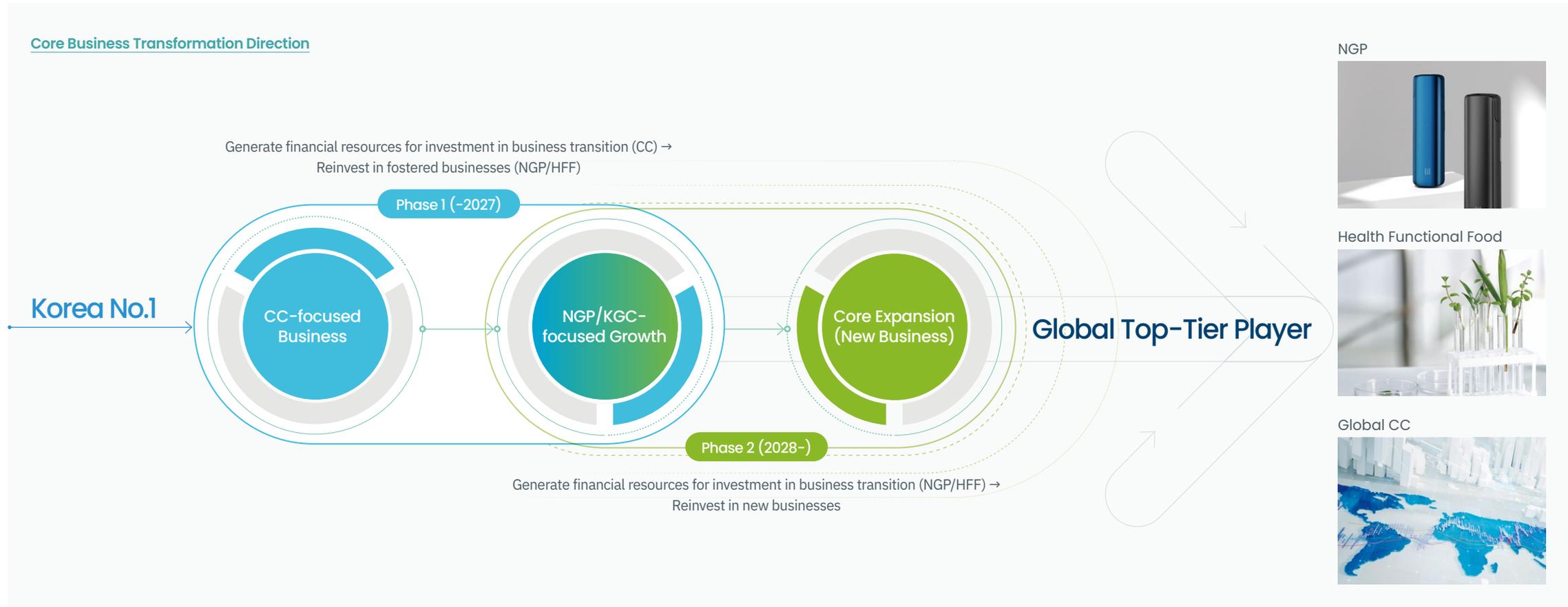
KT&G VISION

Business Transformation Direction

KT&G Group’s new vision was established based on thorough analysis of markets and the future as well as the insight of various stakeholders of KT&G. We commenced a project in the first half of 2022 to establish a mid- to long-term vision and growth strategies, focusing on a strategy to establish and implement the group’s futuristic business portfolio and a capital distribution strategy to enhance corporate value. Based on in-depth interviews of various stakeholders, including KT&G employees such as the management and labor union as well as capital market officials, we worked on setting a challenging goal and detailed execution strategies.

KT&G Group recognizes the present, when the NGP market is sharply growing and the global HFF market is maintaining continued growth pace, as a golden opportunity to develop into a truly global top-tier player and a structural turning point. As such, we seek to seize growth opportunities by converting our business portfolio to be future-oriented and to adopt a virtuous cycle of using financial resources that were generated by fostering core businesses to make investments in new businesses as the direction of “KT&G Business Transformation” to develop into a global Top-Tier firm.

KT&G Business Transformation



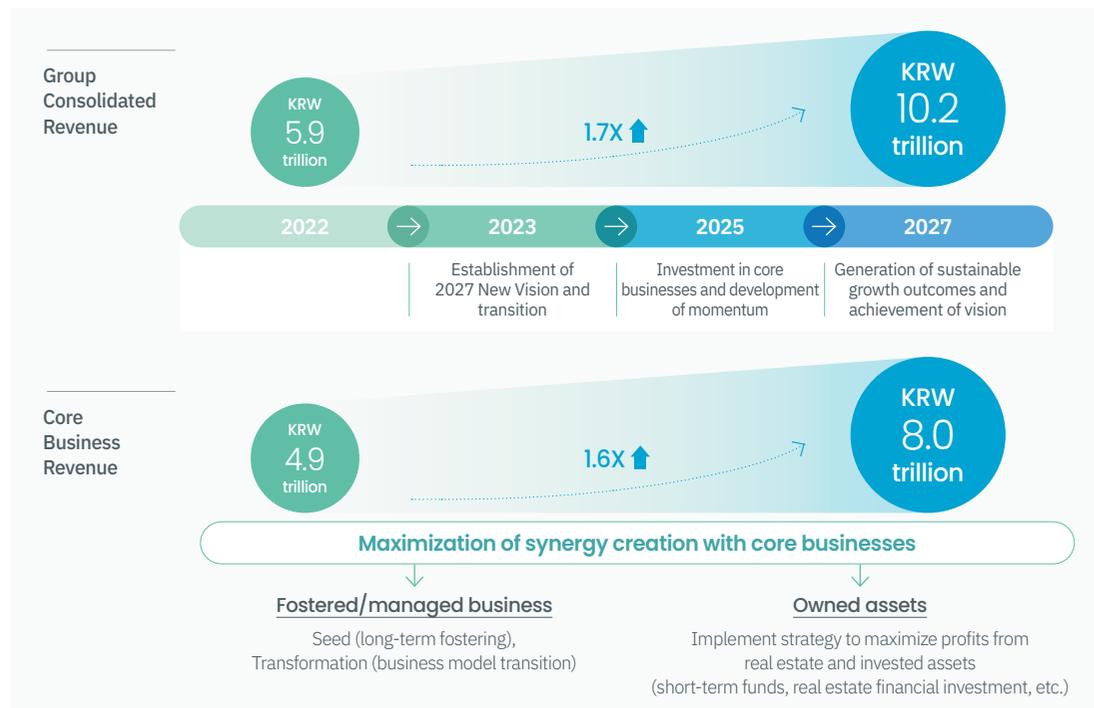
KT&G VISION

Mid-to Long-term Business Goal

To realize our new vision, we will place the highest priority on the global expansion of the NGP business and focus on securing innovative product development capabilities and expanding global production capacity. In the case of our HFF business, which has unrivaled competitiveness and market power in Korea, we will more aggressively make inroads into global markets to foster the business as the Group's key growth driver. We will also actively look into new opportunities among the HFF, pharmaceutical, and cosmetics businesses.

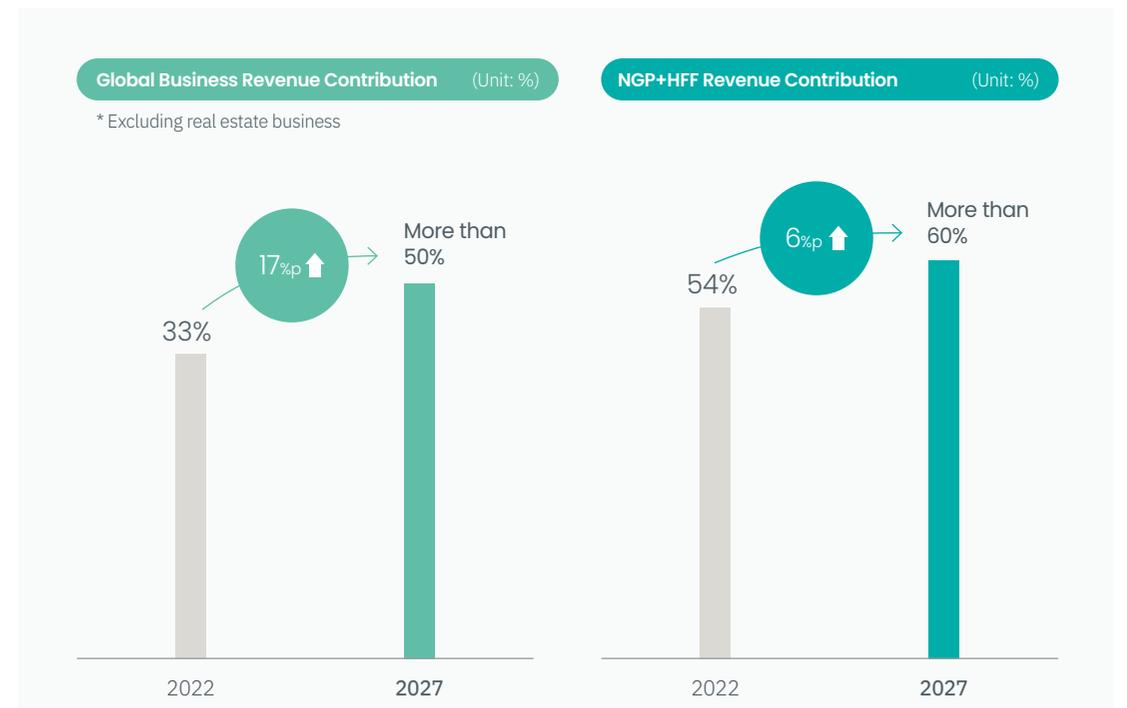
KT&G Group seeks to achieve its vision of becoming a truly global Top-Tier firm by recording revenue of more than KRW 10 trillion in 2027 based on growth investments in core business areas over five years and raising the global business' revenue contribution to 50% through qualitative growth of the business. In addition, by quickly seizing opportunities in the global market, making aggressive investments, and achieving innovation, we will raise the proportion of businesses other than CC to more than 60%, including NGP and HFF.

Mid-to Long-term Business Implementation Roadmap



The resources we secure by accelerating global growth of core businesses will be reinvested in new businesses. The new businesses will be implemented in the following two directions from a long-term perspective: First, we will invest in areas that can scale up our core businesses to achieve the Group's mid-to long-term goal and enhance fundamental business competitiveness. Second, we will preoccupy areas that have relevance with existing businesses and that can generate synergies, from among promising future industries that we can advance into by using the group's core competencies, and foster the areas into new growth drivers that will lead the group's sustainable growth. This strategy will be stably implemented in the process of verifying business synergy, investment effectiveness, and risk factors through phased investments.

The Group Business Transformation



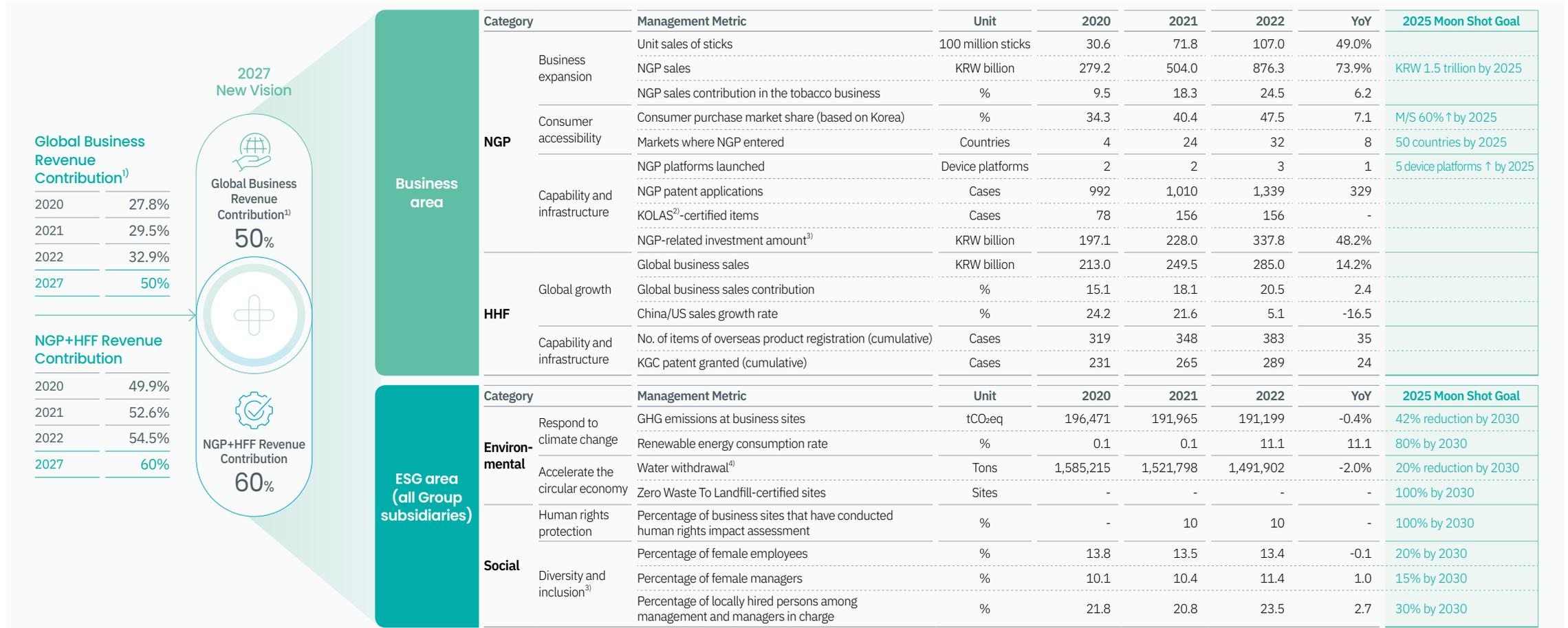
KT&G VISION

Integrated Approach to New Vision and Sustainability Management Value

KT&G’s plan to establish a future-oriented portfolio to develop into a global Top-Tier firm is based on our NGP business that provides consumers with better choices and sustainability that seeks to seize HFF-based wellness value as a growth opportunity. KT&G Group will maintain corporate growth by investing in the foundation of core growth businesses and expanding business capabilities, and focus the Group’s capabilities and resources on business structure innovation that contributes to sustainability from a mid-to long-term perspective.

In addition, we have established a Group-level sustainability management goal and are enhancing execution capability as a way to strengthen ESG competitiveness that will serve as the foundation of global growth. We will clearly recognize ESG areas that can impact corporate value and implement futuristic group business strategies, while also giving deep thought to and implementing innovative ESG activities.

Key Performance Indicators for New Vision Execution



¹⁾ Excluding real estate business

²⁾ Korea Laboratory Accreditation Scheme (Korean accreditation organization under the Korean Agency for Technology and Standards)

³⁾ CAPEX is the cumulative amount, the corresponding year's NGP-related SG&A expens, etc. were reflected.

⁴⁾ Based on KT&G and KGC

⁵⁾ Based on domestic business sites and overseas subsidiaries of KT&G, and direct employment basis

2022 HIGHLIGHT 1

GLOBAL LEADERSHIP

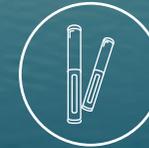
Under the corporate philosophy of “Exemplary,” “Progressive,” and “Inclusive,” KT&G is growing into a global top-tier company beyond Korea. By firmly safeguarding the domestic market through change and innovation, we are accelerating the pace of global growth of our core businesses, based on which we have continued strong growth by breaking sales records over the last five years as of 2022. However, KT&G is not satisfied with this accomplishment and is preparing for new challenges. In January 2023, KT&G declared its future vision during a vision declaration ceremony and unveiled the blueprint for its vision pursuit, aiming to become a global Top-Tier firm. Going forward, we will prepare for the future through thoughtful consideration and bold execution, opening a new chapter of global growth as a future-ready company.

Key Global Milestones



126 countries

As of the end of 2022, KT&G exported its products to 126 countries worldwide.



60.1 billion sticks

In 2022, KT&G's global sales reached a total of 60.1 billion sticks, including 49.4 billion sticks of conventional cigarettes and 10.7 billion sticks of NGP.



5,000 people

As of 2022, KT&G hired 4,979 local employees, contributing to job creation overseas.



42¹⁾%

As of 2022, KGC held approximately 42% of the global ginseng market share, securing the top position in retail market sales.

¹⁾ Source: Euromonitor 2022



Global Success Story



We will seize opportunities in the global market swiftly and drive bold investments and innovations to grow into a global Top-Tier firm.



Bang, Kyung-man

Senior Executive Vice President (COO/CFO) of KT&G



The overseas market is expected to continue growing. KT&G is transforming from a concept of dividing domestic and overseas businesses to becoming one unified global company. We are accelerating the discovery of new businesses and the exploration of new markets. In particular, we have established long-term growth strategies for NGP business and KT&G Group in 2023, demonstrating an ambition for long-term growth investment and expanding our presence in the global market. Through qualitative business growth, we aim to increase global business revenue contribution to 50%, and to generate over 60% of revenues from new growth drivers such as NGP and health functional foods, excluding conventional cigarettes. We have set a goal to prioritize the global expansion of the rapidly growing NGP business, focusing on securing advanced innovation technology and expanding global production capacity. Our aim is to sustain the growth momentum in the global market and enhance corporate value, leading to increased value for stakeholders, including shareholders. We are committed to achieving our vision and striving to improve KT&G's value, benefiting all stakeholders in the process.

NGP Global Top-Tier Player

We will solidify the global growth momentum in the continuously growing and expanding NGP market by establishing strong partnerships with a global leader and leveraging our world-class R&D capabilities.



Expanding Global Business to Become a Game-Changer

The e-cigarette business, called NGP (Next Generation Product), is more than just a traditional tobacco business for KT&G. NGP, the company's future growth engine, can be defined as a platform business because it consists of a device and a stick that are combined and consumed together, making an innovative platform the core competitiveness of the business.

In 2018, KT&G emerged as a new player that would change the landscape of the e-cigarette market with the introduction of the "lil HYBRID" device. Leveraging the advantages of increased vapor production and easy cleaning, we secured the top position in the domestic NGP market and achieved a market share of 47.5% for sticks in the domestic market as of 2022, maintaining robust growth momentum. Now we take new challenges in the global market. The sales market, which was limited to four countries including Korea in 2020, grew significantly to 24 countries in 2021, and as of 2022, it has further expanded to 32 countries.

The growth story of NGP was made possible by the innovative platform highlighted earlier. KT&G strictly establishes internal criteria to ensure that only platforms that consumers perceive as innovative are released in the market. From product development to completion, KT&G conducts comprehensive consumer acceptance surveys to achieve the highest level of overall satisfaction. In addition, the aerosol analysis results of components reported by the World Health Organization, the U.S. Food and Drug Administration, and Health Canada must meet the company's own standards before the product is launched. By passing through such rigorous conditions, the lil HYBRID 2nd generation in 2020 and the lil SOLID 2nd generation in 2021 were launched, and in 2022, the new innovative platform "lil AIBLE" was unveiled, allowing us to prepare for the rise as a game-changer in the global e-cigarette market.



Furthermore, in January 2023, KT&G entered into a new 15-year partnership with PMI (Philip Morris International), building a foundation for global NGP market expansion, following the initial 3-year contract signed in 2020. According to the agreement, PMI will be responsible for the overseas distribution and sales of lil products. Starting with a minimum guaranteed quantity of 16 billion sticks for the first three years until 2025, performance will be reviewed every 3 years to determine the quantities for the following periods. This is expected to enhance the global recognition of the lil brand and create new growth opportunities, while also enabling the securement of top-notch NGP manufacturing capabilities.

KT&G's global challenge does not end here. Through continuous R&D investments, we will secure scientific capabilities and drive technological innovations to lead the market. Moreover, by daring to change perspectives and embracing bold ideas, we will open a door to new opportunities and position ourselves as a true top-tier player in the NGP market.

2025 NGP Business Vision and Growth Strategies



Provide Better Choices for Adult Smokers through a Science-based NGP Platform

STRATEGIC DIRECTIONS



Reinforce portfolio competitiveness based on the innovative platform



Promote global NGP business



Secure world-class scientific R&D capabilities



Strengthening R&D Capabilities to Lead Growth as a Global Player

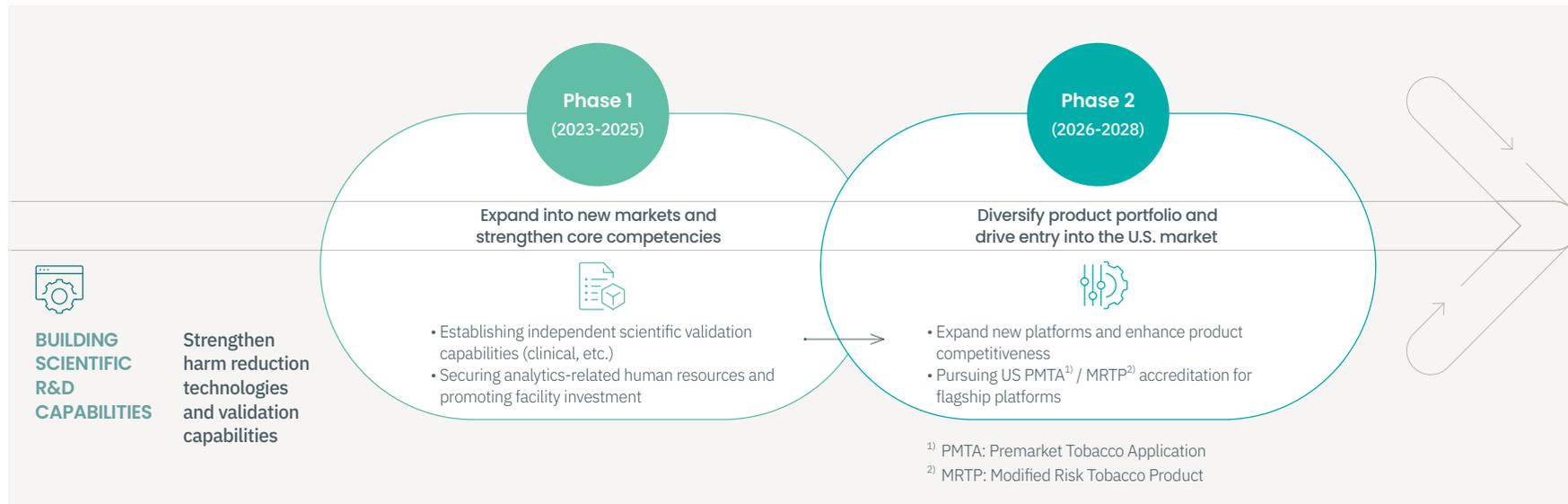
KT&G is committed to R&D and investment in harm reduction of e-cigarettes in order to provide consumers with better products that prioritize safety. Through research on diverse and differentiated materials and underlying technologies, we expand our product portfolio, while also focusing on researching new platforms to lead the future market. By pre-developing core technologies for next-generation platforms and diversifying its portfolio, KT&G has expanded consumer choices, improved product quality, and increased customer satisfaction both at home and abroad.

KT&G is establishing a leading position in the NGP market through continuous research based on the development infrastructure for NPG. Furthermore, we strive to build our unique platform and secure competitive differentiators by obtaining patent rights for our research achievements. As of the end of 2022, KT&G has filed over 4,000 patent applications related to NGP and a cumulative total of 750 patents have been granted.

KT&G is also strengthening core capabilities across the entire value chain to secure sustainable competitiveness and technological independence in the NGP business.

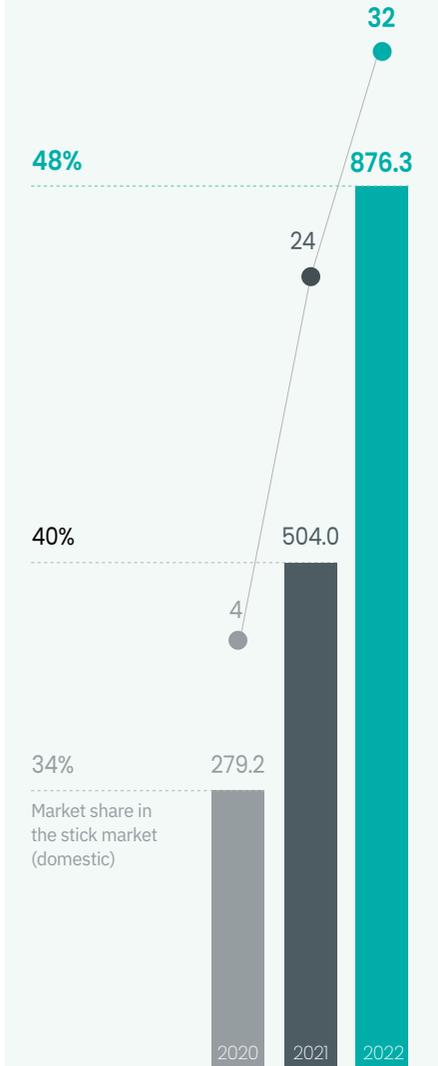
KT&G has established the “K-Science” strategy as a direction for mid-to long-term R&D. K-Science aims to achieve MRTTP (Modified Risk Tobacco Product) certification, and plans to gradually expand its expertise in research areas by prioritizing KT&G’s current capabilities and the urgency of securing data for proof. Given that the execution of K-Science involves a far-reaching and forward-looking approach, KT&G has established an internal decision-making council known as the Execution Committee. This Committee convenes periodic meetings to deliberate and strategize on achieving the envisioned milestones.

Implementation Direction of K-Science



NGP Growth Trend

● Sales (KRW billion)
● Export destinations (countries)



World No.1 Ginseng Brand

With a deep understanding of red ginseng and 120 years of experience as Korea's leading comprehensive health company, we are moving toward a global company for a healthier tomorrow for people around the world.



Building a Global Growth Foundation for Globalization of Red Ginseng

KGC is recognized as the “world’s No.1 ginseng brand” in the global market and is at the forefront of ginseng’s globalization. As of the end of 2022, KGC sells over 250 types of products in more than 40 countries worldwide. KGC’s representative ginseng brand, “Jung Kwan Jang”, achieved a new milestone by maintaining its position as the top seller in the global ginseng retail market for ten consecutive years, as reported by the global market research firm, Euromonitor International.

The background of this success lies in a local-specific growth strategy based on excellent products. KGC has diligently established a foundation for overseas business, aiming to leap beyond the best in the domestic market and become a global health company. Through thorough market analysis, KGC employs tailored strategies for each country, targeting the global market. In countries like China and Taiwan, where ginseng awareness is high, we have positioned ourselves as a leading ginseng business and focused on enhancing the brand value of Jung Kwan Jang. In particular, in China, we have built manufacturing and R&D infrastructure, achieving localization across the entire value chain from product development to sales.

In the U.S., where red ginseng awareness is not as high, KGC opened a local R&D center to strengthen research capabilities for marketing based on the efficacy of red ginseng. We operate cafe’s where customers can experience red ginseng culture to enhance red ginseng awareness. Moreover, we have developed various products tailored to the local market and entered mainstream channels such as online and supermarkets. In Japan, KGC has developed channel-specific products and expanded sales in major drugstore channels. We have also focused on expanding our online business through a subscription-based sales model.



In the European market, we have formulated a step-by-step entry strategy and are selling products through Amazon in Germany. For the Southeast Asian market, we have selected five countries, including Singapore, Vietnam and Malaysia, as strategic regions and are actively seeking potential partners in those areas.

KGC has established five local subsidiaries in the world’s largest health food markets, including the U.S. and China, as well as major Asian markets such as Japan and Taiwan, and operates Jung Kwan Jang brand stores. We also have expanded our distribution channels to include large marts and online platforms. The Jung Kwan Jang brand stores are located in major cities such as Beijing, Shanghai, New York, Los Angeles, and Tokyo, where they promote the value of the ginseng and spread the culture of red ginseng consumption. In addition, KGC has diversified its sales channels through overseas duty-free shops and direct sales operations, while also focusing on strengthening its global e-business to respond to the growing overseas online market. As a result of these efforts, the brand value and recognition of Jung Kwan Jang have been consistently increasing, especially in China, where it has achieved the status of a “Famous Trademark.”¹⁾

¹⁾ The trademark system that guarantees that the brand is widely known to the public and carries a high reputation and credibility, and receives special protection from the Chinese government.

Overseas Health Functional Food Business

Export Destinations

About **40** countries

Products Sold Overseas

About **250** brands

Global Ginseng Market Share

About **42%**
(Euromonitor 2022)

Overseas Subsidiaries

5 subsidiaries
(2 in China, 1 each in the U.S., Taiwan, and Japan)

Overseas R&D Centers

2 R&D centers
(LA in the U.S., Shanghai in China)



KGC Global Network

Jilin Hanzheng Ginseng Co., Ltd.

Jilin Hanzheng Ginseng Ltd. is another local subsidiary established in China. With the establishment of Jilin Hanzheng Ginseng, KGC has built a solid foundation for developing, manufacturing, and supplying various products in the Chinese market. Jilin Hanzheng Ginseng is also providing products and services that are more suitable for the local Chinese environment and consumers.

China Subsidiary

The China subsidiary has established sales offices in major cities to promote the growth of popular products under the Jung Kwan Jang brand. The subsidiary is conducting product development that reflects local consumer needs and implementing marketing strategies that consider regional characteristics. In addition to traditional distribution channels such as Chinese medicine channels and over-the-counter (OTC) sales, it is expanding its presence in various channels including online, department stores, and marts.

Japan Subsidiary

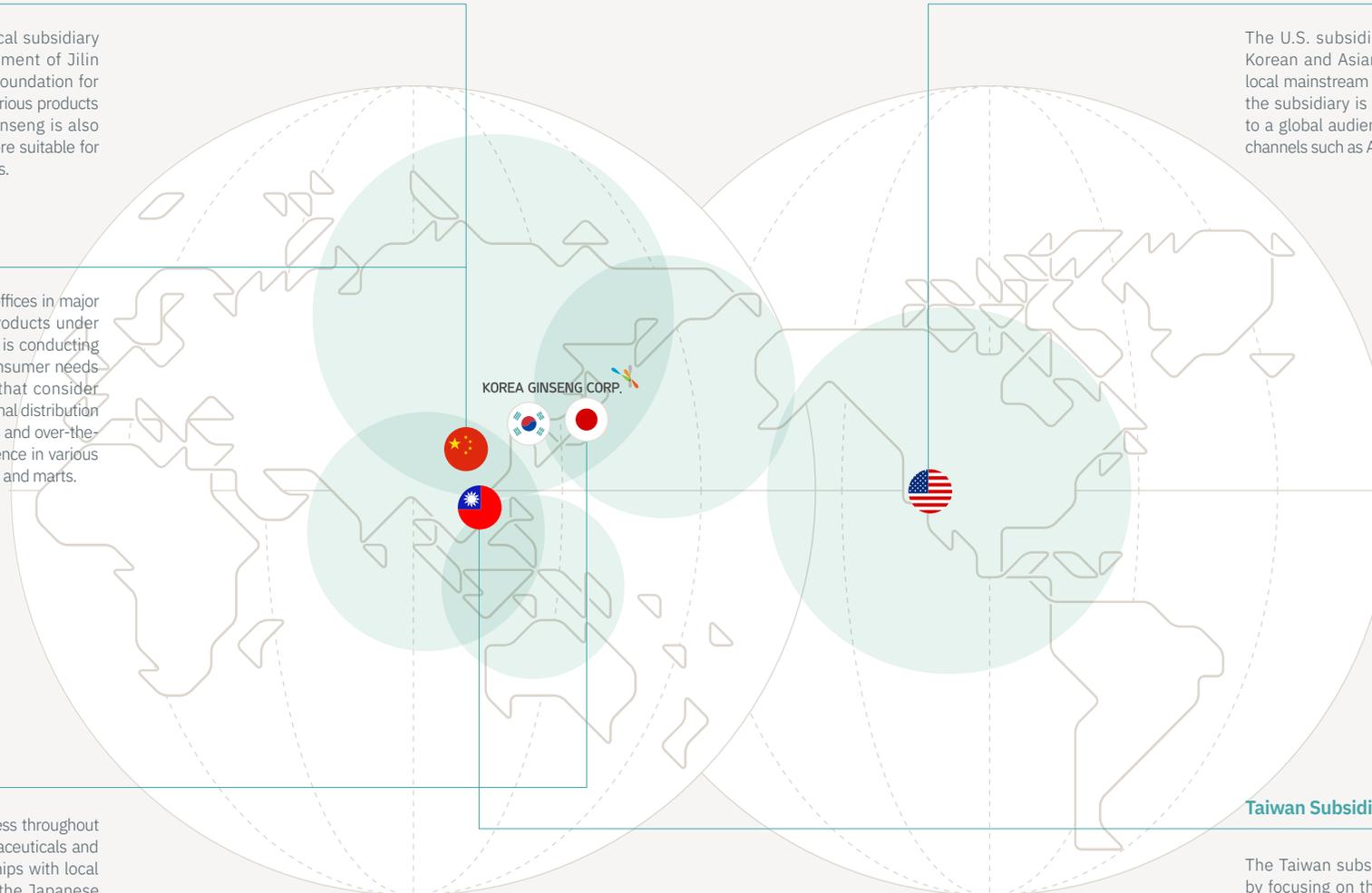
The Japan subsidiary is expanding its business throughout Japan, focusing on two main pillars: pharmaceuticals and health supplements. It leverages partnerships with local companies to strengthen its presence in the Japanese market. Based on this strategy, the subsidiary steadily grows through various distribution channels, including traditional avenues like department stores, retail outlets, and door-to-door sales, as well as new channels like home shopping, drugstores, and mail-order services.

U.S. Subsidiary

The U.S. subsidiary is expanding its reach from the Korean and Asian channels in the U.S. market to the local mainstream market. Utilizing franchise businesses, the subsidiary is introducing KGC's excellent products to a global audience through various online and offline channels such as Amazon, Costco, and natural markets.

Taiwan Subsidiary

The Taiwan subsidiary has established its foundation by focusing on the Chinese medicine channel with an emphasis on root ginseng products. It expands its business through opening stores and other related activities. Building on this foundation, the subsidiary is fostering the red ginseng product market within modern distribution channels both online and offline, thereby broadening the recognition of Korean ginseng in Taiwan.



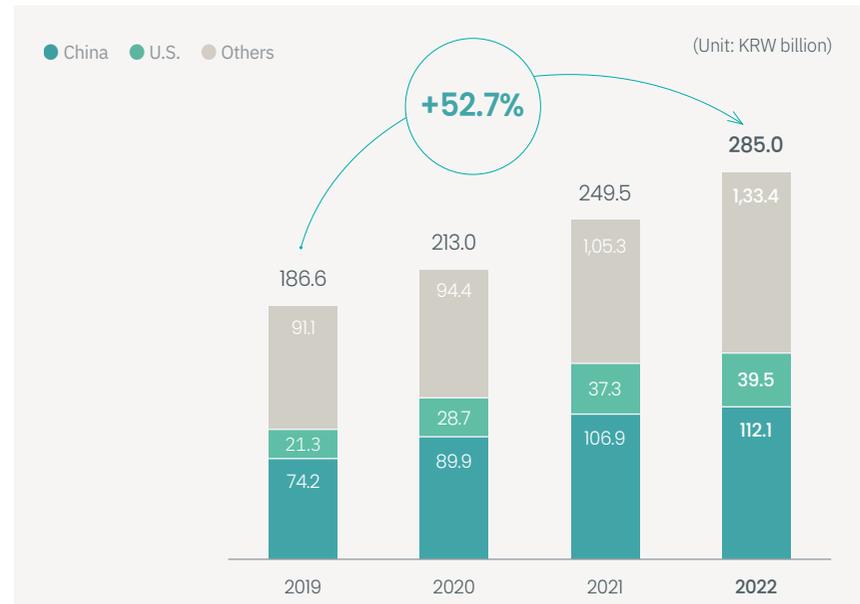


Local-specific Growth Strategies, Leading to Global Achievements

Based on a locally customized growth strategy that reads the changes in the global market while upholding values spanning over 120 years, KGC is maintaining strong growth momentum in international markets. In 2022, it achieved record-breaking performance with overseas sales revenue reaching KRW 285 billion. Despite the challenging business environment caused by the global economic downturn due to COVID-19, we actively expanded our product lines and distribution channels based on localization strategies. As a result, the sales revenue in 2022 increased by 52.7% compared to the pre-pandemic year of 2019.

In China, despite the impact of lockdown and confinement measures in the first half of 2022, KGC focused its marketing efforts on major events such as Singles' Day in the second half of the year. As a result, we achieved a revenue of KRW 112.1 billion, a year-on-year growth of 4.9%. In the U.S., despite consumption slowdown due to inflation, we expanded our sales through online and large mart channels, achieving a revenue of KRW 39.5 billion, a 5.9% growth compared to the previous year. In such other countries as Taiwan and Japan, KGC experienced significant growth through brand portfolio expansion and entering new distribution channels.

Overseas Revenue by Country



Strategies to Grow into a Comprehensive Global Healthcare Company

KGC aims to achieve a long-term goal of KRW 2.1 trillion in revenue by 2027 and seeks to accelerate the pace of global business growth to attain this target. In pursuit of aggressive expansion in overseas operations, we will focus on implementing country-specific growth strategies, centered around its five overseas subsidiaries, and simultaneously venture into emerging markets. In the Chinese market, we plan to concentrate marketing resources on online channels to actively target the 2040 generation. Active marketing campaigns utilizing social media and other online platforms will be carried out, alongside an expansion of online sales primarily focusing on locally-based products. We will also emphasize partnerships with reputable local companies to expand offline distribution networks, including over-the-counter pharmaceutical channels.

In the U.S., KGC plans to nurture locally tailored products through online channels such as Amazon, while also expanding offline distribution, with a focus on premium supermarkets. In addition, we will diversify our brand portfolio by introducing new product formats like capsules and gummies that incorporate consumer preferences and various functional ingredients. In Taiwan, we will expand our entry into franchise stores and partnerships with nation-wide supermarket chains while concentrating on digital marketing utilizing K-Culture to maintain growth momentum. In Japan, KGC will localize product formats and strengthen its online and supermarket presence. We will continue its global duty-free store expansion to cater to the recovery of global travel demand and leverage it as a stepping stone for further business opportunities in Asia and expand into the Middle East and Europe.

Furthermore, KGC is actively pursuing the branding of red ginseng raw materials based on evidence obtained through clinical research to the level of botanical drugs, aiming to strengthen its marketing capabilities in overseas markets. To enhance R&D infrastructure, we will expand and relocate our R&D center to the Gwacheon Knowledge Information Town in Gyeonggi Province in 2023, and the center will serve as the hub for expanding overseas clinical and efficacy research in collaboration with local R&D centers in the U.S. and China. KGC seeks to amplify marketing efficacy in markets where red ginseng awareness is limited by capitalizing on well-defined evidence of its effectiveness. As part of this effort, we will facilitate the evidence research which we are currently conducting with prestigious foreign universities, thereby securing advanced technologies from global scholars and elevating our R&D capabilities to the highest global standards. Furthermore, KGC seeks to register red ginseng raw materials as botanical drugs with the US FDA. To this end, we will establish international standard data on the efficacy, safety, and standardization of red ginseng raw materials. This effort aligns with our goal to attain capabilities comparable to pharmaceuticals, based on which we aim to brand our red ginseng raw materials, thereby creating new markets such as raw material businesses and exploring new opportunities for growth.

2022 Achievements in Overseas Health Functional Food Business

Overseas Business Sales

KRW 285.0 billion

Year-on-year Growth Rate

14.2%

Sales in the U.S. and China

KRW 151.6 billion

Overseas Business Sales Percentage

20.5%



2022 HIGHLIGHT 2

ENVIRONMENTAL STEWARDSHIP

The intensity of unprecedented climate events is increasing, and their frequency is becoming more frequent. The Intergovernmental Panel on Climate Change (IPCC), a government-level council on climate change, stated in its 2021 Sixth Assessment Report that global warming is “unequivocally” human driven. Addressing the reality of the climate crisis is a common responsibility and tasks that require the combined endeavors and collective wisdom of humanity beings. In this urgent and crucial period, KT&G has established medium to long-term reduction targets with the goal of achieving carbon neutrality by 2050, embarking on the journey towards net zero emissions. Without addressing climate change, there is no future for any business. Aligned with the Paris Agreement, KT&G is actively responding to the climate crisis, safeguarding the sustainable future of humanity.



GHG Reduction Pathway to Achieve Carbon Neutrality by 2050

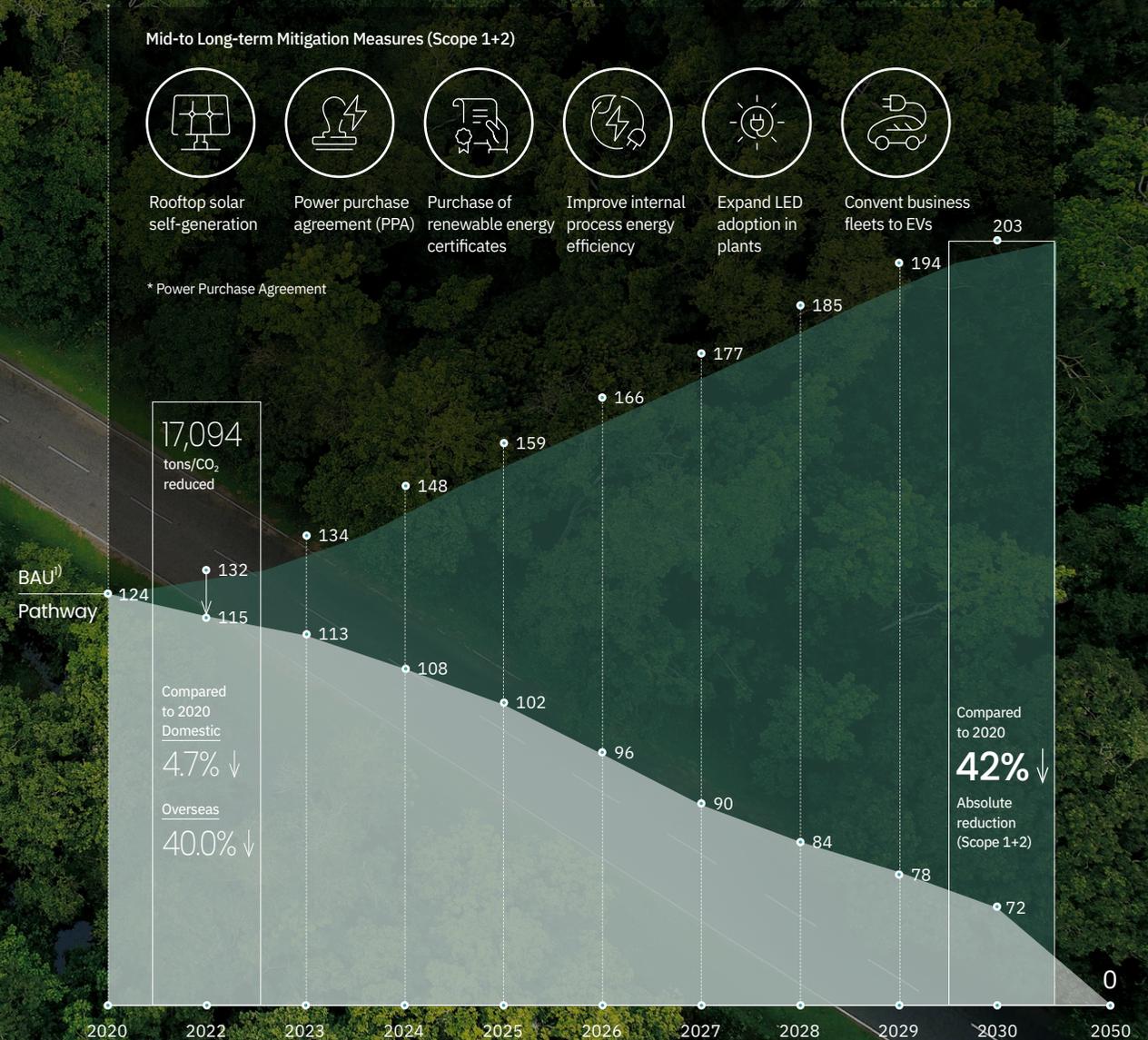
(Unit: 1,000 tons CO₂e)

Mid-to Long-term Mitigation Measures (Scope 1+2)



- Rooftop solar self-generation
- Power purchase agreement (PPA)
- Purchase of renewable energy certificates
- Improve internal process energy efficiency
- Expand LED adoption in plants
- Convert business fleets to EVs

* Power Purchase Agreement



¹⁾ Business as usual emissions projection



Environmental Sustainability



We scale “Green Impact” by cherishing the natural environment, which is home for humanity today and a responsibility towards future generations.

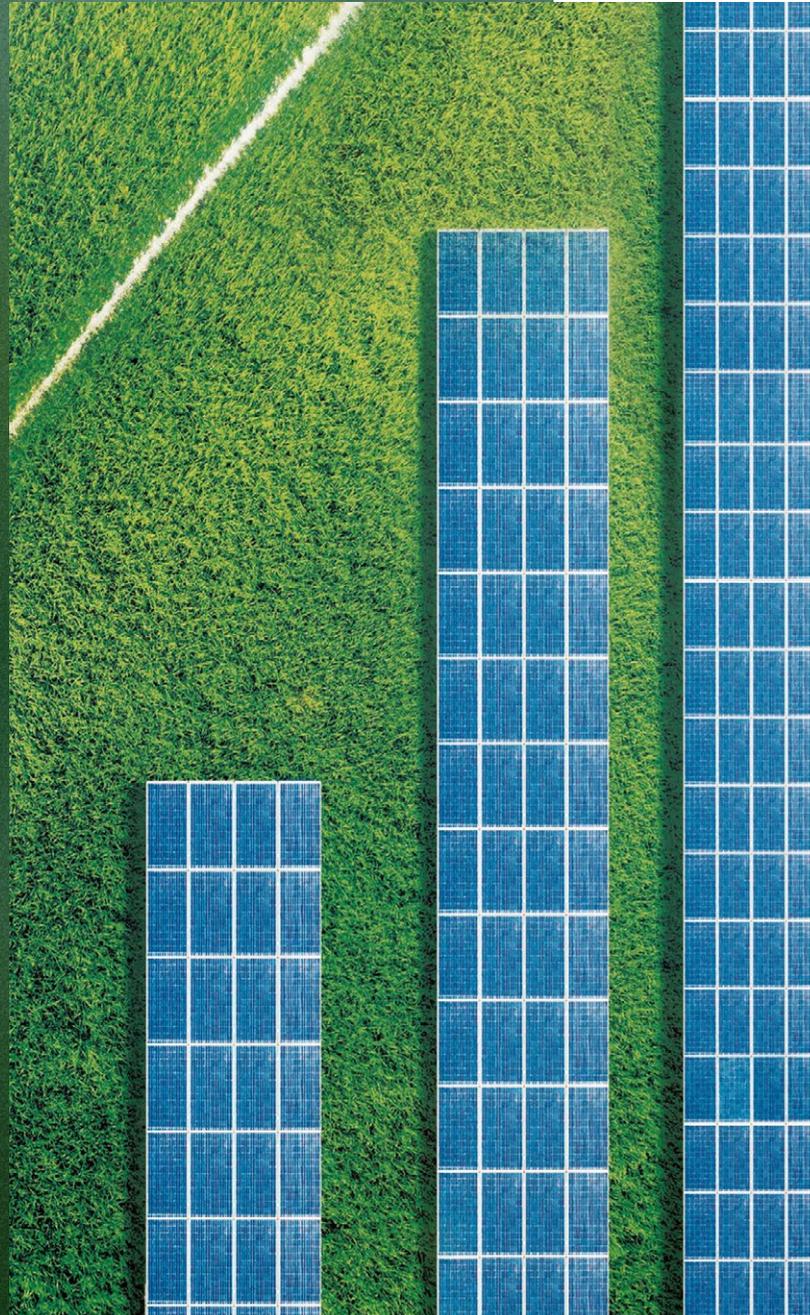


Oh, Chi-bum
Chief of Manufacturing Division, KT&G



The direction of the journey toward carbon neutrality is clear. It involves maximizing energy efficiency to reduce energy consumption and transitioning from conventional fossil fuel to renewable energy sources. In addition, to significantly reduce GHG emissions, it is imperative to implement a circular economy, focusing not only on reducing emissions in the production process but also during the disposal phase. KT&G is actively advancing initiatives to achieve the “2030 Green Impact” environmental vision, which includes transitioning to renewable energy, enhancing energy efficiency, expanding water reuse, and achieving zero waste landfill, among other detailed tasks. Furthermore, in accordance with the Science Based Targets initiative (SBTi) Guidelines, we are striving towards carbon neutrality by 2050 through the expansion of renewable energy adoption, transition to eco-friendly materials, and implementing emission reduction projects across the value chain. Moreover, by disseminating technological emission reduction practices in the manufacturing sector, we aim to encourage environmental management practices throughout the value chain and gather the capacity and wisdom to minimize negative environmental impacts.

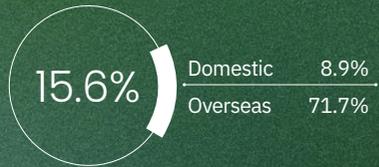
Mitigate Climate Change Impact



REDUCING OUR OPERATIONAL EMISSIONS



Renewable energy consumption in 2022



The Turkey manufacturing site has achieved RE100

100%

* As of 2022



Efforts to Achieve RE100

Carbon neutrality is a concept where human activities strive to reduce GHG emissions, and any residual emissions are offset or removed, resulting in a net emission of “zero”. Considering that a significant portion of GHG emissions in Korea comes from industries such as energy production and supply, which includes electricity and heat, transitioning to renewable energy sources is crucial to achieve carbon neutrality.

KT&G supports RE100, a global initiative which requires companies to procure or generate all the electricity they need from renewable energy sources by 2050. As part of this commitment, we have set a goal to increase the proportion of renewable energy consumption to over 80% of total electricity consumption by 2030. To this end, we are actively engaged in such initiatives as constructing solar power plants at manufacturing facilities, purchasing renewable energy certificates (REC), and considering the adoption of power purchase agreements (PPA). Thanks to these efforts, KT&G’s renewable energy consumption rate significantly increased from 0.1% in 2020 to 15.6% in 2022. In 2023, we aim to further increase this rate to 18.9%, bringing it closer to achieving the RE100 target.

REDUCING OUR PRODUCT CARBON FOOTPRINT



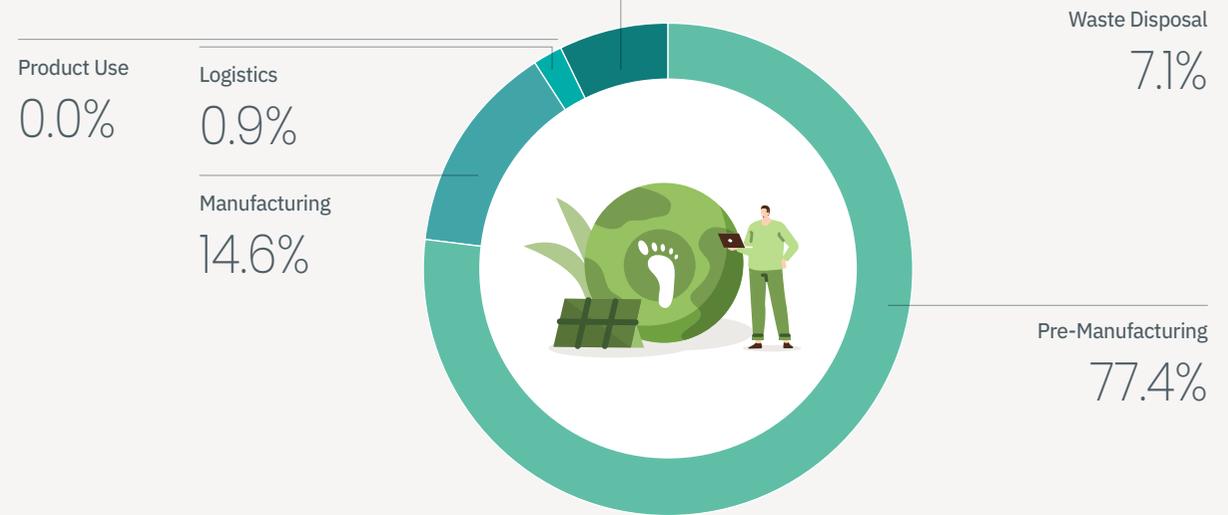
Efforts to Reduce Product Carbon Footprint

In order to achieve Net Zero, it is essential to reduce carbon emissions in every stage of a product's lifecycle, including its production, distribution, consumption, and eventual disposal. Meaningful reduction requires accurate measurement and proper management. Therefore, KT&G is identifying, analyzing, and managing the carbon footprint of its products from an end-to-end perspective.

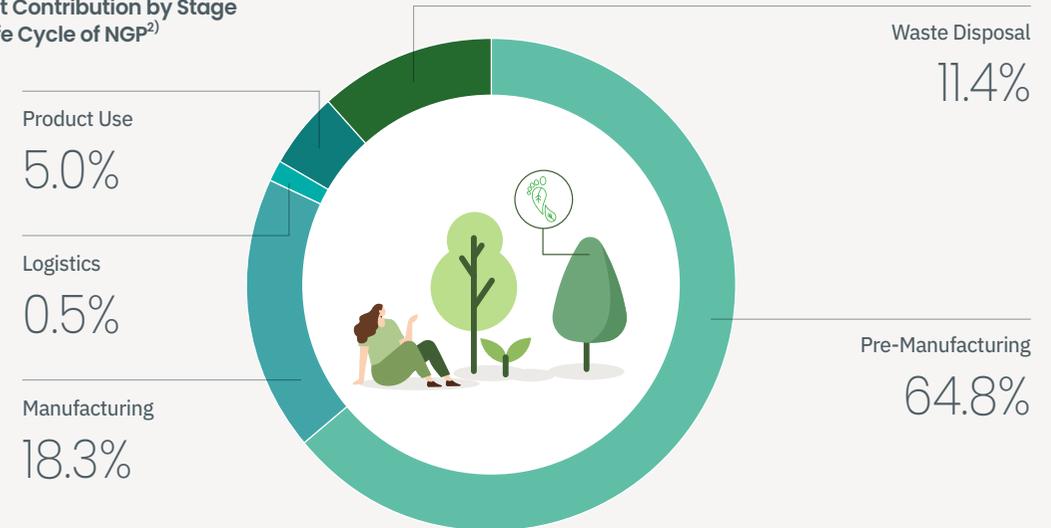
In the Life Cycle Assessment (LCA) conducted in 2022 for key products, it was revealed that over 80% of the carbon footprint of products is generated during the “pre-manufacturing” and “manufacturing” stages. This indicates that carbon emissions resulting from processes such as leaf tobacco cultivation/drying, sourcing of various materials, and fuel usage during product manufacturing contribute the largest share. Consequently, we plan to reduce the carbon footprint of our products generated during these stages by striving to mitigate Scope 3 emissions and expanding the use of renewable energy at our facilities. Moreover, leveraging the LCA results, KT&G intends not only to enhance the environmental impact of existing products but also to apply these insights to the development of new products. We are now in the process of developing “eco-design guidelines” that incorporate environmental factors from the planning and development stages of new products. These guidelines aim to incorporate environmental considerations from the outset and explore various strategies to apply them effectively within the development process. Also, environmentally friendly items identified during the development phase will undergo further analysis using LCA on a material-specific basis. This approach is intended to establish a systematic and effective process to enhance the eco-friendliness of products.

In 2023, we plan to expand the scope of LCA for NGP, which are experiencing increasing demand, aimed at identifying platform-specific environmental issues and deriving improvement strategies. Through these efforts, the goal is to proactively address potential environmental impacts of the NGP business, thereby establishing NGP as a genuinely sustainable growth engine by minimizing its adverse effects on the environment.

Carbon Footprint Contribution by Stage in the Product Life Cycle of CC¹⁾



Carbon Footprint Contribution by Stage in the Product Life Cycle of NGP²⁾



¹⁾ RAISON French Black

²⁾ lil SOLID 2.0 + Sticks

Accelerate Transition to Circular Economy



GREEN INFRASTRUCTURE FOR CIRCULAR WATER

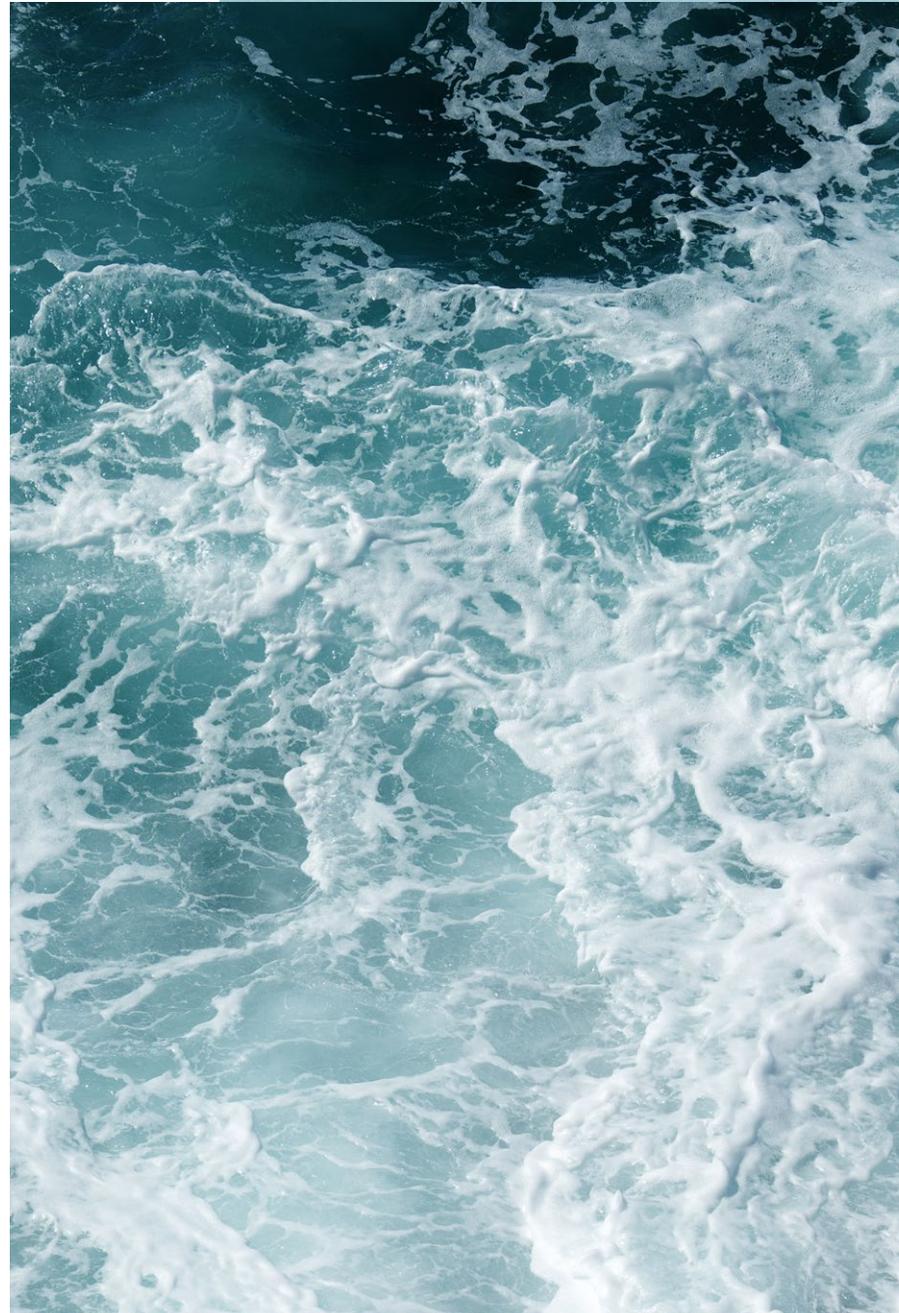
Water possesses infinite value, yet remains a finite resource. Hence, businesses must make continuous efforts to efficiently utilize and manage water resources to achieve sustainable growth. Securing the infrastructure and technologies for water reuse is also imperative, requiring dedicated endeavors.



Reducing Water Consumption and Expanding Water Reuse

KT&G actively practices systematic environmental management, including water consumption reduction initiatives, expansion of water reuse infrastructure, and water resource risk management, aimed at minimizing the water footprint of our business operations on the environment. To rationalize water consumption at our facilities, we identify specific challenges at each location and work towards improvements. As a result, in 2022, we successfully addressed issues such as water overflow from cooling towers during freezing machine shutdowns at the Gwangju and Gimcheon Plants. At the Gimcheon Plant, we synchronized the operation of high-temperature and low-temperature softeners for boilers, reducing loss due to duplicate operation. Furthermore, to address the problem of massive usage of high-water during the cleaning of manufacturing equipment components, we developed water-saving high-pressure cleaning devices. After pilot testing in 2022, we completed the deployment of 42 water-saving high-pressure cleaning devices in May 2023 at the Sintanjin, Yeongju, and Gwangju Plants.

Moreover, facilities to directly reuse water discharged after purification at wastewater treatment plants for washing water and chemical dissolving water have been built and are in operation at all production plants. In 2022, we installed a facility at the Gwangju Plant to further purify wastewater and use it for cleaning towers, and in 2023, we plan to expand it to the Yeongju Plant and Sintanjin Plant to complete the construction of water reuse infrastructure.



Conducted improvement tasks for water reuse and five others in 2022 to save approximately 1,320 tons per year

1,320_{ton} ↓



Installed high-pressure cleaning devices developed in-house, expecting to reduce water consumption by approximately 37% compared to existing facilities

37% ↓

GREEN MATERIALS FOR CIRCULAR ECONOMY

The incorporation of environmentally friendly materials is another crucial element in achieving Net Zero. Simultaneously, reducing the negative environmental impact, lowering carbon footprints, and enhancing recyclability contribute to creating products that encourage consumers to engage in climate-conscious behaviors in their daily lives. Therefore, KT&G is expanding the scope of its environmental responsibility from its operations to the entire value chain spanning from raw materials, production, distribution, to use and disposal. This effort aims to drive the reduction of the environmental impact of products, thereby strengthening their sustainable competitiveness and promoting green growth.



Develop Eco-friendly Materials and Use Eco-friendly Certified Materials

- Develop eco-friendly materials for cigarette filters
- Promote the applications of paper filters
- Use FSC-certified pulp for paper materials



Signed a joint development agreement with Kolon Industries to develop a non-plastic cigarette filter using eco-friendly lyocell fiber



Full-swing Development of Non-plastic Eco-friendly Cigarette Filters

As part of its fundamental approach to addressing environmental issues in the product disposal phase, KT&G is focusing on the development of eco-friendly cigarette filters. Filters made from plastic material called cellulose acetate, when not properly collected and disposed of after use, can contribute to ecological pollution. KT&G has been making continuous efforts to invest in eco-friendly filter R&D for several years, and in February 2023, we entered into a joint development agreement with Kolon Industries to develop a non-plastic cigarette filter using eco-friendly materials called lyocell fiber, thereby accelerating the development of non-plastic filters. Lyocell fiber is derived from natural pulp extracted from trees through a simple dissolution and fiberization process without chemical modification. It is known for its excellent biodegradability after disposal, making it environmentally friendly. Going forward, we will continue taking active part in the exploration and development of eco-friendly materials to reduce carbon footprint and environmental impact during the use and disposal of our products, as part of our efforts to contribute to achieving a circular economy and carbon neutrality.



Expanding the Use of Eco-friendly Packaging

KT&G has established mid-to long-term goals for managing product eco-friendliness, and based on these, we are focusing on enhancing the eco-friendliness of our products, particularly CCs, NGP sticks, and devices, by removing unnecessary product packaging and switching to eco-friendly materials. By May 2022, we completed the implementation of transparent wrap for pack packaging across all NGP sticks distributed in Korea. In addition, we changed from aluminum laminated paper to paper for the inner lining of the packs. We have also reduced the amount of paper used in device gift boxes, switched the cable fixing band material from polypropylene to paper, and removed the adapter protective film to expand the scope of eco-friendly materials.

GREEN TREND TOWARDS CIRCULAR SOCIETY

To communicate the value of circulating resources to a broader audience, KT&G is actively conducting various upcycling projects. Upcycling involves reinterpreting or altering the usage of discarded items, such as waste or byproducts, into new designs or products that are reborn with a fresh sense of value. Through upcycling, items that have become useless and discarded are given new life as products with newfound significance. Through upcycled artwork where waste is transformed into artistic pieces and discarded banners that are turned into goods through the participation of KT&G employees, we embrace the limitless transformation of discarded items, thus enhancing the value of environmental friendliness as we move forward.



Green Goods Made with the Participation of KT&G Employees



In January 2022, KT&G successfully concluded the “Feel Green” campaign, which involved the participation of its employees. As part of this initiative, the proceeds from producing and selling upcycled goods were donated to the Korea Environmental Education Center. The Feel Green campaign aimed to promote activities that individuals “must engage” in their daily lives for the protection of the Earth’s environment, with a focus on “feeling” the tangible impact of these changes. Building upon the success of previous stages, such as the 2021 campaign encouraging the use of reusable containers in the first stage and plogging activities (collecting litter while jogging) in the second stage, the campaign culminated in 2022 with the creation of upcycled pouches. Waste banners collected from KT&G’s regional sales offices nationwide were repurposed through a collaboration with the upcycling brand “CUECLYP” to create these pouches. In the final stage, an online bazaar was held to raise funds. This 3-stage campaign, from internal environmental protection competitions to the execution of tangible donation activities, demonstrated how eco-conscious values and consumption trends resonated with KT&G members, eliciting strong interest and participation.

Green Exhibition Open to All



In June 2022, in commemoration of Environment Month, KT&G organized the “My Green Wonderland” exhibition to raise awareness about environmental issues among the public. This exhibition conveyed messages of environmental protection. The showcased upcycled artworks by artist Jung, Min-Je were created using discarded materials from everyday materials, such as used bedding and fabric scraps. These artworks, born anew through the lens of art, allowed the audience to recognize the importance of environmental conservation and understand the significance of resource circulation. Furthermore, in collaboration with Korea Marine Environment Management Corporation and Our Sea of East Asia Network (OSEAN), a junk art exhibition made from waste materials was held to align with marine ecosystem conservation efforts. During this exhibition, held at both Busan Exhibition & Convention Center (BEXCO) and SangSang Madang Daechi Gallery, around 2,000 people visited, taking part in dialogues concerning marine plastic pollution concerns and participated in reflections on potential remedies.



Green Brands Supported by SangSang Planet



Since 2017, KT&G has been operating the SangSang Start-up Camp, an accelerating program that supports the growth and revival of social innovation startups. As of the end of 2022, the program is in its 7th class and offers young startups the opportunity to be selected as outstanding teams for a chance to occupy the KT&G SangSang Planet, a shared office space dedicated to youth startups, for one year. SangSang Planet accommodates a diverse range of social innovation startups, including eco-friendly brands. One of the standout teams from the 7th class of the SangSang Start-up Camp is “Cosmos Lab”. They are pioneering solutions to battery safety issues by developing non-flammable, eco-friendly next-generation secondary batteries using waste wood materials such as palm tree husks. Another exceptional team, “Deep Visions”, is from the same cycle. They provide a fine dust monitoring service based on AI video technology and high-accuracy measurements in order to tackle air pollution problems. Through the SangSang Start-up Camp and the support provided to these innovative teams, KT&G is actively contributing to fostering social innovation and sustainable initiatives in various fields, including eco-friendly technologies and air quality monitoring.



Among the standout teams from previous classes, several notable eco-friendly startups have emerged as representatives. These include “Paperpop (2nd)” which produces furniture products using paper as the primary material to address the issue of non-recyclable furniture waste and producing furniture products using paper as the primary material; “Diamantista (4th)” which has established the first lab-grown diamond exchange in Korea and introduced environmental indicators to the Korean jewelry industry for the first time; “SaladWeeks (5th)” which offers a reusable container salad subscription service, promoting sustainability and reducing single-use plastic waste.; and “TREAD N GROOVE (5th)” which recycles waste tires into shoe soles, creating upcycled footwear. Going forward, we will further facilitate the startup ecosystem to amplify the positive impact of social innovation startups on local communities and the natural environment, thereby enabling these startups to spread their positive influence more extensively.

2022 HIGHLIGHT 3

SUSTAINABLE PARTNERSHIP

As social demands and expectations for ESG management have increased, ESG has become an essential consideration in corporate management. Particularly, the adoption of regulatory frameworks mandating the disclosure of ESG information is spreading globally, with a focus on Europe and the U.S. In Korea, there are plans to introduce mandatory ESG disclosure for companies starting from 2025. KT&G is expanding its efforts to enhance sustainability not only in its operational practices but across its entire business operations. Moreover, we joined the global Sustainable Tobacco Program (STP) initiative to ensure the sustainable cultivation of tobacco leaves, a crucial ingredient in the tobacco business. We are also establishing a domestic STP based on global standards and practices, aiming to strengthen the sustainable production foundation for domestic tobacco leaf farms.



Plan to Implement STP for Leaf Tobacco in Korea



CORP

- Growing only distributed varieties, using designated crop protection products, using designated fertilizers, avoiding self-composting, and applying lime
- Analyzing soil and recommending fertilization, securing appropriate dryers, removing tobacco plant residues, recording the use of crop protection products, etc.



ENVIRONMENT

- Prevention of NTRM¹⁾, and collection, disposal, and recycling of plastic agricultural materials (mulching film, etc.)
- GHG emissions reduction (by expanding exhaust heat, etc.), safe handling of crop protection agents (establishing buffer zones near waterways), etc.



HUMAN & LABOR RIGHTS

- Working hours, labor contracts, prohibition of child labor, prohibition of unlawful confinement, and guaranteed minimum wage
- Installation of crop protection agent storage (worker safety), etc.



GOVERNANCE

- Establishment of related manuals and STP evaluation indicators, revision of standard tillage methods, etc.

¹⁾ Non-Tobacco Related Material



Sustainable Agriculture



Following the philosophy of being a “Inclusive Company”, KT&G is seeking ways to grow together with various stakeholders and realize the value of “togetherness”.



Kim, Jung-ho
Chief of Raw Material Division, KT&G



Even before the ESG management became a global mainstream, KT&G has engaged in various win-win activities targeting farmers and partner companies. Furthermore, as ESG has been embraced as a strategic approach for sustainable growth, we have been participating in the Sustainable Tobacco Program (STP), an ESG initiative related to tobacco cultivation, as part of our Sustainable Agricultural Policy. Alongside tobacco farmers, who are a crucial pillar of KT&G’s value chain, KT&G is working towards responsible growth in ways that benefit the natural environment. STP, jointly adopted by top-tier global tobacco manufacturers, aims to propagate positive social and environmental impacts related to tobacco cultivation by consistently evaluating the tobacco supply chain, fostering sustainable agricultural practices. We support global solidarity and cooperation through participation in STP and are at the forefront of its domestic implementation. As we proceed with STP in the future, the tobacco farming community and all partners within the supply chain, while sharing the importance of ESG management, will continuously communicate and enhance areas of need to contribute our best efforts to constructing a sustainable supply chain in alignment with the natural environment.

Growing a sustainable future, together.

Valuing people and preserving the environment through sustainable agriculture forms the fertile ground where not only farms but also KT&G's sustainability flourishes. Sowing the seeds of change and enabling them to bear fruit through sustainable growth, we collaborate with farmers to explore avenues that will blossom into a better future.



Growing a Better Future Together through Sustainable Agriculture



KT&G introduced the Global STP in 2022 to ensure a stable supply of high-quality overseas tobacco leaves cultivated through sustainable agriculture. The STP is a comprehensive leaf tobacco cultivation management initiative devised under the guidance of international tobacco manufacturers. It encompasses nine key components including Governance, Crop, Climate Change, Human Rights, and others. STP is already considered a mandatory requirement for advanced global companies, and to enhance the sustainability of future raw material supply chains through STP implementation, it is crucial to strengthen the quality, safety, and ESG management of domestic tobacco cultivation, alongside robust preparations.

As of 2022, KT&G has purchased approximately 7,224 tons of tobacco leaves from over 2,700 domestic tobacco farmers, with a purchase amount totaling KRW 71.7 billion. For KT&G, a company primarily engaged in the tobacco business, tobacco farmers are an essential supply chain and partners. Ensuring the sustainability of tobacco farmers is crucial not only for KT&G's pursuit of ESG management but also for achieving responsible growth economically, socially, and environmentally. In line with this, KT&G held the Domestic Leaf Tobacco ESG Proclamation Ceremony in June 2022 to express its commitment to STP implementation. We have also formulated sustainable agriculture policies, conducted ESG education for cooperative association employees engaged in tobacco cultivation, and is working towards the concrete adoption of STP in Korea. Going forward, based on the concrete STP framework, we plan to conduct surveys among tobacco cultivation farmers and improve the STP indicators. Furthermore, we aim to continually enhance and develop sustainable agriculture that aligns with the situation of domestic tobacco cultivation farmers.

Growing Together by Sharing with Farmers

As part of its ESG management efforts, KT&G is dedicated to achieving mutual growth with its raw material supply partners, the tobacco farmers. As the only tobacco company in Korea that fully purchases domestic tobacco leaves, KT&G takes the lead in protecting these farmers. Each year, during the transplantation and harvesting seasons of tobacco leaves, the company dispatches volunteer teams of its employees to assist the farmers with their labor needs. Tobacco cultivation involves a process where seedlings are grown in nurseries before being transplanted to the fields, a critical task that determines the year's yield. Due to the labor-intensive nature of tobacco cultivation, which is difficult to mechanize, farmers face challenges in securing labor due to a declining rural population and aging issues. To address these difficulties and transmit the necessary knowledge for producing high-quality tobacco leaves, KT&G has been organizing volunteer initiatives aimed at aiding farmers since 2007, a commitment that has persisted for 16 consecutive years.

In addition, KT&G has been providing welfare enhancement funds to tobacco farmers annually since 2013. As of 2022, a total of KRW 3,336 million has been provided, including the KRW 480 million supported in 2022. These funds are used for health check-up expenses for tobacco cultivation workers, scholarships for their children, and the purchase of a fuel reduction device for exhausting heat. As of 2022, a total of 10,666 cultivation workers have benefited from health check-ups and scholarships. KT&G has been engaging in a variety of long-term, honest activities that create win-win situations with farmers, going beyond one-time contributions. In the future, we will continue to enjoy the joy of mutual growth by extending meaningful support activities that can truly benefit the farmers.

Leaf Tobacco Farms as of 2022

Contract Performance

2,715 farmers

Purchase Performance

Purchase amount of KRW 71.75 billion

Farm Outreach Activities in 2022

16 years

Has been conducting volunteer activities to assist tobacco leaf farmers in harvesting for 16 years since 2007



Wellbeing Grants in 2022

Cumulative Support Amount

KRW 3,336 million

Cumulative Number of Beneficiaries

10,666 people

Innovating for sustainable growth, together.

KT&G is collaborating with venture companies possessing related technologies to enhance the inherent competitive strength of our business from the perspective of sustainable growth and to expand it into new areas. We are also supporting the growth of startups that take on challenges with ideas that the world needs.



Building a Better Future Together with Startups Dreaming of Change through Innovation

In order to secure new growth engines, KT&G is expanding its venture fund investments and equity investments in venture companies. The main investment areas of consideration are ag-tech¹⁾ and digital healthcare as priorities, taking into account business relevance and future growth potential. Additionally, we are continuously investing in other promising industries of the future, such as secondary batteries and AI, to seize business opportunities in those fields. Ag-tech is a crucial area for enhancing the quality and supply stability of raw materials for our tobacco and red ginseng businesses, involving tobacco leaves, ginseng, and medicinal herbs. Given factors like decreasing agricultural workforce, food security, and climate change, it holds great potential for future growth. It also aligns with ESG considerations by promoting water and fertilizer efficiency in agriculture. Therefore, KT&G is actively exploring ways to collaborate with venture companies dedicated to the development of the ag-tech industry.

Digital healthcare is a field related to KT&G Group's health functional food and pharmaceutical businesses, where digital transformation is applied to develop customized products that meet consumer needs and to expand the business into the mental health care domain. We are actively seeking and investing in companies that possess relevant technologies for this purpose. The investment targets are companies with distinctive technologies in this industry and are in the stage of commercialization. We evaluate their potential for future growth and collaboration before making investment decisions.

¹⁾ The term "Ag-tech" is a combination of Agriculture and Technology, referring to the application of cutting-edge technology to agricultural production.



In 2022, KT&G invested in a total of 8 companies. Among them, in collaboration with the ag-tech company N.THING, we established a smart farm at our R&D headquarters to conduct research on tobacco leaves and dried herbal ingredients. In the field of digital healthcare, we invested in Ybrain, a company specializing in brainwave measurement and digital therapeutics, and are jointly conducting research in the area of mental health.

KT&G aims to enhance the competitiveness of its major businesses, including tobacco, red ginseng, health, and functional foods, through an open innovation approach by investing in promising ventures with new technologies. Furthermore, the company is implementing a phased investment strategy to expand its business areas or venture into new fields based on these technologies. Investments and collaborations with innovative venture companies possessing advanced technologies are expected to play a crucial role as stepping stones in driving KT&G's sustainable growth and discovering new sources of growth in the future.

CASE STUDY



SangSang Planet – a Space Dedicated to Supporting Youth Startup

In 2004, starting with the sponsorship of the Asia University Student Start-up Exchange, the largest and only international university student startup competition in Asia, KT&G initiated its support. Since 2017, KT&G has been operating the KT&G SangSang Start-up Camp, aimed at nurturing youth startup, fostering job creation, and promoting the discovery and growth of social innovation start-ups. In 2022, KT&G recruited the 7th class for the SangSang Start-up Camp. Out of the 287 companies that applied, 30 companies with diverse content addressing various social issues, including smart farming, clothing recycling platforms, shared second homes, and fine dust reduction measurement solutions, were selected. These 30 companies are still actively participating in the program as of 2023. As for the 7th cohort, a total of 144 teams and 415 individuals have participated in the KT&G SangSang Start-up Camp. The cumulative revenue of the teams that have completed the program has reached approximately KRW 40.3 billion.

In July 2020, building upon the understanding and experience gained from its history of supporting youth startup, KT&G established the incubating platform KT&G SangSang Planet for early-stage startups. KT&G SangSang Planet serves as a shared office space designed to facilitate the growth and collaboration of early-stage social ventures. The facility spans across 8 above-ground floors and 1 underground floor, with a total floor area of approximately 4,000 square meters. The office space accommodates a total of 256 seats, providing a conducive environment for startups to work. KT&G SangSang Planet offers capacity-building programs such as education and mentoring, as well as collaboration support programs like busking and small gatherings. These initiatives aim to foster the growth of early-stage startups.

Furthermore, KT&G operates the KT&G SangSang Start-up Camp, a social venture nurturing program, to provide startups with diverse foundations for starting their own business. Tailoring the program to the needs of early-stage companies, areas such as branding, marketing, UI/UX, HR, and more are selected to compose educational programs. Through feedback from mentor groups composed of experts, customized programs tailored to each company are provided, thereby supporting the enhancement of startup capabilities. Additionally, the program arranges opportunities for IR pitching where prominent domestic venture capital (VC) firms participate, aiming to establish connections for potential follow-up investments and striving to facilitate practical startup support.

EMPOWER

We strive to grow in an economically, socially, and environmentally right way by leveraging ESG to increase sustainable value.

KT&G promotes corporate growth from a long-term perspective by adding ESG-based business strategy to its financial stability. Moreover, we empower our ESG journey with stakeholders so that the increased corporate value of KT&G will lead to the enhancement of sustainable value across the entire value chain.

Chief of Strategy & Planning HQ of KT&G
Kim, Jin-han



Our Approach to Sustainability

Sustainability Management Framework

KT&G Group's Mid-to Long-term Sustainability Management Direction

Recognizing that sustainability is key to corporate innovation and growth, KT&G Group strives to strengthen mid-to long-term growth momentum by aligning ESG value with NGP business, a key driver of the future tobacco business, and the health functional food business. We are also reviewing the fostering of businesses that can create synergies within the Group to explore sustainability-based growth opportunities. In addition, we seek to enhance the Group's executive ability through joint responses to common global agenda, including climate change and circular economy, protection of biodiversity, and management of business ecosystem risks. We established a mid-to long-term sustainability management implementation direction and goals by key area, based on which we will monitor our implementation performance every year and more actively manage risks and opportunities as part of our efforts to contribute to improved corporate value.

Mid-to Long-term Sustainability Management Direction

 <p>Strengthen business growth momentum</p> <ul style="list-style-type: none"> • Focus on new future growth engine of tobacco business • Strengthen the competitiveness of health and consumer-friendly products • Create sustainable business growth opportunities 	 <p>Manage global major ESG agenda</p> <ul style="list-style-type: none"> • Perform environmental responsibility across the value chain • Build a sustainable business ecosystem
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Sustainability Management Implementation Strategy

To strengthen future growth drivers of the company and the entire value chain by enhancing ESG competitiveness, we expanded and reformed our sustainability management implementation system to the Group level. KT&G Group, including KGC, Yungjin Pharm, COSMOCOS, and other subsidiaries, will secure a growth momentum centered around ESG management and strengthen the business competitiveness while systemically managing the major ESG agendas that global stakeholders require.

Sustainability Management Strategy System

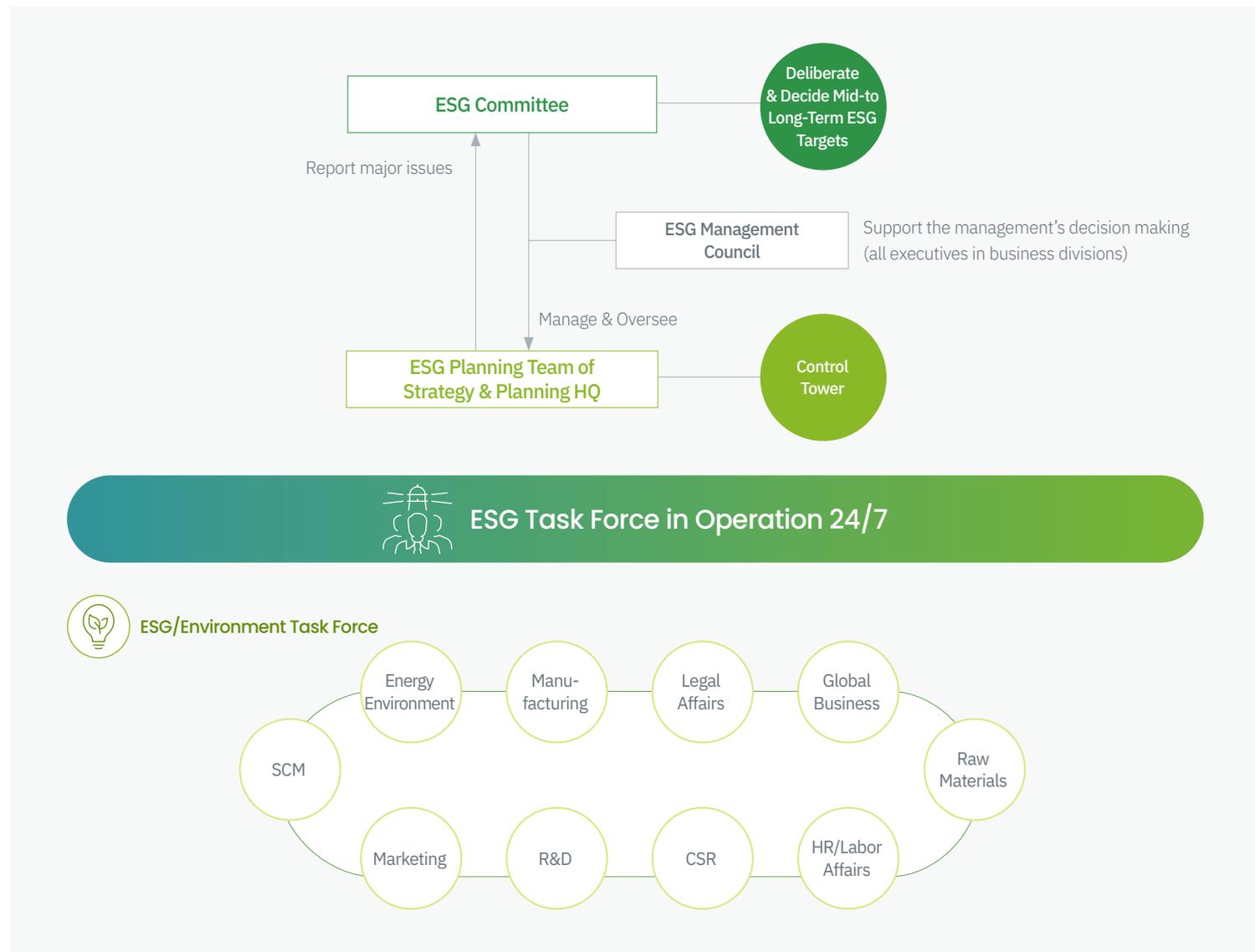


Our Approach to Sustainability

Sustainability Management Governance

KT&G strengthens sustainability management, with central roles performed by the Sustainability Committee and ESG Planning Team as the control tower to deliver better sustainability practices. We clearly defined the management's responsibilities toward ESG and climate change and aligned them with top management and each C-level's performance compensation system to strengthen company-wide response capabilities. Also, an ESG taskforce, consisting of working-level councils at all business divisions, hosts meetings on each ESG agenda item to establish detailed strategic tasks to achieve goals and examine the progress.

<p>ESG Committee</p> 	<p>ESG has been at the center of discussion at KT&G's general board meeting since September 2020, and in February 2022, the ESG Committee was launched for a more in-depth discussion. The Committee reviews the mid-to long-term strategic direction and approves major tasks every year in accordance with the company-wide ESG implementation direction, and manages and supervises execution.</p>
<p>ESG Management Council</p> 	<p>This Council consists of C-level executives of all business divisions and supports top management's decision-making. It discusses ESG issues and continually communicates about issues that arise in the business execution process. Based on what was discussed at the ESG Management Council, the top management makes decisions on ESG issues from an integrated company-wide perspective.</p>
<p>ESG Planning Team</p> 	<p>Directly under the office of the CFO/COO, the ESG Planning Team functions as a control tower and plays a key role in establishing the ESG and environmental management system that meet global standards.</p>
<p>ESG/Environment Task Force</p> 	<p>Composed of working-level councils in all business divisions, the TF hosts meetings for each ESG agenda item to discuss the performance and plans for detailed strategic tasks.</p>



Our Approach to Sustainability

KT&G Group's Mid-to Long-term Sustainability Management Goals

To accelerate the execution of strategic tasks in key areas, KT&G established and has been managing mid- to long-term goals that target the Year 2025/2030 since 2021. We are raising internal ability in executing the key tasks by adopting ESG KPIs when evaluating the performance of top management, executives, and units every year. In 2022, we systematized the Group-level sustainability management goals, targeting themes that were finalized or planned for global disclosure, including by the International Sustainability Standards Board (ISSB). We also compared and analyzed lacking areas by subsidiary and examined benefits against investments in the goal implementation process, feasibility, and other matters. In addition, we established KPIs and goals that should be executed by KT&G Group by 2030 in consideration of each subsidiary's degree of importance, such as proportion of sales within the group and whether it is listed, as well as business characteristics. We will continue to practice sustainability management by setting and implementing detailed goals.

2030 Group KPIs and Goals

Strategic Pillar		KPI	Target	Goal for 2030
Perform environmental responsibility across the value chain 	Respond to climate change¹⁾	• GHG reduction rate	• All Group subsidiaries	• 42% <small>* Net zero by 2050</small>
		• Renewable energy consumption rate	• All Group subsidiaries	• 80%
	Accelerate the circular economy	• Water withdrawal reduction rate ²⁾	• KT&G, KGC	• 20%
Build a sustainable business ecosystem 	Human rights protection	• Execution rate of human rights impact assessment ³⁾	• All Group subsidiaries	• 100%
	Supply chain sustainability	• Execution rate of ESG assessment of significant suppliers ⁴⁾	• KT&G, KGC, Yungjin Pharm	• 100%
		• Ratio of farms participating in sustainability program ⁵⁾	• KT&G, KGC	• 100%

¹⁾ Based on all domestic business sites of KT&G and manufacturing sites of subsidiaries and overseas subsidiaries, set the reduction rate based on the 1.5°C scenario of the SBTi Guidelines

²⁾ Water withdrawal of KT&G, reduction of KGC's water withdrawal intensity

³⁾ Based on domestic and overseas subsidiaries

⁴⁾ Significant supplier definition and execution

⁵⁾ Based on direct contract farms, and including comprehensive management of farms' participation in ESG diagnosis, assessment, and improvement programs

Our Approach to Sustainability

Progress in Implementing the KT&G Mid-to Long-term Sustainability Management Goals

Strategic Pillar	Key Agenda	KPI	Scope	Performance			Progress		Mid-to Long-term (Baseline: 2020)
				2020	2021	2022	Compared to Previous Year	Compared to Mid-to Long-term Goal	
Perform environmental responsibility across the value chain	Advance response to climate change	• GHG emissions (Scope 1+2, tons)	Domestic + Overseas	123,908	120,516	114,595	4.9% ↓	18%	42% of reduction by 2030
		• GHG emissions (Scope 3, tons)	Domestic + Overseas	292,583	269,486	323,951	20.2% ↑	-	25% of reduction by 2030
		• Total (tons)	Domestic + Overseas	416,491	390,002	438,546	12.5% ↑	-	31% of reduction by 2030
	Accelerate the circular economy	• Water withdrawal (tons)	Domestic + Overseas	766,167	743,323	733,014	1.4% ↓	22%	20% of reduction by 2030
		• Waste recycling rate (%)	Domestic + Overseas	57.1%	71.5%	81.4%	9.9%p ↑	90%	Achieve 90% by 2030
		• Consumption rate of recyclable packaging materials (by weight, %)	Domestic	93.0%	93.5%	95.9%	2.4%p ↑	96%	Use 100% by 2025
Build a sustainable business ecosystem	Practice responsible marketing	• Rate of compliance with the Responsible Marketing Policy (%)	Domestic + Overseas	100%	100%	100%	-	100%	100% compliance with the Responsible Marketing Policy
	Strengthen human rights protection	• Percentage of business sites that have conducted a human rights impact assessment (%) ¹⁾	Domestic + Overseas	0	25%	25% ⁴⁾	-	25%	Implement 100% by 2025
		• Percentage of female employees (%)	Domestic + Overseas	13.8%	13.5%	13.4%	0.1%p ↓	67%	Achieve 20% by 2030
	Manage human capital diversity Updated Target	• Percentage of female managers (senior manager-executive director) (%)	Domestic + Overseas	10.1%	10.4%	11.4%	1.0%p ↑	76%	Achieve 15% by 2030
		• Percentage of locally hired persons among management and managers in charge ²⁾ (%)	Domestic + Overseas	21.8%	20.8%	23.5%	2.7%p ↑	78%	Achieve 30% by 2030
		• Percentage of significant suppliers that conduct regular ESG evaluations (%)	Domestic + Overseas	0 ³⁾	25%	25% ⁴⁾	-	25%	Implement 100% by 2025
	Improve supply chain sustainability	• Amount of social and environmental contributions to leaf tobacco farms (including the cumulative amount of Tobacco Production Stabilizing Fund, KRW billion)	Domestic	484.9	501.0	503.3	0.5% ↑	97%	Achieve KRW 520 billion by 2025
		• Amount of social contribution projects in value chain contributions ⁵⁾ (KRW billion) Updated Target	Domestic	0.8	1.5	3.0	100% ↑	100%	Achieve a cumulative (2022-2025) KRW 10 billion by 2025

¹⁾ Based on domestic business sites and overseas subsidiaries (manufacturing sites) ²⁾ Domestic: Executive directors and managers in charge, overseas: G1/M1-G2/M2 ³⁾ Since 2011, we have been performing a supplier quality evaluation that reflects ESG factors when selecting business partners
⁴⁾ All business sites in Korea completed the evaluation, and the scope will be expanded to include overseas business sites ⁵⁾ Smoking environment improvements and environmental CSR activities

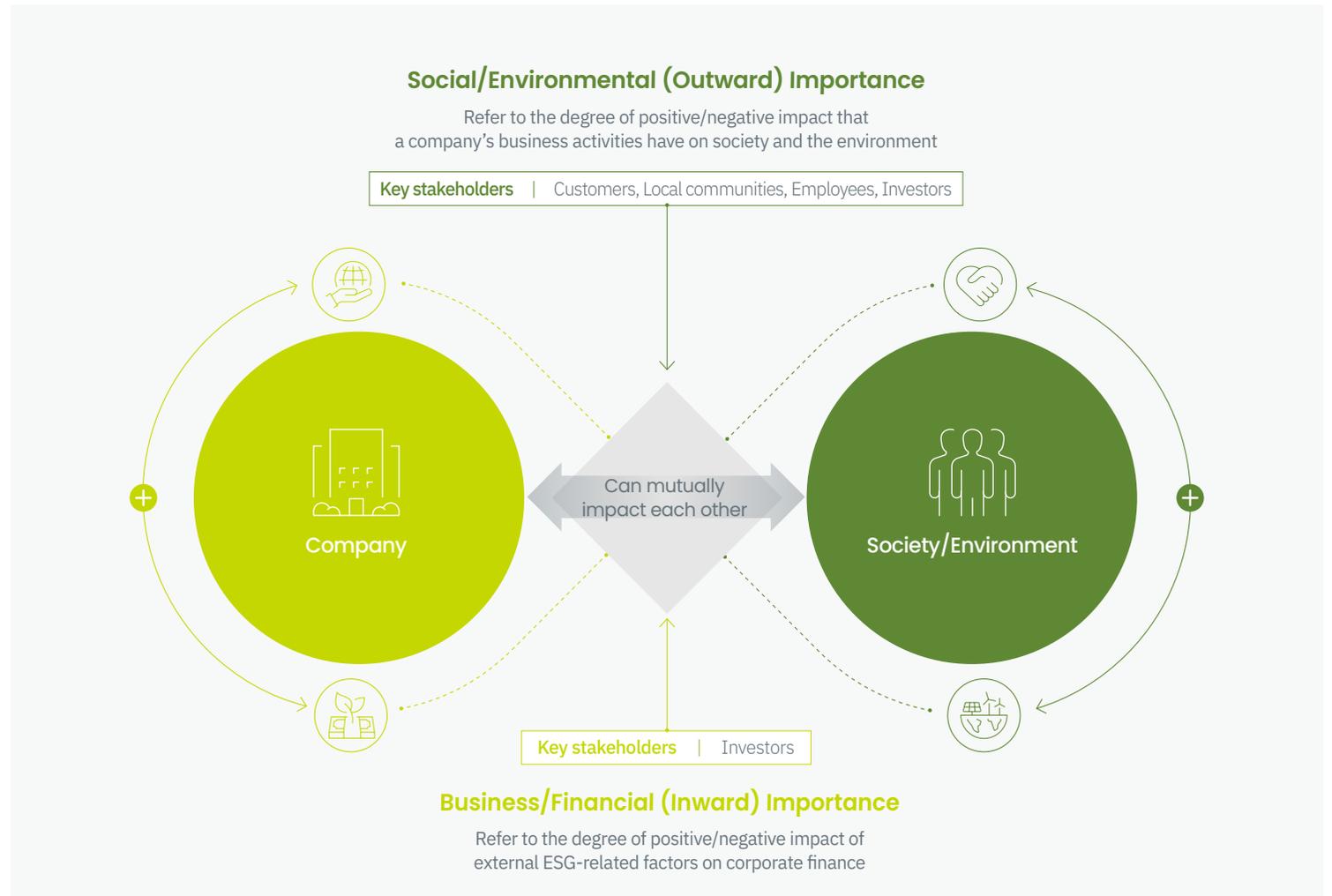
Double Materiality Analysis

KT&G conducts a materiality analysis every year to identify the most important sustainability-related issues and to transparently communicate them to stakeholders. Our materiality analysis was carried out based on global standards, including the GRI Standards and ISO 26000.

Adoption of the Double Materiality Concept

Double materiality is a concept that considers corporate activities' impact on the external environment-society as well as external sustainability factors' financial impact on corporate value, including corporate growth, performance, and risks. The purpose is for a company to identify concerns and matters of interest of internal/external stakeholders, reflect them in corporate operations to improve performance, and take the lead in reflecting environmental and social value. Amid demand for the establishment of advanced disclosure standards on sustainability management, relevant guidelines are being announced, led by the European Sustainability Reporting Standards (EU ESRS) and Global Reporting Initiative (GRI). Accordingly, we advanced our materiality analysis process by applying the double materiality concept to more clearly understand sustainability issues that are related to business and to reflect them in overall management activities.

Double Materiality Concept



Double Materiality Analysis

Double Materiality Analysis Process

KT&G formed a double materiality analysis methodology that is in line with global disclosure standards to systematically derive major sustainability issues. We then implemented a process that consisted of five steps, ranging from forming an ESG issue pool to analyzing stakeholder perspectives, analyzing environmental/social impact, analyzing financial impact, and choosing major issues.



Double Materiality Analysis

Forming an ESG Issue Pool

The key to KT&G's materiality analysis is forming an issue pool that covers all sustainability-related areas (environmental, social, governance). To form a pool of issues with relevance across KT&G's overall business, we analyzed the previous year's issues, referred to global standards on sustainability (GRI Standards, SASB, UN SDGs, TCFD, etc.) and global ESG evaluation indexes (MSCI, DJSI, CDP, etc.), analyzed media, and benchmarked competitors, and formed a pool of 22 ESG issues.

Stakeholder Participation

KT&G strives to clarify business-related stakeholders' awareness and interest levels regarding sustainability issues and reflect them in management activities. To identify stakeholders' interest in sustainability management implementation, we conducted survey on a total of 362 major stakeholders, including KT&G employees, shareholders and investors, partners, customers, local communities and NGOs, government, media, and ESG experts. Through the survey, we identified five issues that each stakeholder group is mostly interested in, from among the 22 issues in the ESG issue pool, and each issue's environmental-social impact and financial impact from the stakeholder perspective. We also conducted a focus interview of a representative per stakeholder group (KT&G employees, shareholders and investors, partners, etc.) and identified sustainability issues that are expected to have a greater impact and collected various opinions on our sustainability management.

Analyzing Environmental/Social Impact and Financial Impact

We analyzed potential positive or negative environmental/social impact of KT&G activities with outside ESG experts. An impact analysis was conducted based on global standard and evaluation requirements, media analysis, competitor benchmarking analysis, and stakeholder survey/focus interview results. For objective comparison of sustainability issues' environmental-social impact, we used internally-established evaluation items. We evaluated the positive environmental-social impact of sustainability issues by using three evaluation items (scope of occurrence, possibility of occurrence, and corporate contribution level) and evaluated the negative environmental/social impact by using four evaluation items (scope of occurrence, possibility of occurrence, impossibility of recovery, and corporate contribution level). In accordance with the double materiality principle, we also analyzed the potential impact of external sustainability-related factors on the company's financial status together with external ESG experts. Based on ESG finance-related international standard and evaluation analysis and integrated risk evaluation results, we assessed the potential impact of external sustainability-related factors on KT&G's financial performance and overall business in terms of opportunities and risks that can influence financial value creation. For objective comparison of business and financial impact, we used internally-established evaluation items (sales impact, Capex, Opex, and possibility of occurrence).

Selecting Major Sustainability Issues

We put together major stakeholder survey-focus interview results and environmental-social impact and financial impact analysis results and categorized major sustainability issues into three groups (KT&G Priority Group, Stakeholder Priority Group, Emerging Risk Group) according to internally-established selection criteria. Issues that have both high environmental-social impact and financial impact levels are chosen for the KT&G Priority Group, while issues that have a high impact from the stakeholder perspective are identified for the Stakeholder Priority Group. Also, issues that were assessed to have a low impact level but are forecast to grow in their impact levels were derived as the Emerging Risk Group.

ESG Issue Pool

Environmental	Social	Governance
<ul style="list-style-type: none"> Respond to climate change Manage wastes and harmful substances Manage water Preserve biodiversity and forests Manage product eco-friendliness 	<ul style="list-style-type: none"> Develop modified risk products Strengthen R&D and innovation capabilities Employee diversity and inclusion Recruit human capital and strengthen capabilities Protect human rights Contribute to local communities Manage customer relations Spread the culture of occupational safety and health Manage leaf tobacco farms' sustainability Responsible supply chain management Establish an information protection management system Responsible marketing 	<ul style="list-style-type: none"> Strengthen BOD-centered governance Corporate ethics and compliance Integrated risk management Top management and BOD compensation Enhance shareholder value





Environmental/social impact analysis items

Positive (5-point scale)	Negative (5-point scale)
Scope of occurrence	Scope of occurrence
Possibility of occurrence	Possibility of occurrence
Corporate contribution level	Impossibility of recovery
	Corporate contribution level

Business impact analysis items

Positive (5-point scale)	Negative (5-point scale)
Sales impact	Sales impact
Capex	Capex
Opex	Opex
Possibility of occurrence	Possibility of occurrence

Double Materiality Analysis

2022 Materiality Analysis Results

In 2022, KT&G derived 13 major sustainability issues through major stakeholder survey·focus interviews and environmental-social impact and financial impact analysis. We chose three issues (Respond to climate change, Manage product eco-friendliness, Develop modified risk products) for the KT&G Priority Group. Seven issues (Manage wastes and harmful substances, Manage customer relations, Responsible marketing, Corporate ethics and compliance, Integrated risk management, Enhance shareholder value) were identified for the Stakeholder Priority Group. Three issues (Preserve biodiversity and forests, Employee diversity and inclusion, Recruit human capital and strengthen capabilities) were derived as the Emerging Risk Group that are forecast to have greater impact. We will continue to advance the double materiality analysis methodology to derive more reliable results and actively communicate them to stakeholders.



Double Materiality Analysis

Analysis of KT&G Priority Sustainability Issues

KT&G seeks to actively respond to KT&G Priority Group sustainability issues to realize the 2025 Empowering Sustainability for Growth vision. Each sustainability issue can have a positive or negative impact across the overall value chain. For this reason, we identify the positive or negative impact of each KT&G Priority Group sustainability issue and establish and disclose systematic management plans.

No.	Material issue	Analyze material issues to create corporate value				
		Identify risks/opportunities	Business case	Identify risks/opportunities	Issue classification	Identify risks/opportunities
1	Respond to climate change	Risk – Emissions regulations and increased demand to disclose information in relation to responding to climate change	<ul style="list-style-type: none"> KT&G established a mid- to long-term reduction goal based on the SBTi guidelines and is establishing a detailed plan to achieve the goal such as by adopting renewable energy at sites and cooperating with internal and external stakeholders. We chose and are implementing realizable tasks, such as improving energy efficiency and expanding the installation of photovoltaic power on rooftops at sites. We plan to continually identify ways to additionally reduce GHG emissions. Furthermore, we are objectively analyzing and managing GHG emissions from the overall value chain. We are striving to reduce GHG emissions throughout the business operation process by actively collaborating with upstream partners, including leaf tobacco farms. 	<ul style="list-style-type: none"> Revenue Cost 	<ul style="list-style-type: none"> Present 	<ul style="list-style-type: none"> Establish the 2030 KT&G Green Impact, an environmental management vision system aimed at minimizing negative environmental impact from the overall business value chain Establish a mid-to long-term GHG reduction and renewable energy expansion targets and continually adopt activities so that actual reductions are made Establish an environmental management governance system (Sustainability Committee in the BOD, ESG Management Council, ESG Planning Team/Energy Environment Department) Establish a strategic response plan based on identification of climate change risks/opportunities and disclose the results in accordance with TCFD recommendations
2	Manage product eco-friendliness	Risk – Increased stakeholder awareness and demand on product eco-friendliness management, including regulatory authorities, investors, and consumers	<ul style="list-style-type: none"> There is growing stakeholder demand on managing product eco-friendliness, including regulatory authorities, investors, and consumers. Failure to respond to stakeholder demand may lead to negative sales impact, resulting from a decrease in corporate credibility and product competitiveness. We established a mid- to long-term goal to manage the eco-friendliness of products, such as increased recycling of product packaging materials and waste devices. By establishing a sustainable product policy, we are increasing the use of eco-friendly materials and enhancing resource circularity. 	<ul style="list-style-type: none"> Revenue Cost 	<ul style="list-style-type: none"> Future 	<ul style="list-style-type: none"> Identify and implement tasks that can be executed in the short term by 2025, thereby accelerating improvements in our product eco-friendliness Conduct a Life Cycle Assessment (LCA) on major products, ranging from raw materials to disposal, for systematic product-level environmental management
3	Develop modified risk tobacco products	Opportunity – Increase NGP product sales by satisfying consumer needs for modified risk	<ul style="list-style-type: none"> KT&G is strengthening scientific capabilities and infrastructure to offer better choices to consumers and is establishing cooperative relations with Philip Morris International to actively expand market entry. We are continually exploring ways to change our business model by strengthening portfolio competitiveness of the future tobacco business through innovative platform-based product diversification. 	<ul style="list-style-type: none"> Revenue Cost 	<ul style="list-style-type: none"> Present 	<ul style="list-style-type: none"> Establish a 2025 NGP mid-to long-term growth strategy to become an NGP global top-tier player and implement a strategy to expand markets for next-generation products Establish a K-Science implementation strategy and operating system to develop modified risk products Expand and reorganize the NGP operation organization and operate a committee to review new platform strategies

Double Materiality Analysis

No.	Material issue	Analyze material issues to create corporate value		
		Mid- to long-term plan (target year)	Key performance (Present)	Management compensation (Aligned with KPI)
1	Respond to climate change	<ul style="list-style-type: none"> 42% reduction in Scope 1+2 emissions by 2030 Scope 1+2+3 carbon neutrality by 2050 Convert to at least 80% use of renewable energy at all business sites in Korea and abroad by 2030 	<ul style="list-style-type: none"> Scope 1+2: 114,581 tons in 2022 - 7.5% reduction from 2020 Renewable energy consumption rate of 15.6% in 2022 (all business sites in Korea and abroad) - Domestic: 8.9% - Overseas: 71.7% 	<ul style="list-style-type: none"> Scope 1+2 GHG emissions Renewable energy adoption rate Rate of cumulative conversion to eco-friendly vehicles Execute improvement tasks in connection to energy assessment results Purchase and use renewable electricity for rental buildings
2	Manage product eco-friendliness	<ul style="list-style-type: none"> Use packaging materials that are made only of recyclable sources for all product packaging by 2025 - Aluminum inner liners → 100% conversion to paper inner liners 	<ul style="list-style-type: none"> Percentage of the use of recyclable packaging materials in 2022: 95.9% (weight basis) 	<ul style="list-style-type: none"> Percentage of paper inner liner application Waste device recycling performance and partner participation level Derive a direction for eco-design of devices
3	Develop modified risk tobacco products	<ul style="list-style-type: none"> NGP sales of KRW 1.5 trillion by 2025 Expand global presence to 50 countries around the world by 2025 Domestic market share of 60% by 2025 Five NGP platforms by 2025 	<ul style="list-style-type: none"> NGP sales in 2022: KRW 876.3 billion - Year-on-year increase of 74% Global presence as of 2022: 31 countries Domestic stick market share as of 2022: 48% 	<ul style="list-style-type: none"> Increase NGP product sales and expand global presence Develop and launch market-leading NGP products Enhance scientific R&D capabilities

Double Materiality Analysis

Analyze material issues of external stakeholders								
No.	Material issue	Value chain (Scope of impact, %)	Stakeholder	Impact type	External stakeholder relevance and importance	Calculated index	Impact assessment	Impact index
1	Respond to climate change	Overall value chain	KT&G employees, partners, ESG experts, media, local communities/NGOs, government, customers	Positive	<ul style="list-style-type: none"> There is a negative environmental/social impact caused by GHG emissions from KT&G's sites in Korea and abroad and overall value chain. KT&G seeks to enhance stakeholder trust by implementing climate change response strategies and disclosing transparent information according to global disclosure guidelines. 	<ul style="list-style-type: none"> Scope 1+2 emissions (tons) Scope 3 emissions (tons) Environmental investment amount (KRW million) 	Social	[Social cost of GHG (carbon) emissions] ¹⁾ <ul style="list-style-type: none"> Reduce social costs by reducing site GHG emissions <ul style="list-style-type: none"> - Scope 1+2 reduction: 5,921 tons - Social cost reduction: Around KRW 410 million GHG reduction effects and social cost reduction from using renewable energy <ul style="list-style-type: none"> - Renewable energy use: 15,276 MWh - GHG emission avoidance effect: Around 7,018 tons - Social cost reduction: Around KRW 480 million
2	Manage product eco-friendliness	Overall value chain	KT&G employees, partners, ESG experts, media, local communities/NGOs, shareholders/investors, government	Positive/Negative	<ul style="list-style-type: none"> There is stakeholder demand that we manage products' environmental impact throughout the entire process, ranging from collecting raw materials that are needed for the product manufacturing process to processing, manufacturing, shipping, use, and disposal. By providing eco-friendly products and services, we must build a foundation for stakeholders to practice carbon emissions reduction, through which we should reduce environmental impact in the overall value chain. 	<ul style="list-style-type: none"> LCA-based environmental impact Percentage of use of recyclable or renewable packaging materials (%) Use of plastic packaging materials (tons) Eco-friendly packaging material purchases based on the Sustainable Product Policy (KRW 100 million) 	Environmental impact	[Social cost from managing product eco-friendliness] ²⁾ <ul style="list-style-type: none"> Reduce social costs by using recyclable packaging materials <ul style="list-style-type: none"> - Use of recyclable packaging materials: 43,750 tons - Social cost reduction from recycling: KRW 1.9 billion Social cost reduction from device material recycling <ul style="list-style-type: none"> - Reused material amount: 94.8 kg - Social cost reduction from recycling: KRW 4,112
3	Develop modified risk tobacco products	Downstream (Consumer use)	KT&G employees, partners, ESG experts, media, local communities/NGOs, shareholders/investors, customers	Positive/Negative	<ul style="list-style-type: none"> To provide consumers with better choices, the tobacco industry is actively working on scientific capability-based innovative platform diversification and development of alternative products with modified risks. Based on modified risk technologies and verification capabilities, KT&G seeks to steadily expand its research expertise that is in line with the modified risk tobacco product standards demanded by the FDA. In addition, to increase consumer accessibility to NGP, which is a next-generation product, we are including consumer purchase market share and number of countries we entered across the globe in our NGP growth strategies. 	<ul style="list-style-type: none"> NGP sales performance (KRW 100 million) NGP sales proportion in tobacco business unit (%) No. of KOLAS certified items (Cases) NGP patent applications (Cases) 	Environmental impact	[Improve consumer accessibility to the next-generation product NGP] <ul style="list-style-type: none"> No. of markets where products are sold: 32 countries (as of 2022) Consumer purchase market share: 47.5% (domestic basis in 2022) No. of NGP launched platforms: 3 (as of 2022)

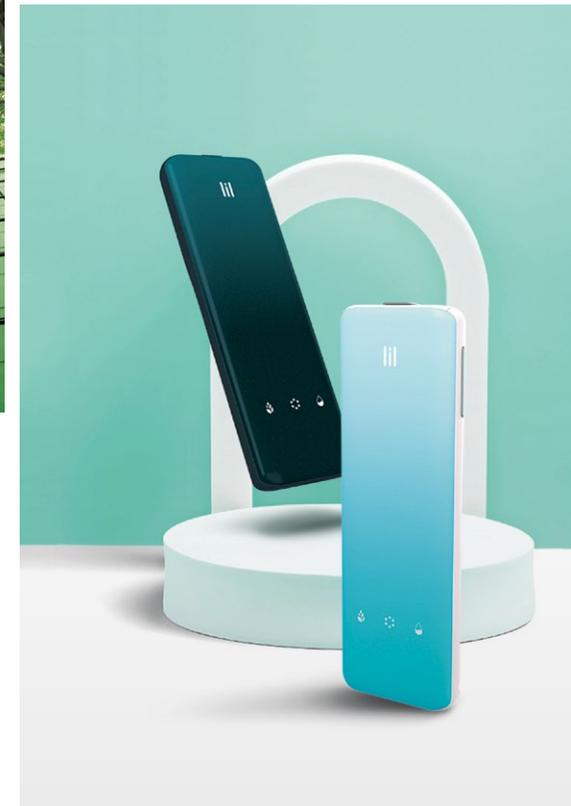
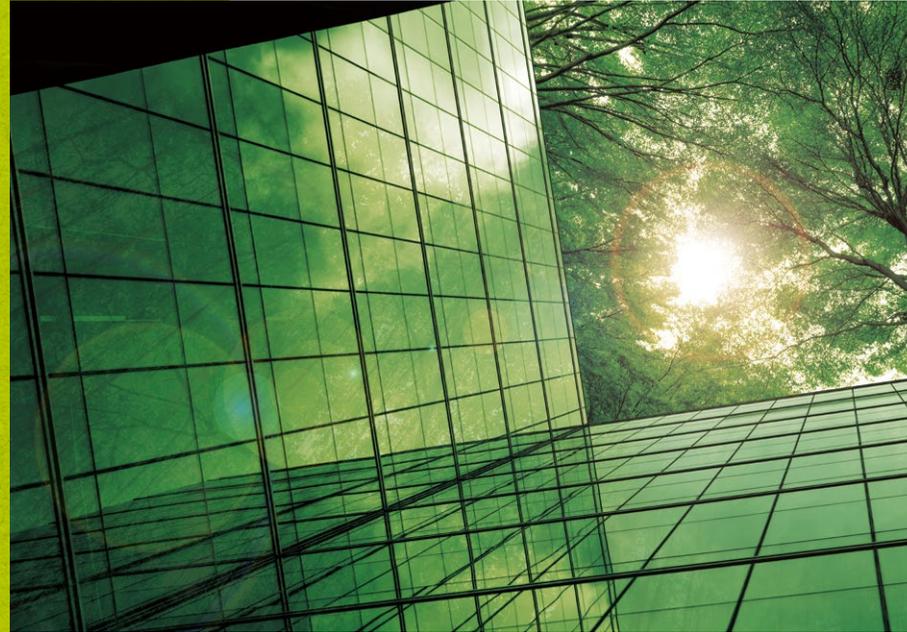
¹⁾ Source: EPA, Technical Support Document: Social Cost of Carbon, Methane, and Nitrous Oxide Interim Estimates under Executive Order 13990 (2021)

²⁾ Source: 8) A. Rabl, J. V. Spadaro and A. Zoughaib, Environmental impacts and costs of solid waste: a comparison of landfill and incineration (2009)

Focusing on New Future Growth Engine of Tobacco Business

MANAGEMENT APPROACH

KT&G is focused on improving the competitiveness of the NGP business as our core business and future growth engine. In particular, we are making every effort to innovate the platform based on our business know-how and R&D capabilities, which are our unique competitive strengths. In addition, we strive to provide consumers with better choices in the development and production of products while building a relationship of trust with various stakeholders through responsible marketing activities based on strict compliance with laws and regulations.



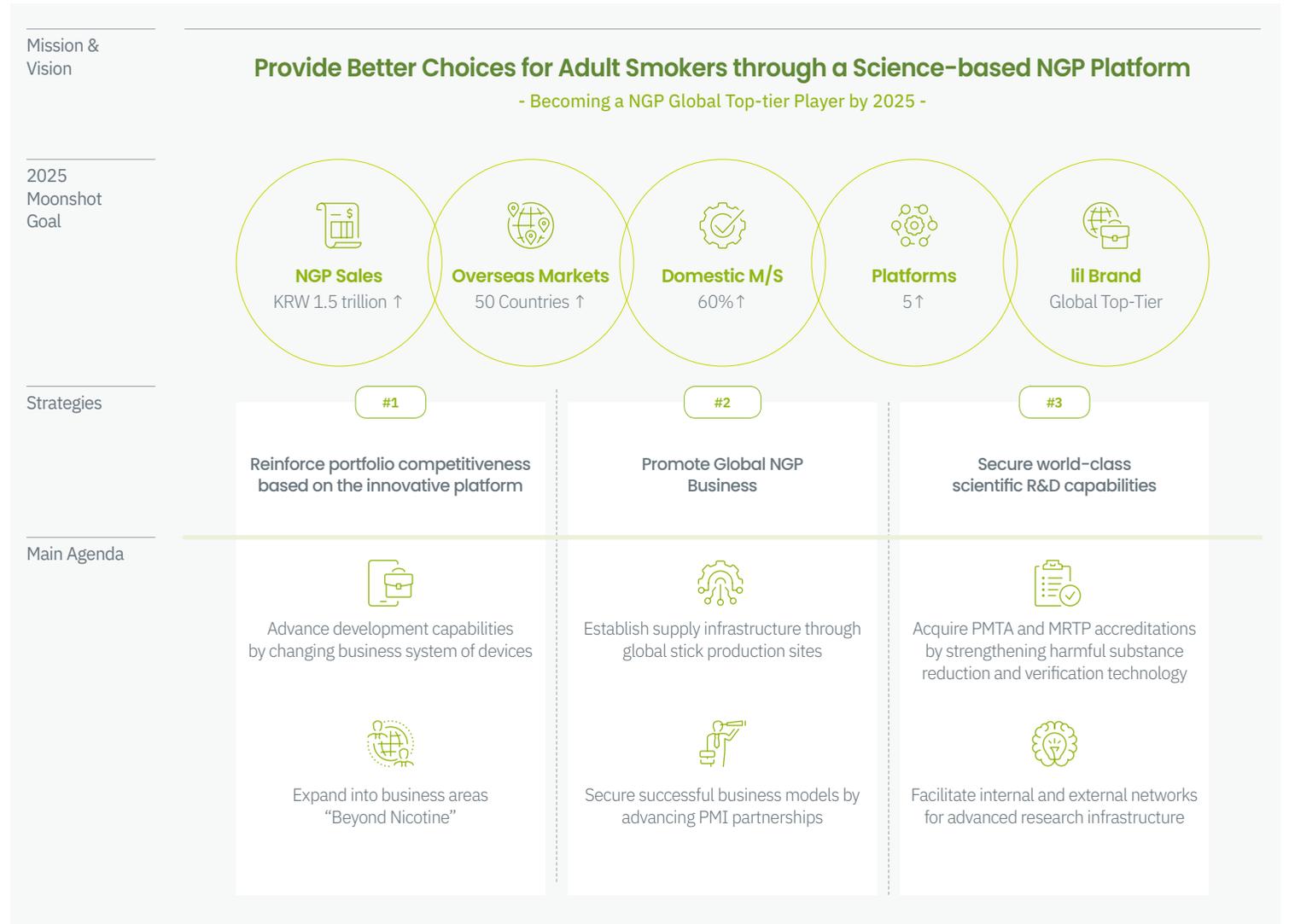
- NGP (Next Generation Products)
- Responsible Marketing
- Product Safety and Quality
- Research and Development

NGP (Next Generation Products)

Accelerating NGP Global Business

2025 NGP Business Vision & Strategy The NGP (Next Generation Products) business is KT&G's core business and future growth engine. Therefore, KT&G is fully committed to maintaining the global growth momentum in the NGP business and further improving our unique competitiveness as a scientific capability and innovative platform to create new opportunities. In order to actively respond to various consumer needs, we continue to invest in the development of new models and products, with a particular focus on diversifying our NGP platforms based on scientific capabilities and improving the competitiveness of our product portfolio. Going forward, in order to leap forward as a unique "Global Top-Tier Player" in the NGP market, we will preemptively respond to domestic and international regulations to minimize related risks and upgrade our product evaluation system to meet global standards.

NGP Growth Strategy

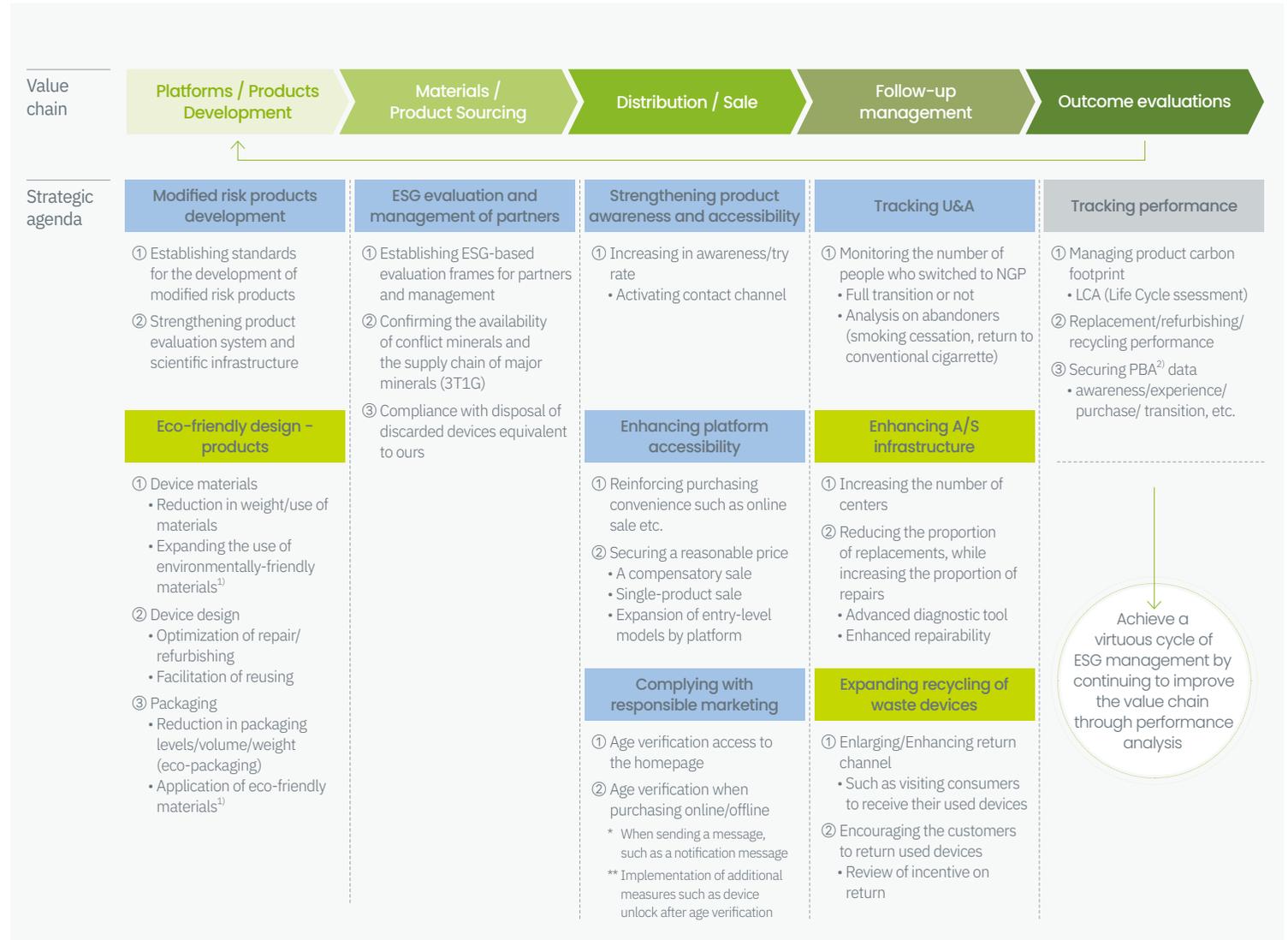


NGP (Next Generation Products)

Strategic Tasks for Sustainable Growth In achieving the vision of the NGP business, KT&G aims for sustainable growth. To this end, we focus on fulfilling our social and environmental responsibilities throughout the value chain, from product development to manufacturing and sales, post-sales management, and performance measurement. We have thus identified 24 strategic agendas to achieve our goals. Such strategic tasks as modified risk products development, ESG evaluation and management of partners, complying with responsible marketing, expanding recycling of waste devices, tracking performance are selected in consideration of KT&G's long-term growth from the perspective of various stakeholders, including supply chain, consumers, local communities, and the natural environment. Going forward, we plan to continue to advance our tasks and establish a management system in which sustainability is integrated into product competitiveness.

NGP Strategic Tasks by Value Chain

■ Social Responsibility ■ Environmental Responsibility



¹⁾ Environmental-friendly materials: Foreign authentication or renewable, recyclable, and recycled materials, biodegradation materials

²⁾ Perception and Behavior Assessment

NGP (Next Generation Products)

Advancement of NGP Development and Operation The NGP Business HQ is an organization in charge of the main pillar of the NGP business, which is the core future growth engine of KT&G. In 2016, KT&G established the Product Innovation Office under the Marketing HQ and started developing NGP, and in 2022, the Office was expanded and reorganized into the NGP Business HQ. In the same year, the NGP Development Office was established under the NGP Business HQ. In 2023, we divided it into the Platform Development Center and the Platform Operation Center to upgrade it to an organization capable of performing more specialized development functions and conducting enhanced prior research and quality control.

The R&D HQ is responsible for new platforms and R&D and has improved safety analysis and compliance functions. In 2022, we also established the NGP Business Legal Team under the Sustainability Management HQ and preemptively reviewed the regulations of each country where our NGP business seeks to make inroads to ensure that the entire process from product launch to sales is within the regulatory framework and that we can preemptively respond to related risks. In this way, we are improving the sustainable competitiveness of the NGP business by creating synergy in the development of innovative products, expanding consumer choice, and responding to global regulations through the establishment of a system for organizational and human infrastructure and the enhancement of collaboration among organizations, including the R&D HQ and the Sustainability Management HQ with the NGP Business HQ playing a central role.

Expanding NGP Business at Home and Abroad Our NGP business is growing rapidly and robustly based on innovative platforms and brand strategy. As of the end of 2022, we recorded a 47.5% stick share¹⁾ in the domestic NGP market, continuing both quantitative and qualitative growth. Despite being a relatively latecomer, we achieved the #1 market share by broadening consumer choice through differentiated products based on a thorough analysis of consumer preferences. Launched in 2018, KT&G’s proprietary platform “lil HYBRID” is characterized by increasing the amount of vapor by combining a liquid cartridge with an existing cigarette-type e-cigarette device, which enjoys great popularity due to abundant vapor volume and easy cleaning. In 2021, we expanded our market by introducing the second-generation model “lil SOLID 2.0”, with increased consumer convenience. Lil HYBRID continued its reputation in 2022 by releasing a special edition in collaboration with golf brand Volvik and fragrance brand Soohyang. Moreover, in 2022, we launched a new innovative platform, “lil AIBLE”, leading the domestic e-cigarette market. As our market share expands, we are making every effort to establish a system that can collect opinions and respond to the needs of various consumers, and in particular, we are continuously improving our communication channels by upgrading our online website, customer center, and after-sales service operating system.

¹⁾ Based on 2022 cumulative CVS (convenience store) sales

KT&G’s NGP business is expanding beyond the domestic market to overseas. In 2020, we entered into a strategic partnership with PMI (Philip Morris International) to develop the global market and made inroads into three countries such as Russia, Ukraine, and Japan using PMI’s distribution network. The number of our export markets increased significantly to 31 countries as of the end of 2022. Furthermore, in January 2023, we signed a new 15-year partnership until 2038 with PMI to establish a solid foundation for targeting the global NGP market in the long term. Based on this, we expect to have the highest level of NGP manufacturing capabilities along with increasing the global awareness of the lil brand. Besides, starting with a minimum quantity guarantee of 16 billion sticks in the first three years, the process of reviewing performance and reconfirming quantities every three years will significantly relieve our management uncertainty in a rapidly changing market environment.

Roles & Responsibilities of NGP Business HQ



NGP Business Performance Highlights

Category	Unit	2020	2021	2022
NGP sales	KRW billion	279.2	504.0	876.3
Unit sales of sticks (based on market sales)	100 million sticks	31	72	107
Market share in the stick market (domestic)	%	34	40	48
Stick SKU (domestic)	Types	17	20	24
Export destinations	Countries	4	24	32
NGP patents applied	Cases	992	1,010	1,339
NGP trademarks applied	Cases	688	354	392
NGP design rights applied	Cases	71	87	31

NGP (Next Generation Products)

Building a Foundation for Improving Scientific Capacity KT&G is concentrating its research capabilities on obtaining PMTA (Pre-Market Tobacco Application) and MRTP (Modified Risk Tobacco Product) certifications administered by the US Food and Drug Administration (FDA) by enhancing our product evaluation system and improving risk-reducing scientific capabilities to provide consumers with better choices. Since this requires a high level of research expertise and partnerships with various global institutions, we are reinforcing our driving force by recruiting overseas experts with many years of know-how in the field as the head of the organization dedicated to PMTA/MRTP programs. In addition, we plan to make bold investments in R&D to rapidly advance research on reducing the risks of e-cigarettes.

With the goal of securing evidence equivalent to the MRTP level, KT&G is striving to develop scientific capabilities with “K-Science” as our R&D direction. Considering that it will take a long time to build K-Science, we regularly hold meetings of the Execution Committee, a decision-making consultative body, to review detailed implementation tasks and milestones by field, while gradually expanding our expertise in the research field in consideration of priorities such as the urgency of securing data and capabilities.

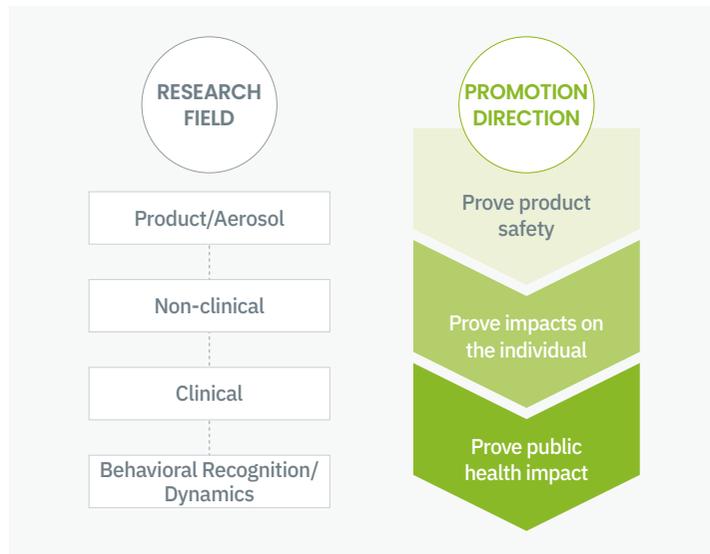
With regard to securing the reliability of research and experimental data conducted to prove product excellence and safety, KT&G is focusing on securing product analysis and evaluation capabilities at a global level and improving independence. To this end, we are promoting the operation of the Korea Laboratory Accreditation Scheme (KOLAS) and the expansion of new accreditation items in the NGP field. Besides, we are recruiting experts from both non-clinical and clinical fields to establish a robust research and design framework, ensuring thorough validation of product safety while reinforcing laboratory infrastructure and systems within 2023 for expeditious and efficient performance.

Improving the Competitiveness of NGP Products

Strengthening the Competitiveness of NGP Technology KT&G is focusing on R&D for NGP business to establish a leading position in the NGP market and advance into the global market while the outcome of intensive investment in R&D are leading to an increase in intellectual property rights, including patents. We have applied for a total of 3,341 domestic and overseas patents in the NGP field over the past three years. Among them, the number of overseas patent applications, including in Europe, rose sharply from 9 in 2017 to 942 in 2022. By securing patent rights for research achievements in the global market, we are building our unique platform and improving our unique competitive strengths.

KT&G is consolidating and internalizing its core competencies throughout the value chain to secure sustainable competitiveness and technological independence in the NGP business. In particular, given the nature of the business where stick consumption takes place within the device platform, we are focusing on improving our device development capabilities, paying attention to the fact that innovative platforms are the core competitiveness of our business. To this end, we have established a roadmap to internalize core technologies and improve development capabilities step by step while bolstering our infrastructure, including human resources and facility systems, through proactive and substantial investments.

K-Science Implementation Strategy by Phase



NGP Patent Application and Grant

Category		2020			2021			2022		
		Domestic	Overseas	Subtotal	Domestic	Overseas	Subtotal	Domestic	Overseas	Subtotal
Patent	Applied	336	656	992	361	649	1,010	397	942	1,339
	Granted	72	21	93	163	67	230	226	170	396
Trademark	Applied	56	632	688	17	337	354	23	369	392
	Granted	50	952	1,002	39	715	754	18	318	336
Design	Applied	25	46	71	28	59	87	19	12	31
	Granted	26	91	117	14	49	63	32	33	65

NGP (Next Generation Products)

Diversifying Product Portfolio | KT&G’s unique devices and platform-specific sticks are our competitive edge and provide consumers with expanded choices. We are therefore proactively identifying customer needs and utilizing our scientific capabilities to continuously increase our portfolio of dedicated sticks for each platform. In 2022, in particular, we presented a new paradigm in the NGP market by launching “lil AIBLE”, an innovative platform that allows users to use three different types of dedicated sticks with one device.

lil SOLID 2.0 Platform | It is an NGP smoking platform that directly heats the medium in the stick. Heating the tobacco medium gives a similar feeling of satisfaction to a traditional cigarette, drastically reducing the cigarette smell thanks to its non-burning method.

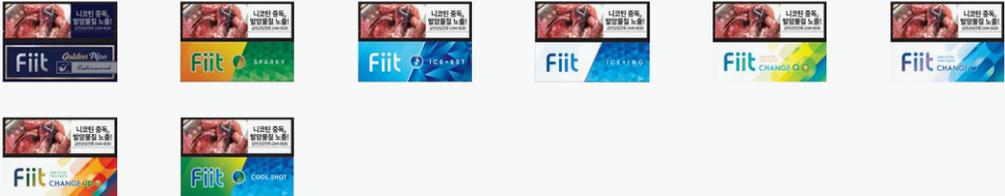
lil HYBRID 2.0 Platform | KT&G’s proprietary NGP platform combines a stick and a liquid cartridge. It features abundant vapor while its innovative stick and device design has eliminated the inconvenience of cleaning.

lil AIBLE Platform | Under the concept of “All Mighty – All e-cigarettes in one device”, it is an NGP platform that allows consumers to use three exclusive sticks of Real, Granular and Vaper Stick with one device. In the past, different devices were needed, when the stick medium (the main material of the stick) was different, but lil AIBLE makes it possible for one device to be used for different sticks. REAL, which uses cut tobacco as its main ingredient, encapsulates the essence of premium indulgence while GRANULAR, which features tobacco granules as its primary ingredient, delivers a balanced tasting experience, and a vapor stick made of liquid nicotine produces a soft taste.

Two devices, a premium type, and a basic type, have been released. Both devices feature innovations such as smart on/off and stick-specific modes. The application of artificial intelligence (AI) technology, such as optimizing smoking conditions, providing residual smoking amounts, and recommending charging, is also a differentiating feature. In particular, the premium model is equipped with a 1.78-inch touch color OLED, which allows users to access various information such as phone notifications, weather, and calendars from the device through a smartphone and Bluetooth connection.

8 Types of Fiit





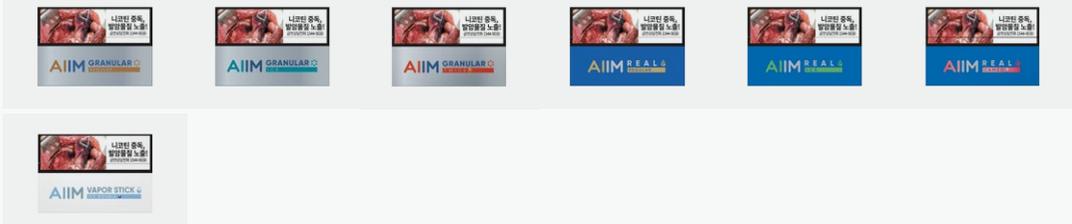
9 types of MIIX





7 types of AIIM





Responsible Marketing

Responsible Marketing Policy Responsible Marketing Policy

KT&G strictly complies with the Tobacco Business Act and the National Health Promotion Act, which were enacted based on the Framework Convention on Tobacco Control (FCTC) of the World Health Organization (WHO) as well as the domestic laws and regulations related to tobacco marketing and sales. In the case of export markets, we actively strive to develop responsible marketing activities in accordance with the tobacco control laws of each country. Furthermore, we are contributing to the creation of a sound business environment for regulatory authorities and building a relationship of trust with various stakeholders, including consumers.

KT&G’s marketing of all tobacco products is only for adult consumers, and we strive to prevent minors from accessing tobacco products in advance by requiring age verification to access our tobacco product websites. In addition, we sponsor youth smoking prevention campaigns and cooperate with external agencies to crack down on illegal cigarettes, thereby contributing to establishing a sound distribution and marketing order.

In our efforts to ensure consumers’ rational choice and basic rights, we listen to opinions through various channels and reflect them in our products and services while making every effort to provide responsible product information.

The value chain of the tobacco industry encompasses various stakeholders such as leaf tobacco farmers and partners for the production and distribution of products, as well as customers, employees, local communities, and governments. Recognizing the need to establish a balanced and reasonable marketing regulatory policy through sufficient discussion and social consensus among various stakeholders in the company’s value chain, KT&G established the “KT&G Responsible Marketing Policy in 2020 and revised it for the first time in 2022. We will continue to improve it based on the results of the monitoring of related domestic and international trends. We are making our best efforts to comply with the marketing laws and regulations of the countries and markets where our products are sold by disclosing this policy to all and applying it to all products while striving to fulfill the social responsibility of the tobacco industry.

Responsible Marketing Activities

Marketing Compliance System and Activities Recognizing the need for an international code of ethics in line with the growing importance of ESG management and a steady expansion of the company’s global business, KT&G established the KT&G Group Business Ethics Charter reflecting the ethical values of the global standard in June 2022. The Charter contains common principles and standards that all KT&G employees must comply with while it is “responsible marketing activities” that the company emphasizes as the most important thing in sales and marketing activities. In the newly established Business Ethics Charter, therefore, KT&G has specified standards for responsible marketing activities that prohibit illegal sales or marketing activities aimed at minors. In particular, we have promised not to engage in illegal sales or marketing activities by striving to introduce all products supplied by KT&G to consumers in the right way while emphasizing that we always communicate transparently with customers, build a relationship of trust with them, and listen to their voices through a wide variety of channels. In addition, we have clarified that we adhere to all pertinent laws and regulations in every country where we conduct business concerning the sales and marketing of our products.

Moreover, KT&G has established a marketing compliance system and is striving to comply with marketing principles. In August 2022, we launched the “Committee for Deliberation on Advertisement, etc.” to comprehensively review policies, laws, and media risks caused by product packaging and advertisements. In addition to members from the department that develops advertisements, the Committee consists of the members of the legal, public relations, and policy departments so that it can look at the subjects of deliberation from various perspectives. In 2022, a total of 11 committee meetings were held on various deliberation topics such as product design, advertisements in retail stores, and e-cigarette device packages. We consider attendance and unanimity guiding principles for decision-making in the Committee as a way to enhance the completeness of our responsible marketing compliance.

Major Activities for Responsible Marketing



Responsible Marketing

Responsible Marketing Compliance Management KT&G constantly monitors the enactment/revision and policy trends of related laws in order to preemptively respond to and manage legal risks arising from marketing activities. Based on this, we conduct regular compliance inspections to manage risks that may arise due to violations of laws and regulations in advance, and for issues of high importance, we conduct separate inspections to figure out the current status and take necessary improvement measures. In 2022, we conducted compliance inspections for the members of related departments under the theme of “marketing and brand advertising”. We also checked awareness and compliance with the Tobacco Business Act, National Health Promotion Act, and Act on Fair Labeling and Advertising, and reported the inspection results to management and the board of directors.

KT&G has also set in place compliance guidelines and distributes them to relevant departments to support their marketing activities while operating a legal information system where legal information can be checked at all times to prevent related risks from occurring. Moreover, after providing compliance guidelines, we educate our employees about the importance of compliance with marketing-related laws and regulations through marketing risk-related training while operating a self-inspection process so that the employees can check the policy implementation status on their own. In the case of overseas subsidiaries, a Compliance Officer is appointed for each work site to monitor the implementation and compliance of marketing policies.

Key Training and Check-in Cycles for Responsible Marketing



Responsible Marketing Training KT&G conducts training and compliance inspections for new and experienced employees, managers, etc., on business-related laws and regulations (Tobacco Business Act, Act on Fair Labeling and Advertising, National Health Promotion Act, etc.). In September 2022, we conducted “brand deliberation-related compliance training” for those in charge of product packaging and advertisements at the Marketing HQ and NGP Business HQ. Through the training, we introduced cases of media interest and internal legal review regarding advertisements as a way of evoking the importance of responsible marketing. KT&G will continue to conduct training on responsible marketing compliance for related departments.

2022 Compliance Training for Responsible Marketing



Content

Focusing on KT&G’s case, we share the legal review details of tobacco product packaging and advertisements to introduce the provisions of related laws such as the National Health Promotion Act and the Tobacco Business Act.



Target

Personnel in charge of relevant tasks in Marketing HQ and NGP Business HQ



Outcomes

Trainees’ raised awareness of responsible marketing

Key Items of Responsible Marketing Compliance Checklist (31 in total)

- ✓ 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.

Compliance Inspection Related to Responsible Marketing KT&G conducts regular compliance inspections in accordance with the Commercial Act and KT&G Compliance Control Standards along with checks on responsible marketing. Thus, we check whether the personnel in charge of product packaging and advertisement development comply with the restrictions imposed by the laws and regulations related to our business. As a result of the 2022 responsible marketing-related compliance checks, it was confirmed that the personnel were well aware of the legislation and fully compliant with it.

Litigation related to Marketing and Advertising

Category	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 ¹⁾
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	No further dates are set after the examination of evidentiary documents (1st on March 31, 2023 and 2nd on April 4, 2023).

¹⁾ Philip Morris Korea Co., Ltd. and British American Tobacco Korea Co., Ltd. (including British American Tobacco Korea Manufacturing Limited)

Product Safety and Quality

Chemical Substance Management System

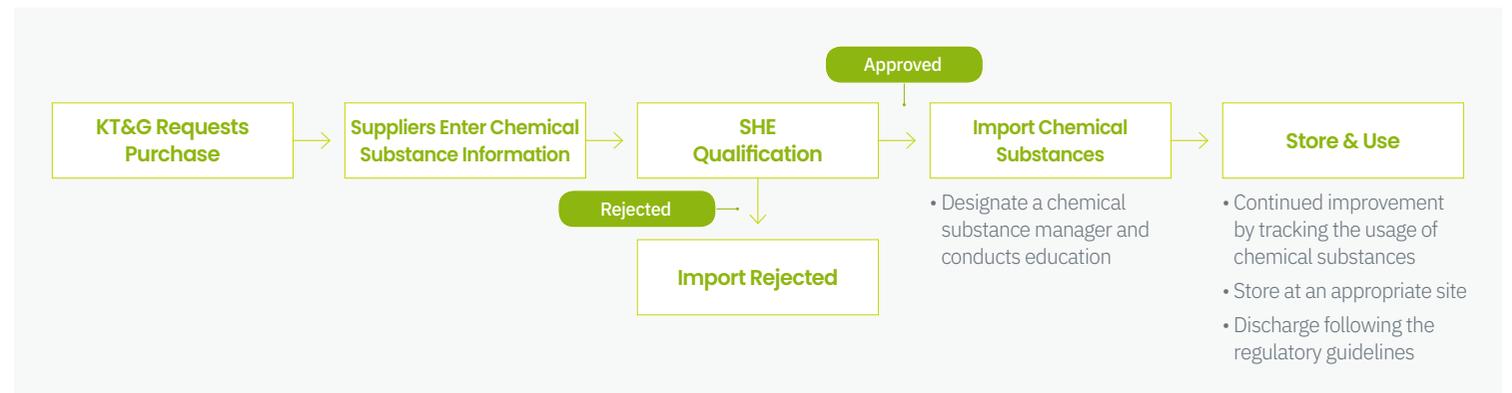
Establishment of Integrated Chemical Management System KT&G manages chemical substances legally and safely in accordance with relevant laws such as the Act on Registration and Evaluation of Chemical Substances, Chemical Substances Control Act, and Occupational Safety and Health Act. In addition, we operate a chemical substance management policy based on the safety, health, and environment (SHE) management policy established at the company level. We have a SHE IT system in place to comply with and check the implementation of related laws and regulations. All chemicals that have entered KT&G's work sites are managed through the SHE IT system. When we intend to introduce new chemicals, we check SHE laws and regulations in advance and conduct chemical safety assessments to block the entry of hazardous substances.

Warehousing at each plant proceeds only if the relevant chemical substance satisfies our SHE Qualification. Through the SHE Qualification process in our integrated chemical management system, we conduct regulatory reviews of all newly introduced chemical components. In 2022, we reviewed approximately 800 cases to find that 10 of them were subject to licensing. We therefore obtained prior licenses before introducing them to our business sites. In managing delivered chemicals, we do our best to comply with relevant regulations and standards by keeping MSDS (Material Safety Data Sheet), conducting training, complying with handling and facility standards, managing the intake and outflow of the chemicals, administering licenses and permits, and inspecting storage facilities.

Advancement of Integrated Chemical Management System KT&G plans to upgrade its integrated chemical management system to respond more systematically and efficiently to various obligations related to chemical substances as well as chemical substance SHE qualification. In 2023, we will implement the first phase of our upgrading project to incorporate the enactment and revision of related regulations and the needs of internal and external members while enhancing the safety of chemical substance management through continuous improvement. Furthermore, we will fill in and review the handling information for each chemical substance in advance to expand the scope of data utilization and improve the efficiency of legal compliance. Based on the MSDS information in the system, we are elaborating the system so that it can be easily used when fulfilling obligations such as pre-health check-ups, work environment measurement, statistical survey data calculation, and pre- and post-licensing related to chemical substances. In fulfilling follow-up obligations in each field of environment, safety, and health after licensing, KT&G determines whether it is subject to compliance with relevant laws and regulations based on various chemical substance data registered in the system. We expect that the process and scope of application will be further improved through the advancement of the integrated chemical management system.

Chemical Substance Manager and Training KT&G appointed managers in charge of handling chemical substances to systematically manage chemical substances from preliminary examination to purchase, used, and discard. Also, we provide safety training on related regulations, safety management, accident response and evacuation, and how to handle harmful chemical substances for employees who use harmful chemical substances so that they can follow safety guidelines and laws. As part of chemical safety management activities, we will continue to provide guidelines and training courses. Going forward, as part of chemical safety management activities, we will strive to prevent accidents caused by chemical substances by presenting guidelines, evaluating work safety, and promoting facility improvement.

Chemical Substance Management Process



Product Safety and Quality

Inspection and Support for Suppliers' Chemical Substance Management

To improve the accuracy of the chemical substance review process and spread social value creation activities horizontally, KT&G shares its review system with partner companies while asking them for more accurate basic information on chemical substances. Based on the information provided by chemical suppliers, SHE personnel review licensing by sector and whether legal standards are met. Chemical substances are only received if the regulatory review results are positive. If the data is incomplete or insufficient, the receipt will be restricted. Suppliers can request reexamination after modifying and supplementing the data. For chemical substances that do not comply with the relevant laws and regulations and our management standards, we urge them to stock the substances after meeting the management standards or to find alternative materials. In addition, we visit manufacturers and suppliers of raw and secondary materials to listen to their opinions on the spot, incorporate them, and provide a guide so that they can clearly comply with laws and regulations when producing safety and health information.

KT&G provides its chemical substance suppliers with support for chemical substance regulations. In 2022, we inspected all our chemical substance suppliers for compliance with the Act on Registration and Evaluation of Chemical Substances while presenting them with regulatory guidance on MSDS preparation and compliance with the Chemical Substances Control Act. In particular, we formed a response council to systematically support the implementation of chemical regulations for core materials such as fragrances and filters. In 2022, the council held four regular meetings while providing detailed support for compliance with regulations by operating communication channels around the clock. Going forward, we will form a consultative body to share and manage relevant information in a more systematic manner to improve the safety level of all our chemical suppliers. We will also continue to thoroughly manage all chemical substances used not only by us but also by our suppliers based on a systematic chemical management process to reduce the risk of responding to chemical regulations and furthermore, realize a safe workplace for both people and the environment.

Safety Evaluation of Additives and Materials

Preliminary Material Management Committee Since the Ministry of Food and Drug Safety's announcement of safety management measures for liquid e-cigarettes in 2019, KT&G has formed and operates the Preliminary Material Management Committee, composed of experts in each field of R&D, to improve our safety management of materials. The Committee shares the latest regulatory and safety information, seeks improvement ideas for major issues, and establishes scientific countermeasures. In 2022, the committee established scientific evaluation standards and procured results through expert consultations on new cartridge materials and device additives.

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

In line with the trend of expanding export countries and strengthening the obligation of regulatory authorities to submit and report additive information, KT&G has introduced an IT system for integrated additive management in 2023 with the aim of efficiently operating additive information management and enhancing our reliability. This has enabled us to inquire about the type and content of additives in a product by using a single program that has integrated additive-related data that had been separately managed as needed in specifications, contracts, and production information management programs. When submitting information on additives, we are now able to submit it more quickly and accurately. Furthermore, by integrating various countries' regulatory information and additive safety information into the system, we can automatically screen and verify whether our additives comply with the import regulations of the target countries. In addition, as a global company, we support compliance with additive regulations in each country by conducting a pre-conformity review in the event of a change in materials and automatically accumulating the change history of materials for each product as a way of enhancing our product quality assurance and regulatory compliance.

Additives/Materials Safety Assessment Process



Product Safety and Quality

Analysis of Aerosol Component in NGP and Safety Evaluation All raw materials used in NGP of KT&G undergo prior safety verification, and cartridge moisturizers used in products must meet pharmaceutical-grade standards. Flavoring agents must meet food-grade standards as well. All additives in NGP are subject to EU REACH (Regulation (EC) 1907/2006) while chemicals of concern from the EU SVHC (Substances of High Concern) and the SIN List (Substitute Substances) are excluded. Cartridges and devices are used only for materials that have been validated according to the EU Regulation (EC) 1935/2004 on Food Contact Materials. All materials of our NGP are finally applied after further safety verification, such as the possibility of aerosol implementation.

We manage our NGP components that are subject to be reported in accordance with the World Health Organization (WHO), the U.S. Food and Drug Administration (FDA), and Health Canada (HC) by using our own aerosol analysis. In particular, for the 58 components of NGP, which are under intensive management, harmful substances contained in the aerosol are managed to maintain a level of more than 90% lower than that of reference cigarettes (University of Kentucky standard cigarettes, 1R6F¹⁾. In addition, biological safety is verified through in vitro toxicity test evaluations such as genotoxicity and cytotoxicity, and quality is guaranteed through physical chemistry testing and batch shipment testing. Meanwhile, in 2018, KT&G presented the aerosol component analysis and safety evaluation of KT&G NGP conducted by an internationally accredited analysis institution at an overseas academic conference. We were also recognized for our research achievements in safety evaluation.

As such, KT&G complies with global advanced systems and market regulations based on strict internal standards while making various efforts to supply safe products that can meet the expectations of consumers. In 2022, a new in vitro standard toxicity evaluation method was established for a more accurate toxicity evaluation of NGP, which is difficult to distinguish between products with the existing cigarette toxicity assessment method due to the low emission of harmful components compared to cigarettes. Through the new evaluation method, cytotoxicity, mutagenesis, and micronucleus performance evaluation using aerosol condensate were performed to demonstrate a significant reduction in toxicity compared to existing cigarettes. Furthermore, the evaluation method was improved to be used for safety evaluation among various NGP platforms, too.

Furthermore, KT&G has established an aerosol and cut tobacco component analysis method for ingredients related to the US FDA tobacco regulation in order to prove the superiority and safety of our products. Also, we have cataloged the ingredients related to liquid e-cigarette regulations and prepared a new method for analyzing the ingredients of liquid and aerosol. In 2023, we are pursuing the establishment of aerosol droplet size and distribution measurement methods, aerosol solid particle measurement methods, and analysis methods for carbon monoxide and nitrogen oxides in oxygen and air to prove non-combustibility.

Animal Testing Policy KT&G strives to reduce indiscriminate animal testing by calculating the minimum number of animals by fully reviewing the conduct of animal experiments in advance in accordance with the ethical use of laboratory animals and the 3R (Reduction, Replacement, Refinement) principle. In addition, we comply with the provisions of the Animal Protection Act and Laboratory Animal Act while conducting animal testing in accordance with the animal testing guidelines. Besides, in order to deliberate on the ethical and scientific validity of animal experiments and to implement them in accordance with the principles of animal experimentation, we have launched the Animal Experimentation Ethics Committee and the Experimental Animal Operation Committee in accordance with the related laws such as Animal Protection Act and Laboratory Animal Act. We continuously provide necessary guidance and supervision. We hold meetings twice a year to inspect the operation of the facility and take necessary measures for the protection and ethical handling of laboratory animals.

KT&G also ensures the reliability of our animal testing by operating facilities based on the International Association for Accreditation of Animal Experiments (AAALAC) certification. In order to maintain the constancy of the experimental environment, KT&G Bio-Efficacy Evaluation Center (MFDS Registration Number No. 711) manages temperature, humidity, ventilation, lighting control, sterilization and disinfection of equipment in accordance with the Animal Room SOP (Standard Operating Procedures) while preventing the intrusion of external contaminants by mandating that animals and experimental equipment pass through the pass room upon entering or exiting the experimental environment. In addition, we conduct fact-finding surveys requested by the Ministry of Food and Drug Safety and the Animal and Plant Quarantine Agency as well as report operating results to them in our efforts to operate related facilities legally under the management and supervision of government agencies.



¹⁾International standard tobacco manufactured by the University of Kentucky Standard Tobacco Products Center for tobacco product research

Product Safety and Quality

Enhancing Product Safety and Quality

Enhancing Consumer Safety

Leaf Tobacco Materials | 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 Materials | 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 and importers must request the tobacco component measurement institution accredited by Korea Laboratory Accreditation Scheme to measure the components displayed on cigarette packs and obtain certification about the appropriateness of the labeling values. 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 23 years in a row, for its ability to measure tobacco components. As of 2022, it has guaranteed 141 products from 21 countries as requested by importing countries. Regarding the ability to measure NGP products that lack international standards, we were recognized for the ability to measure 51 components for the first time in Korea from KOLAS in 2021. Then, in 2023, we demonstrated that we are equipped with a global-level NGP product quality assurance system by adding 125 ingredients.

Conventional Cigarette 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 precertification checks every six months to ensure that the technology is applied correctly before being released to the market. KT&G has secured international testing capabilities for the technology and periodically analyzes its products to comply with legal

standards. In the first and second half of 2022, all 80 types of products sold in Korea were certified for fire prevention by the Korea Fire Institute, a fire prevention technology certification body.

NGP (Next Generation Products) | We strive to ensure safety of our NGPs across the entire value chain, from sourcing raw materials to product manufacturing by obtaining certifications and focusing on quality control. For NGP devices, we have achieved domestic certification (KC) and international certifications (CE, CB, EAC, PSE), and as we expand our global presence, we are securing the type of certification each exporting country requires.

In particular, 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.

Certifications for Reinforcing Customer Safety

Category	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	International 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	Mar. 2000
Cigarette Products	KFI (Korea Fire Institute)	Certification	Semi-annual certification of low-flammability cigarette fire prevention performance	Jul. 2015
	CB (IECEE, global standards for electronic equipment)	Certification	Safety certification system for product conformity testing for household electronic devices and similar devices	Jul. 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	Jul. 2020
	EAC (EAEU, Eurasian Economic Union)	Certification	Electronic device certification systems in 5 Eurasia countries (Russia, Kazakhstan, Belarus, Armenia, Kyrgyzstan)	Apr. 2021
Next Generation Product	PSE (METI, Japanese Ministry of Economy, Trade and Industry)	Certification	Mandatory certification according to the Japanese Electrical Appliances Safety Act	Jul. 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	Oct. 2017
	KT&G's distribution tracking system	International 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.	Jun. 2020
Business site	SO (International Organization for Standardization)	Certification	Maintaining a systematic quality and environmental management system in the workplace based on ISO 9001 (quality management system) standards	Apr. 2020

Research and Development

R&D System



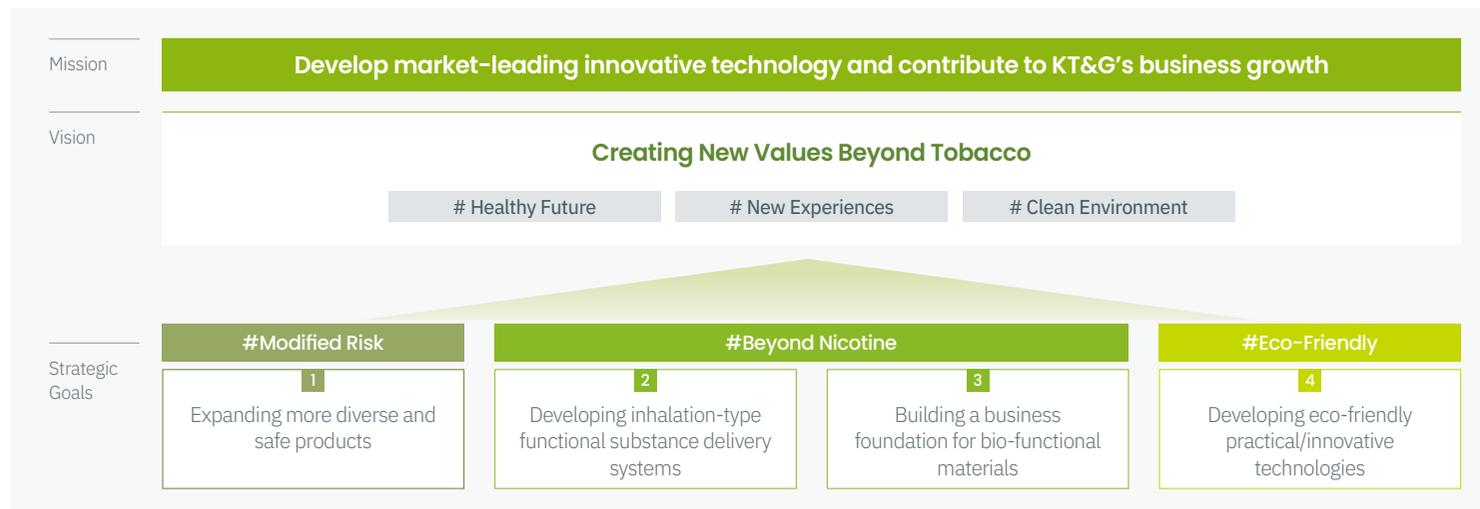
Mid-to Long-term Strategic Direction of R&D In order to provide more diverse and safe products, KT&G is actively conducting basic research related to the expansion of the NGP portfolio that reflects consumer values in conjunction with the company's ESG strategy and mid- to long-term NGP business growth strategy. In addition, we are striving to create new added value in areas other than tobacco by utilizing our R&D technology and expertise. Noting that the trend of business expansion in the tobacco industry is based on R&D competitiveness such as accumulated expertise and advanced science and technology, KT&G's R&D HQ will join this trend of industry paradigm and focus on research and development in new growth fields to respond to the future market. Furthermore, we are actively promoting the development and research of materials that meet the company's sustainable product policy by developing practical technologies that can minimize the negative impact that products can have on society and the environment, such as reducing non-eco-friendly factors.

R&D Organization To improving expertise, the R&D HQ operates as a dedicated system for each field. It consists of four different organizations, such as Product Research Lab, Future Technology Research Lab, Analysis Research Lab, and R&D Planning Office, with each organizational expertise and focus areas. Through organic cooperation among the four organizations, we are reinforcing our technology leadership. In 2022, under the vision of "Creating New Values Beyond Tobacco", we established R&D strategies and goals for the expansion of new business areas other than tobacco and focused on securing a research base by recruiting experts in related fields and building infrastructure.

Responsible R&D

Advancement of the R&D System KT&G has established a global-level product evaluation system and internalized related capabilities. We have set up processes for developing and evaluating next-generation products and introduced a system for managing changes in the analysis field (manpower, equipment, analysis methods, etc.) to ensure that we can maintain equal reliability systematically even if changes occur in the product evaluation system. Also, we have developed a step-by-step evaluation management system for the entire product life cycle from product development to release and post-market distribution and instituted world-class evaluation criteria to ensure performance suitability/excellence data as well as quality assurance of our products. In this way, we seek to advance our analysis technology by establishing a global-level analysis system and internalizing/capitalizing related processes while constantly upgrading our analysis system to ensure that we have objective data to demonstrate the excellence of our products.

Mid- to Long-term R&D Vision



R&D Organization

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

Research and Development

Improving R&D Capabilities KT&G vigorously conducts an objective review of our research in order to improve external credibility and improve expertise in research procedures and results. With an excellent evaluation system and test abilities, we have been maintaining the status of an accredited testing agency, qualified by KOLAS, in the tobacco industry for 22 consecutive years. As a KOLAS (ISO 17025) institution whose analysis results are mutually recognized internationally, the R&D HQ facilitates the seamless development of new markets and exports through the timely issuance of internationally certified reports of its products. Furthermore, in the first quarter of 2023, we procured evaluation data to expand the scope of recognition of KOLAS analysis items, expanding the analysis items in the field of next-generation products from the existing 51 items to a total of 176 items. Having obtained recognition for an additional 25 items for traditional products, we have expanded the scope of recognition to a total of 130 items. In order to increase the reliability of research results required for product development, we will continue to expand recognized items and fields, such as sensory and cytotoxicity/genotoxicity evaluations while improving our research capabilities not only in terms of the chemical composition of products but also in their biological effects on users.

Strengthening R&D Partnerships KT&G is pursuing global standardization by conducting international joint research and participating in academic activities based on partnerships with global organizations such as CORESTA (Cooperation Centre for Scientific Research Relative to Tobacco) and ACS (Asia Collaborative Study).

In addition, we actively utilize external resources to improve R&D efficiency and effectively acquiring necessary technologies by differentiating cooperation methods in each field. In the new technology area, we are rapidly developing technology through commissioned/joint research with industry, academia, and national research institutes. In the new business area, we are acquiring know-how early and exploring new value-creation opportunities through strategic alliances with leading institutions.

In 2021, we focused on securing promising technologies by collaborating with leading universities and institutions such as Seoul National University, Chung-Ang University, and KIST (Korea Institute of Science and Technology). We are committed to continuing to expand the areas of cooperation in the future. In addition, we are building a research base for new business models that can create high-added-value in the future and expanding research areas for sustainable growth. To this end, we have completed the BioEfficacy Research Center and reinforced internal infrastructure such as the construction of the Smart Farm Pilot Facility.



List of Joint Research with CORESTA/ACS

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

Research and Development

R&D Performance

Diversifying NGP Portfolio KT&G is actively pursuing product portfolio diversification to improve the competitiveness of the NGP business with the R&D HQ as the main focus. We have contributed to maintaining a solid growth trend by expanding our product portfolio through research on various materials and basic technologies, enabling timely market response for each platform while at the same time conducting research on new platforms to lead the future market. In particular, we are focusing on securing market leadership in NGP by expanding and improving the functions of existing product lines, as well as conducting research on various core technologies such as new heating technology, aerosol delivery technology, and media diversification. As a result of such R&D efforts, in 2022, we launched the lil AIBLE, which allows consumers to use three types of dedicated sticks with one device while expanding consumers' choices by diversifying media such as Real, Granular, and Vaper Stick. Moreover, in order to diversify our NGP portfolio, we are striving to gain a competitive edge by expanding various research categories from heated to non-combusted/non-electronic and tobacco-free/nicotine-free.

Facilitating the Creation of Intellectual Property Rights As the technology leadership achievements driven by continuous R&D investments are on track, the achievements of intellectual property (IP) acquisition are also growing rapidly. The R&D HQ, which is at the center of technology leadership, analyzes the latest patents disclosed by major tobacco companies around the world to identify the research areas and newly researched items that leading companies have focused on recently and sets the direction of R&D by using them for patent design and avoidance strategies. We at KT&G have also systematized our IP strategy by building and upgrading our patent portfolio, and based on this, we are improving our technology-based product competitiveness and increasing our market share centered on NGP's proprietary platform.

KT&G holds the "R&D Patent Week" to create and materialize fresh ideas from our employees. The R&D Patent Week is an in-house event launched in 2021 to encourage employees to invent creative jobs and improve their competency in IP rights. When employees come up with ideas through voluntary participation, excellent inventions are rewarded during the R&D Patent Week. Following an additional detailed process, research space, and expenses are supported for the further development of the ideas, and patents are filed for application with patent experts' consulting. It is essentially a job invention activation program. The ideas selected as best practices go through an idea materialization phase for a certain period of time, and if necessary, the contents of the invention are realized through additional support measures such as the operation of a TFT, prior art research, and prototype manufacturing.



2022 KT&G R&D Patent Week

Major Tasks of R&D Patent

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

Performing Environmental Responsibility across the Value Chain

MANAGEMENT APPROACH

To mitigate climate change risks and discover business opportunities throughout its value chain, KT&G established and implemented the KT&G Green Impact, an environmental management vision and strategy system aimed at reducing the impact of climate change and transforming into a circular economy. On various strategic tasks and projects to effectively achieve mid-to long-term goals related to greenhouse gas (GHG) reduction, carbon neutrality, water saving, and waste recycling. Furthermore, we are continuously striving to reduce negative environmental impacts that may occur not only at our business sites but also throughout the value chain while creating shared value with our stakeholders.



- Green Impact Pathway
- Strengthening Environmental Management
- Responding to Climate Change
- Enhancing Product Eco-friendliness
- Water Resources Management
- Waste Management
- Biodiversity

Key Performance Indicators



7.5% Reduction

GHG emissions reduction compared to 2020 (Scope 1+2)



4.3% Reduction

Water withdrawal reduction compared to 2020



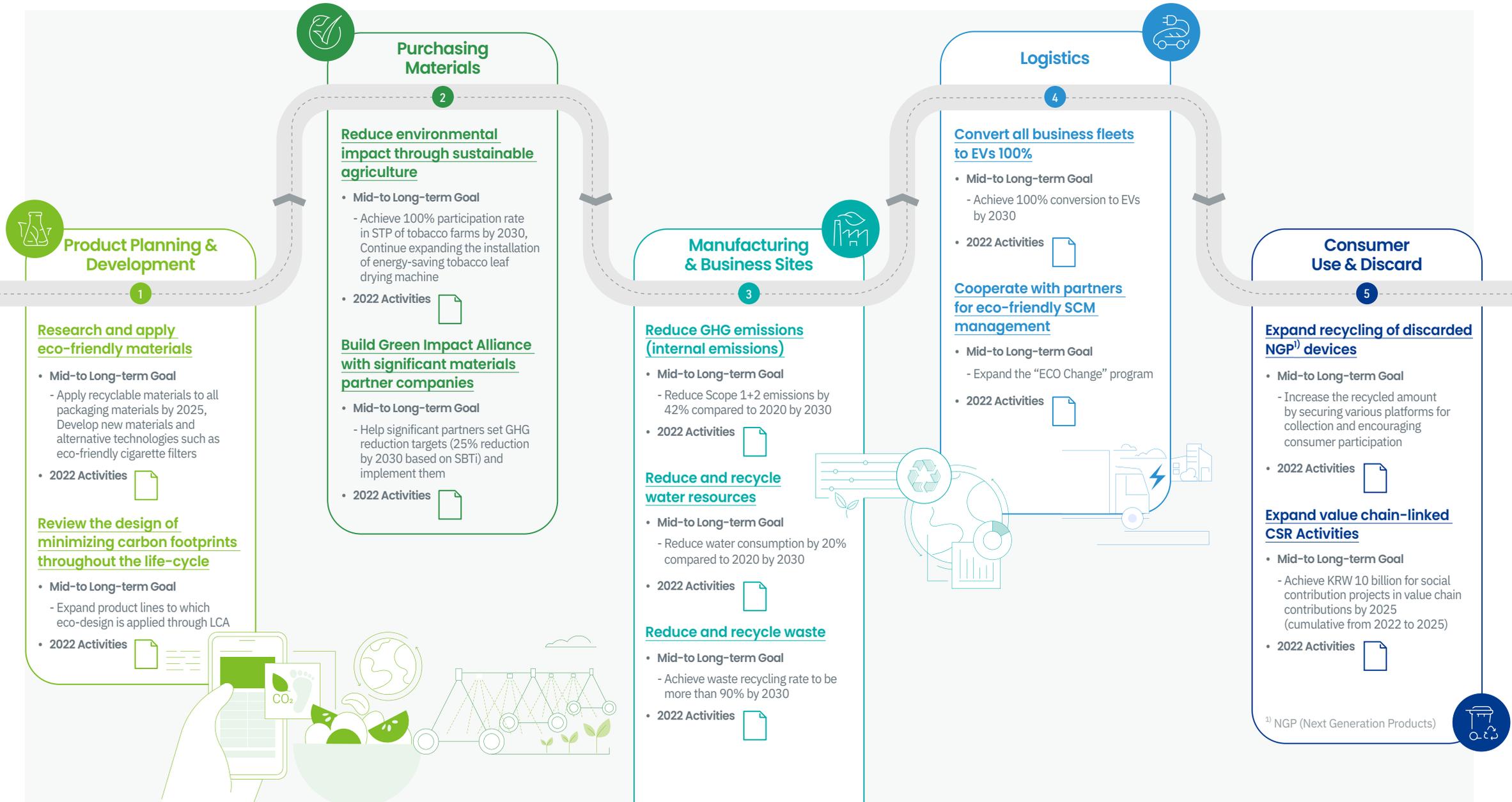
24.3%p↑

Waste recycling rate compared to 2020

* 2022 performance compared to the 2020 baseline

Green Impact Pathway

KT&G is committed to identifying and implementing a wide range of tasks to minimize environmental impacts across the value chain. Going forward we continue advancing our mid-to long-term goals, thereby achieving practical results.



Strengthening Environmental Management

Environmental Management Policy



KT&G has established and operates the Environmental Management Policy to communicate the mid-to long-term environmental management vision and the direction of implementation of strategic tasks with internal and external stakeholders. Furthermore, we encourage all business value chains to comply with environmental policies to the same extent as our company. We conduct educational programs so that employees can recognize the importance of environmental management and participate in it while striving to raise awareness by sharing best practices.

Environmental Management Certification

Since the first acquisition of ISO 14001 (Environmental Management System) certification in 2005, KT&G has established and operated an environmental management system that meets global standards. Through consistent monitoring and endeavors aimed at minimizing the ecological repercussions stemming from the production activities of individual plants, five plants (Sintanjin, Yeongju, Gwangju, Cheonan, and Gimcheon) have successfully upheld their ISO 14001 certification as of the year 2022. Furthermore, with the goal of instituting an energy management framework and creating a foundation for the ongoing advancement of energy conservation efforts, we obtained ISO 50001 certification (Energy Management System) in 2021. This certification is being upheld at five plants (Sintanjin, Yeongju, Gwangju, Cheonan, and Gimcheon) via follow-up audits. Going forward, we remain committed to practicing sustainable environmental management by maintaining systematic process operations aligned with international standards.

Training and Campaigns to Raise Awareness of Environmental Management

In order to enhance employee understanding of ESG management, KT&G operates an online training called the “ESG Understanding Course” for the entire company and strengthens expertise by outsourcing training for energy managers at each business site. Since 2022, the Energy Environment Department at the head office has been conducting energy diagnostics of domestic and foreign plant and Group affiliates every year to derive problems and provide solutions to them. Furthermore, we publish the Best Practice Casebook for GHG Reduction and Water Reduction, which summarizes the best practices for energy reduction that have been proven at domestic plants and induces voluntary benchmarking for domestic and overseas plants and the Group subsidiaries.

With the goal of expanding employee participation and consensus on environmental management, we hold the Energy Saving Idea Proposal contest and encourage self-learning through support for the purchase of ESG technology books. In addition, every employee contributes to the realization of the KT&G ESG vision by regularly sharing the greenhouse gas generation performance progress relative to the set target. This is accomplished through the Company-wide Energy Costs Settlement System, which operates on a monthly basis for all 159 company business sites, spanning both domestic and international locations. Through this concerted effort, we are continuously working to elevate and instill a heightened sense of environmental management awareness within our workforce.

Status of Environmental Education in 2022

Education	Education Institution	Target (No. of trainees)	Date	Purpose	Method
Air conditioning and boiler energy-saving technology	Korea Industrial Technology Association	1 head office ESG officer and 7 plant ESG officers	Feb. 16 - Feb. 17	Understanding air conditioning and boiler equipment	Face-to-face
Basic air conditioning course	Korea Industrial Technology Association	3 plant ESG officers	Mar. 16 - Mar. 17	Understanding air conditioning equipment	Face-to-face
ISO 50001 internal auditor training	Korea Foundation for Quality	1 ESG officer at head office and 35 plant ESG officers	Apr. 28 - Apr. 29	Training of ISO 50001 internal auditors	Video
GHG Emissions Trading Scheme response practice	Korea Foundation for Quality	1 head office ESG officer	May 12 - May 13	Understanding the Emissions Trading Scheme	Face-to-face
Biofuels Forum	Korea Biofuels Forum	1 head office ESG officer	Jun. 21	Review of the applicability of our own biofuels	Face-to-face
Building & industrial energy saving technology practices	Korea Industrial Technology Association	3 plant ESG officers	Jun. 29 - Jul. 01	Acquiring energy-saving technologies that can be introduced into the company	Face-to-face
Practical technology for energy saving	Korea Industrial Technology Association	2 plant ESG officers	Jul. 05 - Jul. 08	Acquiring energy-saving technologies that can be introduced into the company	Face-to-face
Air conditioning & refrigeration practical course	Korea Industrial Technology Association	2 plant ESG officers	Sep. 05 - Sep. 06	Understanding air conditioning and refrigeration equipment	Face-to-face
Compressed air systems ①	Atlas Copco (Pangyo)	7 plant ESG officers	Sep. 21 Oct. 20 Oct. 27 Nov. 18	Understanding the compressed air basic system	Face-to-face
Compressed air systems ②	Atlas Copco (Pangyo)	2 plant ESG officers	Sep. 22	Understanding screw compressor functions	Face-to-face
Compressed air systems ③	Atlas Copco (Pangyo)	2 plant ESG officers	Sep. 23	Understanding turbo compressor functions	Face-to-face
Online seminar for practical dteam technology	Spirax Saco Korea	3 plant ESG officers	Oct. 24 - Oct. 31	Acquiring practical skills and knowledge related to steam	Online
Practical technology for energy saving	Korea Industrial Technology Association	6 plant ESG officers	Nov. 08 - Nov. 11	Acquiring energy-saving technologies that can be introduced into the company	Face-to-face
Understanding ESG	KT&G	3,851 employees company-wide	Nov. 14 - Dec. 20	Understanding ESG for all of the company employ	Online
Seminars on corporate response strategies for realizing carbon neutrality	Educational Center of Future Technology	2 head office ESG officers	Dec. 09	Identifying trends for the realization of carbon neutrality	Face-to-face

Strengthening Environmental Management

Environmental Regulation & Compliance Management

Environmental regulations related to climate change, among others, are gradually being strengthened, and stakeholders such as governments and investors are becoming more aware of the importance of corporate environmental risk management. Accordingly, since 2021, KT&G has been operating the Industrial Regulation Compliance Operating System to systematically manage environmental regulations and compliance. The system consists of a total of 23 laws across four key areas encompassing safety, material management, environment, and energy related to plant operations; monitoring and updating laws and regulations on 130 items; self-audit for regulatory compliance; and reminder of implementation at the end of the implementation cycle. We will systematically manage environmental regulations and compliance centered on our Industrial Regulation Compliance Operating System and prevent the occurrence of significant environmental risks in advance.

Overview of Industrial Regulation Compliance Operating System

Operating Laws and Regulations



Safety (10)

Safety & health, firefighting, city gas, high-pressure gas, electricity, facilities, pesticides, infectious diseases, elevators, children's amusement facilities



Substance management (2)

Hazardous substance, chemicals



Environment (9)

Air, water quality, waste, water supply, sewerage, groundwater, noise and vibration, soil environment, resource circulation



Energy (2)

Rationalization of energy use, the Mechanical Equipment Act

A total of **23** laws
and **130** items
related to plant-related
industrial regulations

Response Strategy

Monitoring of enactment and revision of laws and regulations	Checklist update	Self-audit	Guidance on the upcoming implementation cycle of laws
<p>When necessary</p> <ul style="list-style-type: none"> Utilizing mailing services of Korean Law Information Center, Government Legislative Support Center, and law firms about enactment and revision of laws and regulations 	<p>Semi-annual</p> <ul style="list-style-type: none"> Incorporating the reconfirmation of enactment and revision 	<p>Semi-annual</p> <ul style="list-style-type: none"> Conducting self-auditing at each plant based on the Compliance Self-Audit Checklist, and send the results to the head office <ul style="list-style-type: none"> - Head office: Disseminate implementation tasks related to enactment and revision and requests compliance to each plant - Plant: Management of ISO 14001 environmental code register (continuous update of amendments) and compliance assessment 	<p>Semi-annual</p> <ul style="list-style-type: none"> Reminder of upcoming implementation cycle of laws (head office → plant)

2022 Cases of the Industrial Regulation Compliance Operating System

1

Strengthened the due diligence evaluation items of waste disposal companies in accordance with the revision of the Wastes Control Act

- Conducting annual assessments pertaining to the “licenses, facilities/equipment, and technical competencies” of current business partners
- Added regulations about “supporting documents (certificate of conformity, etc.) and compliance with the validity period” to confirm the suitability of the waste disposal company

2

Reminded of the implementation cycle of obligatory legal inspection to prevent the missing of legal compliance

- Notified the advent of legally mandatory implementation cycle for a total of 34 cases (27 cases in the first half, 7 cases in the second half of the year)
- Conducted septic tank cleansing according to the Sewerage Act and carried out regular inspection of facilities handling hazardous chemicals according to the Chemical Substances Control Act

Responding to Climate Change

Reinforcing the Responsibility Toward GHG Emissions

Establishment of Reduction Targets in Line with Global Standards

Establishment of SBTi-based GHG Reduction Target | KT&G has set goals in alignment with the Paris Agreement, which aims to limit the global temperature rise to below 2°C compared to pre-industrial levels. These goals are intended to strengthen the company's commitment to reducing GHG emissions in line with global standards. We also have established mid-to long-term reduction targets based on the Science Based Targets Initiative (SBTi) guidelines, and aim to achieve SBTi certification moving forward.

In 2022, KT&G raised its 2030 targets from the SBTi scenarios of Well-below 2°C (Scope 1+2) and 2°C (Scope 3) to 1.5°C (Scope 1+2) and Well-below 2°C (Scope 3). As a result, the company is considering various alternatives, such as expanding the use of renewable energy and implementing additional greenhouse gas reduction measures in the supply chain. Through these efforts, we aim to achieve carbon neutrality by 2050 across the entire business value chain.

Setting Renewable Energy Transition Targets Exceeding RE100 Guidelines

To achieve carbon neutrality, it is essential to reduce fossil fuel consumption and transition to renewable energy sources like solar and wind power. KT&G supports the global campaign RE100 (Renewable Electricity 100%) which aims to have businesses source 100% of their electricity from renewable energy. To implement RE100 systematically, we have set a target of using renewable energy for over 80% of our total electricity consumption by 2030. Currently, electricity accounts for 70% of our GHG emissions, and the proportion of renewable energy usage has been gradually increasing, reaching 0.1% in 2020 and 15.6% in 2022. KT&G intends to mark the year 2023 as the inaugural step toward substantial integration of renewable energy, with a strategic target of surpassing an 18% rate of renewable electricity consumption.

Renewable Energy Consumption in 2020-2030

Category	Performance		Target		
	2020	2022	2023	2025	2030
Domestic	0.1%	8.9%	7.8%	29.7%	78.3%
Overseas	0.0%	71.7%	100%	100%	100%
Total	0.1%	15.6%	18.9%	48.0%	87.0%

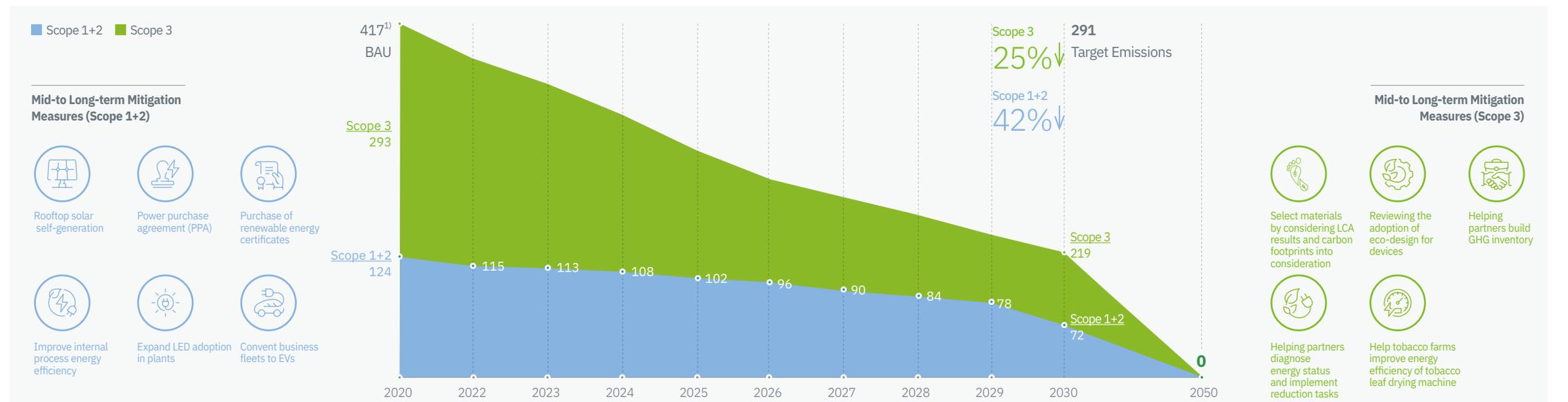
* Scope: All domestic business sites (some 156), overseas business sites (3)

Target for Renewable Energy Consumption by 2030

Renewable energy consumption rate at all domestic and overseas business sites

80% and more

Advancement of GHG Reduction Target



¹⁾ Made advancement in external emissions (Scope 3) in 2022 by further analyzing such value chain as procurement of overseas leaf tobacco and logistics

Responding to Climate Change

Company-wide Adoption of Initiatives

Discovering Major Mid-to Long-term Reduction Measures | KT&G is pursuing various means of reducing greenhouse gas emissions to achieve its 2030 target. Through collaboration with internal and external stakeholders, the company is focusing on energy efficiency improvements, expanding renewable energy usage, and selecting achievable tasks in different fields. Cost-benefit analyses are being conducted to identify more effective approaches for greenhouse gas reduction. KT&G continuously explores and implements emission reduction strategies.

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

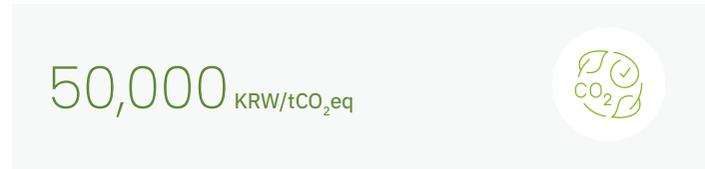
Refinement of Value Chain GH Emissions Inventory and Support for Reduction

KT&G is continuously enhancing the calculation of Scope 3 emissions in line with the recommendations from the SBTi to objectively verify its mid-to long-term GHG reduction targets. As of the end of 2022, it has estimated that Scope 3 emissions from our upstream and downstream activities account for over 73% of the total value chain emissions. We collaborate with tobacco farmers to expand the use of eco-friendly fertilizers and improve energy efficiency in the tobacco drying process. In addition, we aim to reduce Scope 3 emissions by 25% by 2030, compared to 2020 levels, through support for GHG reduction initiatives with material suppliers.

 [GHG Emissions Assurance Statement](#)

Adopting Internal Carbon Pricing | In order to respond to climate change proactively, KT&G introduced guidelines for economic analysis of new investments in 2021 and implemented an internal carbon pricing system as a way to encourage decision-making considering potential carbon costs. Currently, the internal carbon pricing system is used to assess the payback period in manufacturing facilities where greenhouse gas emissions are high and most reduction activities take place. As a result, the GHG reduction from energy-saving improvements increased in 2022 compared to 2021. In 2023, we aim to expand the scope of the internal carbon pricing system to include overseas factories where securing economic feasibility for investments has been relatively challenging due to lower energy costs. This expansion is intended to accelerate greenhouse gas emissions reduction efforts.

KT&G's Internal Carbon Pricing in 2022



* The internal carbon price is set at 50,000 KRW/tCO₂eq, which is not only higher than the recent market price but also higher than the highest cumulative price of 40,800 KRW/tCO₂eq since the adoption of the Emissions Trading Schem in Korea. The high internal carbon price represents our strong commitment to carbon emissions reductions. Through continuous monitoring, we will readjust the internal carbon price if the market price exceeds our price.

2023 ESG Improvement Tasks for Overseas Plants

Category	GHG	Water and Waste	Total
Indonesia	16 cases, including the reuse of boiler waste heat	11 cases, including recycling of non-recyclable incinerated waste	27 cases
Turkey	12 cases, including transition from air conditioning steam humidification to water humidification	4 cases, including establishment of water analysis measuring instruments	16 cases
Russia	15 cases, including compressor pressure reduction	3 cases, including boiler water improvements	18 cases
Total	43 cases	18 cases	61 cases

* Operational method: Conducted monthly regular meetings led by the Head Office, where performance reviews and progress checks on task implementation are discussed.

Company-Wide Energy Costs Settlement System | To achieve the “2030 Green Impact” environmental vision, KT&G has strengthened the monitoring of energy emissions and water usage across all business sites by introducing and implementing the company-wide energy costs settlement system in 2022. This system is based on the unique characteristics of KT&G, which has approximately 156 business sites nationwide. Under this system, each unit business site submits documentary evidence (utility bills) to the computational system on a monthly basis, allowing the headquarters to validate errors in advance and ensure data timeliness and accuracy. This has enabled us to check the implementation status of reduction targets for each business site and to forecast annual emissions by taking seasonal fluctuations into consideration, being utilized as strategic decision-making tool for systematic implementation.

In January 2023, KT&G has expanded the implementation scope of the company-wide energy settlement system to include overseas manufacturing facilities in Indonesia, Turkey, and Russia, thereby further advancing the management system further. In addition, we make continuous efforts to improve execution capabilities by facilitating performance-based communication through regular monthly video conferences (ESG Monthly) involving the headquarters and domestic and overseas manufacturing sites.

ESG Assessment to Expand the Management Scope of Overseas Plants

As KT&G is striving to become a global top-tier player, managing ESG factors of its overseas plants is essential. We therefore aim to include overseas plants in the scope of our mid-to long-term environmental targets of achieving a 42% reduction in GHG emissions (Scope 1+2), a 20% reduction in water withdrawal, and a 90% waste recycling rate by 2030 compared to the 2022 base year. To identify key tasks for achieving these medium to long-term environmental targets, the energy and environment division utilized internal experts in 2022 to conduct on-site assessments for three overseas plants in Indonesia, Turkey, and Russia.

The results of the 2022 ESG assessment of overseas plans showered that the management levels varied depending on the country's environmental regulations, utility status, and operational methods at each plant. In addition, environmental issues such as water resource management and ease of renewable energy supply differed based on the location of the plants. To enhance ESG management levels, priority measures include strengthening analysis-based reduction activities through the installation of measurement infrastructure, such as sensors, in key energy and water usage facilities or areas like air conditioning and drying equipment. Moreover, 61 core tasks related to greenhouse gas emissions, water usage, and waste were selected for implementation across the plants. To reinforce management capabilities for overseas factories, the company plans to continue implementing ESG KPI goal management, sharing case studies of greenhouse gas and water usage reduction at domestic factories, and continuously promoting energy management guideline revisions.

Responding to Climate Change

GHG Reduction Activities

Rationalization of Energy Use at Business Sites

KT&G is proactively engaging to reduce avoidable energy consumption and amplifying energy efficacy within its domestic facilities. To this end, we are implementing diverse optimization initiatives for energy utilization, which include energy assessments for power apparatus like air conditioning units and pumps, fine-tuning of compressed air systems, and repurposing of excess heat sources.

Energy Consumption Diagnosis and Improvement Plan Establishment by Utility Specialist

In 2022, KT&G conducted energy diagnostics for air conditioning equipment, pumps, and other power equipment at domestic plants. The Sintanjin Plant, the largest facility of the company in Korea, established improvement plans through diagnostics for air conditioning equipment in the product manufacturing process. The identified efficiency issues are being addressed through reinforcement of air conditioning equipment, with the implementation planned for 2023. The Gwangju Plant completed improvements based on diagnostics for refrigeration pumps in the first half of 2023 and is currently operating without any disruptions. The Gimcheon Plant is also actively promoting energy-saving activities, including the installation of inverter-type air compressors and energy-efficient air dryers, based on diagnostics for air compression equipment to address inefficiency factors.

Optimization of Compressed Air Systems | KT&G has been making improvements to the compressed air manufacturing system, which accounts for a significant portion of the overall power consumption in both domestic and overseas operations. To optimize the operation of the compressed air system, we have switched to inverter-type air compressors, enabling load-dependent optimal operation. Moreover, to reduce energy consumption for regenerating adsorbents (gel), we installed additional refrigeration-type dryers. Furthermore, improvement activities such as installing air traps¹⁾, conducting regular leakage checks, and reducing the supply pressure to end-users have led to a reduction of 1,031 tCO₂eq GHG emissions in 2022. In 2023, starting with the Gwangju Plant, KT&G plans to transition to energy-saving compressed air dryers (the non-purge type from the purge type) to further enhance energy efficiency.

¹⁾ An automatic valve for separating the condensate generated inside compressed air piping equipment and the lubricating oil from the compressor that mixes with compressed air and discharging them.

Recovery and Reuse of Heat | KT&G is reducing GHG emissions by recovering and reusing waste heat that was previously being discharged externally or by using the medium-temperature water generated in the process. We use exhaust gas heat from the production process to produce hot water for use in residential areas, bathhouses, and restrooms within the plant premises. In addition, the water generated during the cooling process of drying equipment is directly reused for the equipment component cleaning plant, achieving water reduction and GHG reduction effects. In the boiler system, KT&G has installed air preheaters to increase the temperature of incoming air and improve boiler combustion efficiency. We also utilize high-temperature condensate from the process for reusing in the hot water production process. By expanding these improvement activities to domestic and overseas plants, KT&G is making company-wide efforts to contributing reducing GHG emissions.

Adoption of Factory Energy Management System

In 2022, KT&G installed a Factory Energy Management System (FEMS) at the Sintanjin Plant, enabling real-time monitoring of energy usage by individual equipment. The collected data is analyzed to identify efficiency issues, which are then immediately addressed through improvements or selected as reduction tasks, connected with capital investments for execution. To enhance execution capabilities, specific energy reduction targets are assigned to each department, encouraging active participation of all employees in energy-saving activities. The system is designed to provide visible results of these efforts. Additionally, we manage energy-saving activities conducted by each department in coordination with ISO 50001 (Energy Management System). In 2023, KT&G plans to expand the FEMS system to other domestic plants and strengthen the measurement infrastructure in overseas plants. This will further promote analysis-based and rational energy reduction activities.

Continued Expansion of the Use of Renewable Energy

Implementation of Renewable Energy Conversion Goals | KT&G is committed to the transition to renewable energy over the mid-to long-term as a way to achieve an 80% renewable energy goal as well as GHG emissions reduction target. We are currently focused on introducing solar power generation facilities on the rooftops or roofs of domestic plants and the SangSang Madang Nonsan. Starting June 2023, the Gwangju Plant is producing electricity equipped with a 3.1MWp solar power generation system, and by 2026, a total of 18.6MWp of rooftop solar power systems are to be installed on the rooftops of five domestic plants. Upon completion, GHG emissions are expected to be reduced by 11,000 tCO₂eq annually. In addition to rooftop solar power, KT&G is considering various other forms of renewable energy adoption to expand the use of environmentally friendly energy sources. We also plan to secure renewable energy through the purchase of Renewable Energy Certificates (RECs) and through power purchase agreement (PPA), which have recently become available through institutional arrangements, to ensure stable access to renewable energy.

As a result of the efforts to expand renewable energy usage, KT&G has seen a significant increase in the renewable energy consumption rate. It has grown from 0.1% in 2020 to 15.6% in 2022. In 2023, we aim to further enhance the renewable energy rate to reach approximately 18.9% through the introduction of PPA and other initiatives.



Solar power generation system installed on the roof of Gwangju Plant

Responding to Climate Change

Establishment of the Eco-friendly Printing Factory “Sejong Business Site” | KT&G is currently investing approximately KRW 180 billion in the construction of a printing factory on a 48,583m² site within Mirae Industrial Complex in the Sejong Special Self-Governing City, with a target completion date of 2025. The newly established printing factory will produce packaging materials such as cigarette packaging and paper boxes for KT&G’s tobacco products. It will incorporate state-of-the-art logistics automation and smart printing processes to significantly enhance operational efficiency. The construction of this future-oriented factory emphasizes environmental friendliness from design and utility selection to operation. It aims to incorporate eco-friendly elements throughout all aspects, ensuring environmental sustainability. After completion, the printing factory is intended to become the first manufacturing facility to obtain LEED[®] GOLD certification.

Eco-friendly Technology Applied to Sejong Business Site

- 

Construction
Eco-friendly material selection and application of insulation-effective windows and interior materials
- 

Enhancing energy efficiency
Selecting high-efficiency utility systems, applying waste heat recovery systems, and adopting FEMS
- 

Expanding the use of renewable energy
Installing rooftop solar power facilities
- 

Reducing water consumption
Selecting water-saving products and establishing infrastructure designed for recycling used water and rainwater

Adoption of Eco-friendly Vehicles

KT&G actively participates in the K-EV100 initiative organized by the Ministry of Environment in 2021, promoting the transition of its business fleets to eco-friendly vehicles. The GHG from business fleets are included in Scope 1 and 2 emissions, and we aim to achieve our long-term GHG reduction target by converting 100% of our business fleets to eco-friendly models by 2030. Starting with the introduction of six electric vehicles (EVs) at the Yeongdeungpo Integrated Logistics Center in 2021, it is expected that approximately 5% of KT&G’s vehicles will be converted to EVs by the end of 2023. Going forward, as more EV models for small cars, which constitute the majority of the company’s business vehicles, are released, we plan to accelerate the transition to eco-friendly vehicles and implement it more vigorously.

Management of Climate Change Risks and Opportunities



Climate Change Scenario Analysis

Climate change scenario analysis allows the company to accurately understand the impact of climate change in uncertain future situations and increase resilience to respond better to each scenario. KT&G conducted scenario analysis based on publicly available climate change scenarios presented by the IPCC (Intergovernmental Panel on Climate Change) and IEA (International Energy Agency). The analysis considered plausible scenarios that reflect physical climate and environmental changes, policy changes, socio-economic changes, market and technological changes, and other relevant contexts.

KT&G Climate Change Scenario

		① 1.5°C Global Warming Scenario	② 2.0°C Global Warming Scenario	③ 4.0°C Global Warming Scenario
Content		A global shift towards an immediate carbon-neutral economy has begun, and as a result, global temperature rise is being controlled to stay well below 1.5°C, in line with the Paris Agreement, through coordinated global actions.	Currently, policy measures to achieve the declared national targets for emission reduction are being implemented, but more ambitious policies that go beyond these levels are not being enforced, leading to a temperature increase of over 2.0°C.	Due to the consideration of the effects of currently implemented policies and measures only, the analysis assumes a relatively limited level of policy implementation, leading to a temperature increase of over 4.0°C
Main assumption		All countries around the world cooperate for carbon neutrality with various measures and major steps.	The analysis assumes a relatively gradual and continuous policy implementation, but the occurrence frequency and impact of physical risks are also somewhat evident.	While there is less transition risks due to inactive transition policy measures, there are more frequent and extreme physical risks due to climate change.
Temperature rise by 2100 compared to pre-industrial levels		Temperature rise of 1.5°C	Temperature rise of 2.0°C or higher	Temperature rise of 4.0°C or higher
Risk tendency		More transition risks	Moderate level of transition risk and physical risk	More physical risks
Scenario model	Transition risk	IEA Net Zero Emissions by 2050 Scenario (NZE)	IEA Announced Pledges Scenario (APS)	IEA Stated Policies Scenario (STEPS)
	Physical risk	IPCC WG2 AR5 CMIP5 mean model – RCP 2.6	IPCC WG2 AR5 CMIP5 mean model – RCP 4.5	IPCC WG2 AR5 CMIP5 mean model – RCP 8.5

¹⁾ Leadership in Energy & Environmental Design: Green building certification program developed by the U.S. Green Building Council (USGBC). It is a globally recognized green building rating system that provides guidelines for environmentally friendly design and construction, taking into account aspects such as water efficiency, energy efficiency, and resource reuse. There are four certification levels based on the evaluation criteria.

Responding to Climate Change

Financial Impact of Carbon Pricing on KT&G



KT&G is a company subject to the Korea Emissions Trading Scheme (K-ETS), a GHG emissions trading system in Korea. As a participant in this scheme, KT&G is required to annually calculate its greenhouse gas emissions. Companies operating within the emissions trading scheme receive a portion of emission allowances without charge. Should they surpass their assigned emission quotas, they must procure extra emission allowances at a cost.

In 2022, the price of emission allowances in Korea ranged from a minimum of KRW 12,050 to a maximum of KRW 32,700 per ton, showing significant fluctuations and high uncertainty in the price outlook. Considering the recent trend of carbon emissions regulations globally, including in Korea, there is a potential for a reduction in total emission allowances and free allocations over the medium to long term, leading to a dominant upward pressure on emission allowance prices. As a result, KT&G has identified the potential burden of carbon costs under the carbon pricing mechanism as a significant risk factor and conducted a financial impact analysis under two climate change scenarios.

- ▶ The risk associated with carbon pricing was evaluated to be relatively high under the 1.5°C scenario. The risk level is anticipated to peak by 2030, yet over the long term, it is projected to be alleviated through the expansion of renewable energy adoption and the reduction of greenhouse gas emissions.

Financial Impact by Climate Change Scenarios¹⁾ (Unit: KRW 100 million)

2025			2030			2050		
1.5°C	2.0°C	4.0°C	1.5°C	2.0°C	4.0°C	1.5°C	2.0°C	4.0°C
Cumulative impact by 2025			<150	150-200	>250			
Cumulative impact by 2030			<350	350-650	>650			
Cumulative impact by 2050			<1,000	1,000-2,000	>2,000			

¹⁾ To mitigate the uncertainty caused by various factors influencing carbon prices and control a broad range of assumptions, KT&G calculated the financial impact based on its GHG reduction targets and the global carbon prices presented in the scenarios.

Climate Change Risk Management

Transition Risks and KT&G's Mitigation/Adaptation Strategies | KT&G conducted scenario analysis for climate transition risks based on the International Energy Agency (IEA) scenarios. In the 1.5°C scenario, where low-carbon transition policies are well implemented, there is a high possibility of increase in the price of carbon, new regulations related to greenhouse gas emissions, and risks associated with market and reputation. In particular, under the 2.0°C scenario, certain level of risk related to increased raw material costs is observed. While technology and litigation-related risks are relatively low in terms of likelihood, they have the potential to have significant impacts if they occur.

To mitigate the impact of these transition risks, KT&G is focusing on optimizing its raw material supply plans and securing stable supply chains through strategic partnerships. We also have implemented an internal carbon pricing system and actively invest in renewable energy facilities to prepare for potential future risks related to GHG emissions regulations and carbon price increases. Furthermore, KT&G has set mid-to long-term GHG reduction targets and invests in measures required to achieve these targets, thereby addressing related risks. Through these strategies, KT&G has been building capability in flexible mitigation/adaptation to potential climate change scenarios.

Key Transition Risk Impact and Mitigation/Adaptation Strategies

Risk	Impact	Mitigation/Adaptation Strategy
 Carbon Pricing	<ul style="list-style-type: none"> • If carbon prices surge or stricter and enhanced carbon pricing regulations are implemented, it could lead to a significant risk of increased operating costs based on greenhouse gas emissions. In addition, there may be indirect increases in carbon costs across the entire value chain, including partners, supply networks, and distribution networks. As a result, this may lead to reduced product price competitiveness and a decline in real operating profit, thereby affecting the financial aspects of the company. 	<ul style="list-style-type: none"> • Emissions reduction <ul style="list-style-type: none"> - By implementing GHG emissions reduction strategies, including energy efficiency improvements and expansion of renewable energy consumption, KT&G achieves potential carbon cost savings and additional opportunities for energy cost savings. • Internal carbon pricing system <ul style="list-style-type: none"> - KT&G proactively manages the impact of potential carbon pricing on the company's financial soundness by integrating it into long-term business plan and financial risk assessment.
 Increase in raw material prices	<ul style="list-style-type: none"> • Climate change is associated with changes in weather patterns and crop cultivation seasons, which can impact the production and cost of crop raw materials. Furthermore, it may result in reduced quality or quantity of tobacco leaves and intensified competition for resources, leading to higher costs. If these factors cumulatively lead to an unstable supply situation for raw materials, it can escalate production costs, negatively affecting KT&G's profitability and overall financial performance. 	<ul style="list-style-type: none"> • Sustainable agriculture <ul style="list-style-type: none"> - KT&G expands sustainable agricultural practices, such as soil conservation and water efficiency improvement, through close collaboration with cultivation farms and suppliers. - KT&G implements a sustainable raw material supply strategy to secure a stable supply chain. • Supply chain diversification <ul style="list-style-type: none"> - KT&G reduces dependency on a single source and mitigates cost volatility, thereby preparing for local climate impacts and potential supply chain risks.
 Increased concerns or negative opinions from stakeholders	<ul style="list-style-type: none"> • Stakeholders such as investors, regulatory bodies, customers, and employees may demand proactive actions from the company on climate-related issues. This can manifest as requests for more sustainable product packaging, tobacco cultivation practices, and transparent reporting on KT&G's GHG emissions reduction efforts. Failure to address these social demands could lead to negative feedback from stakeholders, affecting the company's brand image and, ultimately, market share, profitability, and growth prospects. 	<ul style="list-style-type: none"> • Transparent and positive communication <ul style="list-style-type: none"> - KT&G participates in suitable initiatives such as SBTi and TCFD to address climate change effectively. - KT&G transparently discloses our efforts in addressing climate change and environmental responsibilities through accurate and appropriate communication. • Sustainable product development and packaging <ul style="list-style-type: none"> - KT&G develops and implements strategies for more sustainable products and packaging, such as transitioning to recyclable packaging materials and developing eco-friendly non-plastic tobacco filters.

Responding to Climate Change

Physical Risks and KT&G’s Mitigation/Adaptation Strategies | KT&G assessed the physical risks of climate change by evaluating acute risks such as typhoons, hurricanes, heavy rainfall, wildfires, as well as gradual risks such as change in precipitation patterns, temperature variations, and rising sea levels. The physical risks were found to be more significant in the 2.0°C or higher scenarios compared to the 1.5°C scenario, and the timing of these impacts was observed to be earlier. Under the more extreme 4.0°C scenario, the physical risks increased dramatically, posing higher probabilities and larger impacts on operations, supply chains, and business continuity. Although the physical risks decreased in the 1.5°C scenario compared to the more severe warming scenarios, they were still observed to have notable effects.

To address these physical risks, KT&G has developed and implements a disaster management standard manual, which includes guidelines for disaster recovery in the event of natural disasters like typhoons and floods. Regular risk assessments are conducted to identify, evaluate, and mitigate risk factors at each business location, enhancing safety and health management to prevent major disasters. Moreover, recognizing the need for resilience and preparedness in extreme scenarios such as the 4.0°C scenario, KT&G has established emergency response manuals tailored to specific locations and situations. Through these efforts, we strive to ensure prompt recovery and continuous business operations even in situations where the frequency and intensity of severe climate-related disasters increase.

Impact of Major Physical Risks and Mitigation/Adaptation Strategies

Risk	Impact	Mitigation/Adaptation Strategy
 <p>Heavy rain, flood</p>	<ul style="list-style-type: none"> Floods and heavy rainfall can cause damage to business facilities and production equipment, as well as road disruptions, leading to disruptions in production operations and logistics systems, potentially impacting business continuity. Additionally, severe floods can directly endanger the safety of employees and stakeholders. If tobacco leaf farms and agricultural lands are affected by floods, it can result in damage to crops and agricultural areas, which may have a negative impact on the supply of raw materials. 	<ul style="list-style-type: none"> Emergency planning operations and strengthening of facility resilience <ul style="list-style-type: none"> KT&G makes investment in flood protection, such as adopting flood-proof designs, installing berms, and enhancing drainage systems to protect production facilities during heavy rain and floods. KT&G has developed emergency action plans that include rapid evacuation plans, alternative production plans, and emergency drills to ensure employee safety and continuity of operations in the event of a disaster.
 <p>Temperature change</p>	<ul style="list-style-type: none"> Changes in temperature can affect the growth of tobacco plants, potentially leading to reduced yield or changes in the geographic locations suitable for cultivation. This can lead to difficulties in sourcing high-quality raw materials. In addition to impact on agriculture, temperature changes can increase the amount of energy used for heating and cooling at KT&G facilities, which in turn can increase operating costs. Higher temperatures can also put the health and productivity of outdoor workers at risk, requiring longer breaks and reducing overall productivity. Extreme weather events associated with temperature change, such as heat waves, can also cause disruption to transportation and logistics. 	<ul style="list-style-type: none"> Strengthening climate-related monitoring systems <ul style="list-style-type: none"> Water scarcity and temperature change are incremental climate change risks, characterized by changes that occur over a long period of time. To accurately identify and measure the potential magnitude of climate change risks, a continuous and periodic climate-related monitoring strategy is required to monitor changes in water stress levels at key locations and changes in energy use patterns at locations due to temperature changes. By detecting these changes through ongoing monitoring, KT&G identifies potential impact on energy consumption and supply chain stability and takes necessary strategic actions proactively.
 <p>Water shortage</p>	<ul style="list-style-type: none"> Water is a resource used for many processes within a production facility, such as cooling and cleaning, and is also a key ingredient in some products. If water availability worsens, these processes might encounter disruptions, leading to a deceleration or termination of production. Beyond business operations, water shortages can also impede crop growth, which can adversely affect quality or reduce yields. 	<ul style="list-style-type: none"> Participating in sustainability initiatives <ul style="list-style-type: none"> KT&G secures a mid- to long-term view of sustainability by participating in key initiatives that promote a virtuous cycle of sustainable practices, continuous monitoring and improvement. KT&G mitigates the long-term effects of water scarcity by systematically measuring, monitoring, and improving water use efficiency across our operations as well as community impacts by participating in initiatives that emphasize the importance of sustainable water management, such as Alliance for Water Stewardship (AWS) certification.

Enhancing Product Eco-friendliness

Establishment of Product Eco-friendliness Management System



Establishing Sustainable Product Policy KT&G has established and applies the Sustainable Product Policy to establish an environmental management system from the product planning and development stages, beyond environmental management at business sites, to strengthen the sustainable competitiveness of products. Our sustainable products are those that apply efforts to reduce resources, improve resource circularity, and minimize carbon emissions.

To implement systematic product-level environmental management, KT&G has been conducting life cycle assessment (LCA) for major products from raw material collection to disposal. The business departments in charge of product planning and development, as well as related departments such as R&D, purchasing, and manufacturing, collaborate to discuss the progress and issues of product eco-friendliness activities. In 2023, we plan to derive the eco-design direction for e-cigarette devices and upgrade our eco-friendly product standards.

Establishing Mid-to-Long Term Goals for Product Eco-friendliness Management

KT&G has established and operates mid-to long-term goals for managing product eco-friendliness, including expanding the recycling of product packaging materials and devices. To facilitate waste recycling from the consumer's perspective, products manufactured by KT&G will use packaging made only from recyclable sources by 2025. To make recycling at the disposal stage easier, materials that can be recycled, such as paper, PP (polypropylene) or PE (polyethylene) single-material films, will be prioritized as packaging materials. However, if the material is processed into a form that cannot be recycled due to bonding with other materials (such as adhesives), we will switch to another material or consider alternatives that can be recycled in an eco-friendly manner to achieve our mid-to long-term goals. In particular, we will replace all of our aluminum-bonded inner liners, which are currently used in some packaging materials for conventional cigarette products, with paper inner liners by 2025 to contribute to improving recyclability at the product disposal stage.

Activities to Improve Product Eco-friendliness (by value chain stage)

Minimizing the Product's Carbon Footprint

LCA (Life Cycle Assessment) | LCA is a method to quantify resource consumption and discharge and to comprehensively evaluate potential environmental impacts in the life cycle of products and services. KT&G conducts LCA for major products based on international standards (ISO 14040 and ISO 14044¹⁾ to recognize the environmental impact of products and to produce more responsible products based on life cycle thinking. Going forward, we plan to establish life-cycle environmental information for all products produced through continuous LCA.

The results of the LCA for KT&G's major products showed that more than 80% of the carbon footprint of conventional cigarette products is generated in the pre-manufacturing and manufacturing stages. This is mainly attributed to the influence of fertilizers applied during the cultivation of primary raw material, leaf tobacco, alongside the combustion of energy for drying purposes, and the utilization of electricity throughout the manufacturing phase. To reduce the environmental impact, KT&G plans to expand renewable energy at workplaces, reduce Scope 3 emissions, and establish an environmental performance management system for each product. In addition, we will make continuous efforts to review various eco-design measures to reduce the environmental impact of products based on the LCA results.

Goal to Transition to 100% Recyclable Packaging

Replacing **100%**
of aluminum laminated inner liners
with paper inner liners by 2025

Life Cycle of KT&G's Products



¹⁾ International standard for life cycle assessment of products and services and is divided into four stages: defining the purpose and scope of the assessment, collecting data on target systems and inputs and outputs, assessing potential environmental impacts, and interpreting the results.

Enhancing Product Eco-friendliness

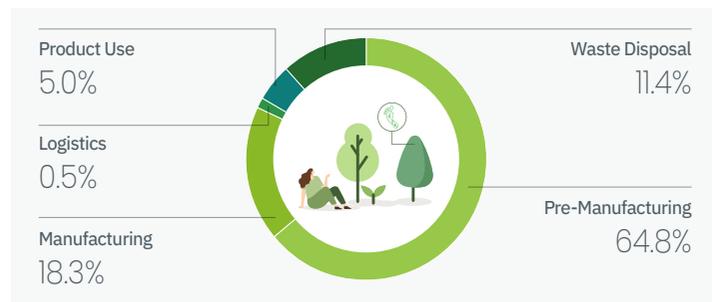
Products Subject to LCA (2022 Performance)



Products Subject to LCA (Plan for 2023)



Carbon Footprint Contribution by Step in the Product Life Cycle of NGP²⁾

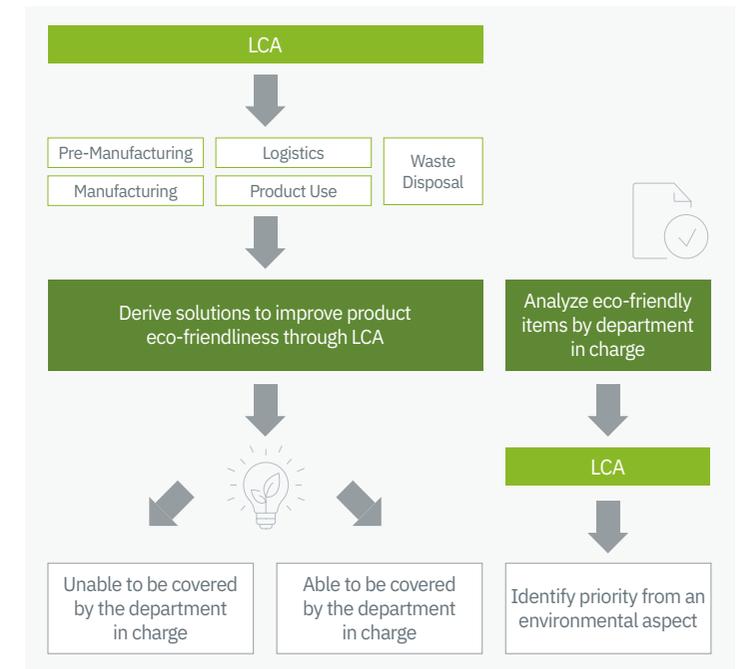


¹⁾ Conventional cigarettes ²⁾ lil Solid 2.0 + Sticks

KT&G plans to expand the LCA to include additional NGP platforms in 2023, through which we aim to identify key environmental issues associated with each platform and develop strategies for environmental improvements. NGP is considered a pioneering growth engine for the future tobacco business, and it is expected to continuously increase its market share compared to conventional cigarettes. Therefore, strengthening the environmental performance management of NGP platforms is expected to significantly contribute to environmental improvements from a product perspective.

Establishing an Eco-Design Process | Starting in 2023, KT&G plans to establish an Eco-Design process to identify ways to reduce environmental impact based on the results of the LCA. Eco-Design is a technique that considers environmental aspects from the product development stage and can suggest various eco-friendly product development alternatives, such as using eco-friendly materials, increasing recyclability, and making products lighter. To help developers consider environmental aspects when developing new products, we are creating Eco-Design guidelines and considering various ways to reflect them in the actual development process. Moreover, we plan to proactively improve the environmental performance of new products by deriving environmental improvement solutions through LCA and applying them to the development stage after feasibility analysis at the product development stage. We also plan to establish a more systematic process for improving the environmental performance of products by performing LCA on environmentally friendly items that are internally reviewed during the development stage and calculating the environmental improvement effect of these items in advance.

Approach to Eco-Design



Enhancing Product Eco-friendliness

Reducing the Use of Materials and Improving Packaging Materials KT&G has been making continuous efforts to improve product packaging in an eco-friendly way. In order to reduce unnecessary packaging and switch to eco-friendly materials, we removed the carton packaging paper from all NGP stick products sold in Korea in May 2022, and have replaced the aluminum composite material inside the package with paper. In addition, we have completed the change of the external packaging material of the NGP device gift box from polyolefin to LDPE (Low Density Polyethylene), a recyclable material, while also working on the change of the cable fixing band material inside the gift box from polypropylene to paper.

Moreover, in order to enhance resource circularity through a transition to more readily recyclable materials, we have set a goal to shift 100% of the inner liner materials used in cigarettes from aluminum to paper by 2025. To this end, all of the six domestic and overseas cigarette manufacturing plants have built facilities to produce paper inner liners, and the Marketing HQ and Global HQ have established and implemented market-specific conversion plans to ensure that the paper inner liners are effectively applied to products.

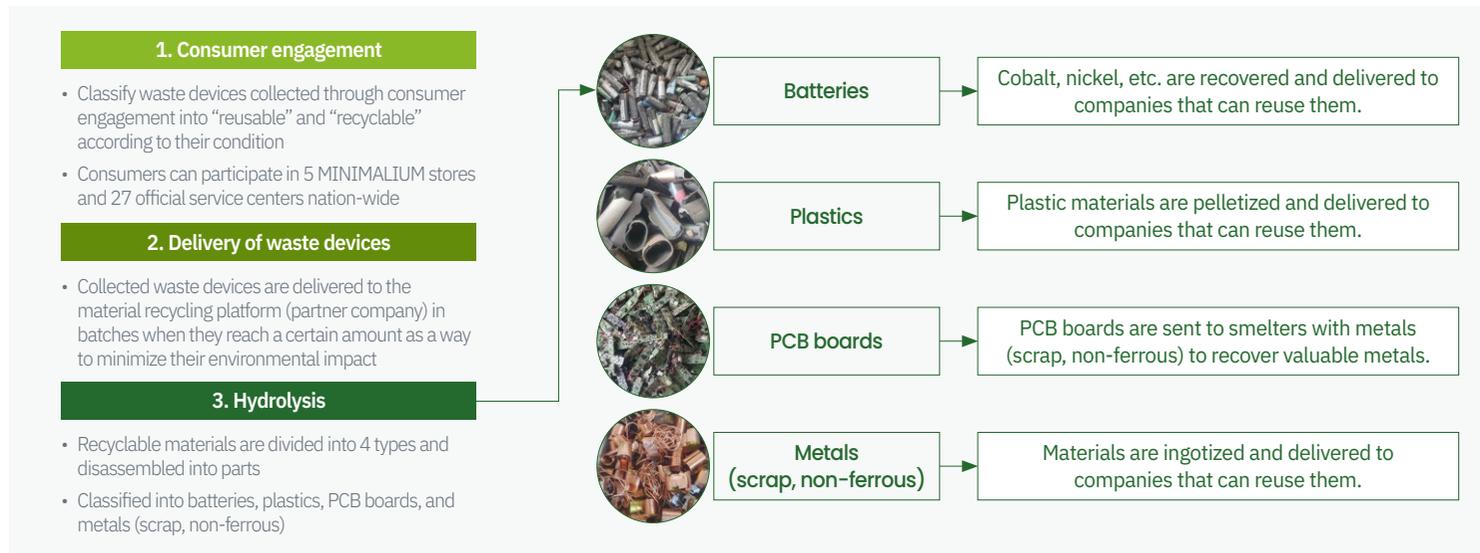
Establish Electronic Cigarette Waste Recycling System There are four types of materials that can be recycled from waste devices – plastics, batteries, PCBs, and metals. KT&G has established and operates a step-by-step recycling process for each of the four materials. As a result, about 95% of the materials are recycled, excluding the weight of the packaging and 5% of the losses incurred during recycling operations.

Promoting “lil-cycle” for Device Material Recycling | In 2022, KT&G collaborated with TerraCycle, a global recycling company, to establish an operational process for device material recycling and find a company with recycling business license. In December 2022, we ran a pilot operation of “lil-cycle”, a material recycling project for waste devices, and from May 2023, we have been carrying out the project in earnest for devices received and exchanged at the A/S center.

In December 2022, as a result of the pilot operation, through which we collected and processed approximately 100 kg (equivalent to 1,000 units of devices) of materials, we were able to confirm the recyclability of approximately 95 kg¹⁾. In the first half of 2023, we operated recycling process for approximately 2,778 kg (equivalent to 26,000 units of devices) of materials, based on which a thorough review is underway to identify any additional areas for improvement.

In April 2023, in celebration of Earth Day, KT&G has formed a partnership with “Gapljiu (Take It, Protect the Plastic, Save Our Sea)²⁾,” a resource circulation platform organized by E-mart. Through this collaboration, we aim to promote plastic recovery campaigns and brand cooperation. By engaging consumers in these resource circulation campaigns, we plan to accelerate the collection points for waste devices and expand the volume of collected materials for continuous material recycling.

Process to Turn Waste Devices into Resources through Consumer Engagement



Poster for the Gapljiu (Take It, Protect the Plastic, Save Our Sea) Campaign

¹⁾ Excluding losses occurred in the processing process
²⁾ A comprehensive plastic reduction campaign platform involving customers, NGOs, institutions, and companies. It operates plastic collection bins in 85 E-mart stores located in the Seoul metropolitan area, promoting upcycling and donation initiatives. Additionally, the campaign includes coastal cleanup volunteering, marine environmental education, and exhibition activities, etc.

Enhancing Product Eco-friendliness

Boosting R&D Capabilities to Improve Product Eco-friendliness

The growing importance of securing a sustainable competitive advantage in connection with a company's social responsibility has emerged. In environmental impact reduction efforts, it has become more critical to seek fundamental solutions not only at the operational level but also during product development and planning stages.

KT&G is committed to R&D aimed at building capability to tackle environmental challenges, such as development of eco-friendly materials and alternative technology to replace conventional materials. Our R&D is also focused on creating products with reduced ecological footprint throughout the entire product life cycle. To this end, we do our utmost to replace tobacco packaging materials in the short term, while in the mid to long term, we aim to minimize environmental impact from an entire product life cycle through early development of key technologies to enhance the eco-friendliness of products.

Developing and Applying Eco-friendly Materials Since 2013, KT&G has been conducting research and development on alternative materials such as non-plastic and biodegradable materials. Among alternative materials, lyocell tow is an eco-friendly material known for its excellent biodegradability after being discarded for it uses a method of converting natural pulp extracted from trees into fibers by simply dissolving it into fibers without chemical modification. Having confirmed the applicability of cigarette filters using lyocell fibers, KT&G signed an agreement with KOLON Industries in February of 2023 to jointly develop cigarette filters with eco-friendly lyocell fibers. In addition, we have secured intellectual property rights by receiving the patent grant for related technologies while continuing our research and development for realization and commercialization of products with quality similar to that of existing filters.

KT&G is also conducting technology development and evaluation using paper filters for eco-friendly products. With a focus on environmental perspectives, consumer safety, and quality, we aim to continuously develop and assess relevant technologies to achieve a level of applicability for our products.

Develop Eco-friendly Materials and Use Eco-friendly Certified Materials

-  • Develop eco-friendly materials for cigarette filters
-  • Promote the applications of paper filters
-  • Use FSC-certified pulp for paper materials



KT&G and KOLON Industries signed an agreement to jointly develop cigarette filters with eco-friendly lyocell tow.



Birch paper filters used for research and development

Water Resources Management

Water Management Targets and System

Water Withdrawal Reduction Target by 2030 Water is a very important resource due to the nature of KT&G's business, which operates in all areas from leaf tobacco cultivation to tobacco manufacturing. With the goal of realizing a circular economy of water, a pivotal resource, KT&G has announced a water management target to reduce water withdrawal at both domestic and international production sites by 20% compared to the base year 2020 by 2030. In order to achieve this goal, we will develop internal water management capability in the short term while in the mid to long term, we intend to extend our impact through the adoption of international standards, such as acquiring certifications for global water resources management.

Water withdrawal at domestic and overseas manufacturing sites recorded 743,323 tons in 2021 and 733,014 tons in 2022, showing a continuous downward trend from 766,167 tons in 2020. In particular, in 2022, water withdrawal decreased by 1.4% (10,309 tons) despite a 9.7% increase in the domestic and overseas manufacturing of cigarette products compared to the previous year. This is the outcome of our efforts to strengthen company-wide monitoring through a monthly energy and water settlement system, derive and promote water reduction tasks taking into account the characteristics of each plant, and expand water recycling to include greywater, among others. Going forward, we will make continuous efforts to meet the 2030 water withdrawal reduction target.

Water Withdrawal (Performance and Forecast)

Category	Unit	2020	2021	2022	2025(E)	2030(E)
Domestic	Tons	594,269	538,346	522,708	394,558	393,082
Overseas	Tons	171,898	204,977	210,306	301,530	219,852
Total	Tons	766,167	743,323	733,014	696,088	612,934
Cumulative reduction rate	%	-	↓ 3.0%	↓ 4.3%	↓ 9.1%	↓ 20%

Water Withdrawal Target for 2030



Water Management Division and R&R The Energy Environment Department under the Manufacturing HQ is responsible for managing the water consumption of six domestic and three overseas manufacturing plants, as well as establishing and implementing mid-to long-term strategies including the standardization of the factory management process to achieve mid-to long-term water consumption reduction targets, and the introduction of optimized water reuse facilities for each plant. Each plant plays a vital role in discovering and improving ways to reduce water consumption in the production process and utility facilities while the Energy Environment Department leads the improvement at the company-wide level by horizontally disseminating improvement activities at individual plants to other plants through an organic cooperation system.

Strengthening Water Resources Management Capabilities The amount of water withdrawal is calculated monthly based on bills for each water withdrawal source in conjunction with the company-wide energy costs settlement system. Staff in charge of each plant enters the data into an Excel form according to the system while the Energy Environment Department under the Manufacturing HQ conducts verification of collected data including performance records and evidence (charge bills). To ensure optimal goal achievement, the Energy Environment Department diligently analyzes various data points, including water withdrawal, reuse, and

Water Withdrawal in 2022



discharge. By evaluating achievement rates and simulating water withdrawal scenarios, the department encourages plants to adopt reduction activities and explore innovative ideas for further efficiency improvements.

Moreover, starting in January 2023, we are holding monthly ESG video conferences, led by the Energy Environment Department and participated by domestic and overseas plant managers, to review the previous month's performance and communicate the implementation results of major improvement tasks, thereby enhancing the execution ability to achieve the goal.

Since its inception in 2021, the Energy Environment Guidelines, an internal benchmark for energy environment management, has undergone a series of upgrading, totaling eight revisions up to June 2023. Furthermore, we are enhancing our execution capabilities in alignment with ISO 14001, an international standard for environmental management system.

Acquisition of Global Water Resource Management Certification KT&G aims to strengthen its green impact by adopting a water resources management approach that meets global standards for sustainable water use. As part of this effort, we are engaged in the process of obtaining AWS (Alliance for Water Stewardship)¹⁾ certification, recognized as the preeminent global certification system within the world of water resources. In 2023, we plan to conduct a gap analysis with the AWS Standard through a diagnosis of the current status of water management at our business sites and a survey on best practice data, while also deriving mid-to long-term strategic tasks for the acquisition of AWS certification and implementing some of them. As a first step, in order to improve the understanding of the indicators and improve the ability to execute, in April 2023, two dedicated personnel from the Head Office took the AWS regular training course to obtain professional qualifications (specialists) and conducted dissemination training for those in charge at business sites. In 2024, we will do our utmost to obtain the certification for one of our domestic business sites and to expand its application thereafter.

¹⁾ Global membership collaboration comprising businesses, NGOs and the public sector, contributing to inducing good water stewardship performance through the adoption and promotion of a universal framework for the sustainable use of water – AWS Standard

Water Resources Management

Activities to Reduce Water Consumption

Expanding Water Reuse Infrastructure | In order to reduce water withdrawal, KT&G is reviewing and implementing various methods of recycling used water, such as wastewater and process water. Since December 2021, water discharged after purification at the wastewater treatment plant has been directly reused as washing water and chemical dissolution water in the wastewater treatment plant, saving 436 tons annually. In 2022, 8,973 tons of water was reused annually through the expansion of target plants, including the Yeongju Plant. Moreover, we introduced a method of additionally treating discharged wastewater, such as ozone and filtration membranes, and using it for washing towers and toilets, allowing an additional 1,552 tons to be reused per year. At the Sintanjin Plant, 2,739 tons of high-temperature water used for cooling dryers in the raw material processing process was reused as cleaning tower water in the tobacco manufacturing process through piping improvements. In 2023, we plan to complete the installation of water reuse infrastructure at our domestic plants by expanding wastewater purification treatment (Sintanjin Plant) and dryer cooling water reuse (Gwangju Plant).

Rationalizing Water Use at Business Sites | Most of KT&G's water consumption occurs in plants, which discovers water reduction opportunities through regular usage monitoring, analysis and diagnosis, and confirms and promotes improvement tasks through close communication with the head office. In 2022, in addition to water reuse, 12 additional improvements were made, resulting in an annual savings of approximately 1,320 tons. Specifically, we improved water overflow in the cooling tower when freezers stopped at the Gwangju Plant and the Gimcheon Plant while reducing the loss of duplicate operation of water softeners through the integration of boiler high-temperature water softener and low-temperature water softener operation at the Gimcheon Plant. Going forward, we will continue to discover tasks for rationalizing water consumption and accelerate the rationalization of water consumption by expanding the application of technologies accumulated in Korea to overseas plants.

Development of Water-saving High-pressure Cleaning Device | The high-pressure cleaning device developed in-house in 2022 is a leading example of KT&G's commitment to water savings. The glue tanks of the existing tobacco manufacturing facilities were cleaned with high-temperature water for an extended period of time in a dedicated washing station. In order to solve this problem, we developed a "water-saving high-pressure cleaning device" that can shorten the cleaning time through automatic high-pressure spray cleaning and save water by recirculating the washing water. After a pilot test at the end of 2022, a total of 42 units were supplied to the Sintanjin, Yeongju, and Gwangju Plants until May 2023, which is expected to reduce about 37% of the water used to clean glue tanks and others.

Key Water Resource Management Achievements in 2022

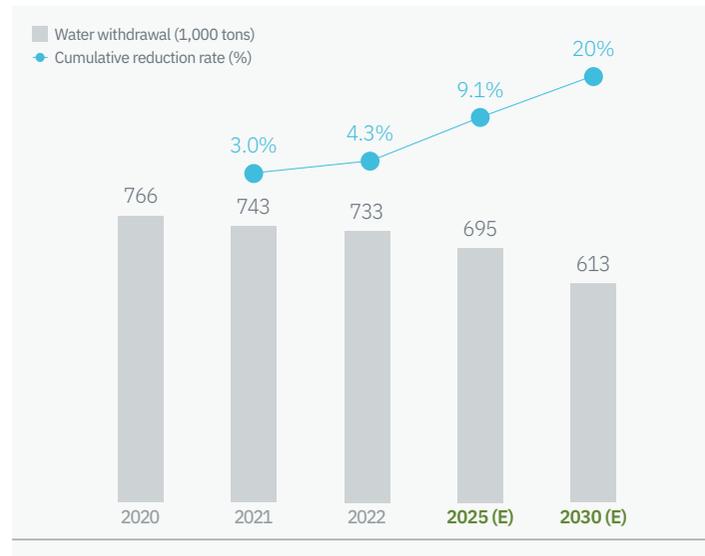
Reduced water withdrawals
by **1.4%** (10,309 tons)
despite a 9.7% year-on-year increase in cigarette production



Pursued the acquisition of
AWS (Alliance for Water Stewardship) certification
internationally authoritative certifications in water resources

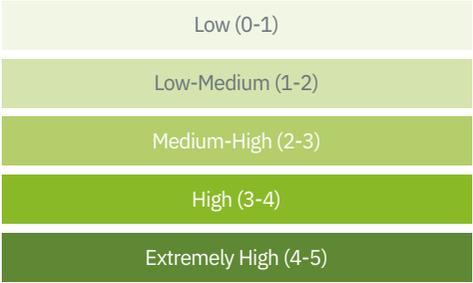
Received the **Leadership** ratings
for Climate Change and Water Security sectors in the CDP Korea Awards

Water Resources Management Target



Overview of KT&G Water Risk Analysis

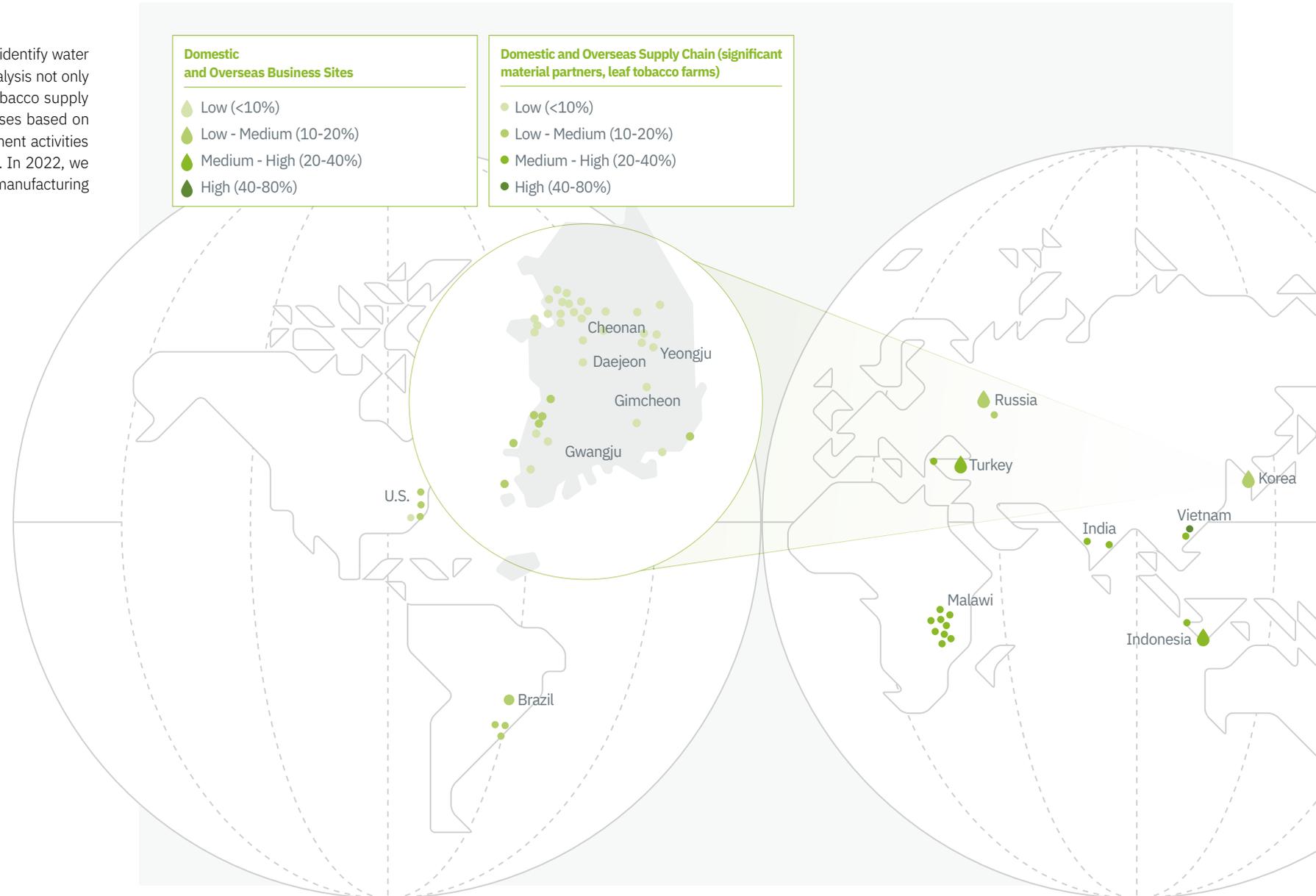
Analysis Target	Domestic and overseas manufacturing sites, leaf tobacco supply chain, significant material partners
Analysis Methodology	World Resources Institute's "Water Risk Atlas" tool
Definition of Water Risk Zone	A zone classified as "High" or higher (3 points or above) on the overall water risk scale, which consists of 13 water risk-related indicators based on the results of WRI water risk analysis



Water Resources Management

Water Risk Management at Each Site

KT&G uses World Resources Institute’s “Water Risk Atlas” tool to identify water risks. We are expanding and managing the scope of water risk analysis not only to domestic and overseas business sites, but also to the leaf tobacco supply chain and significant material partners while prioritizing responses based on the risk analysis results and water usage and reviewing improvement activities with the aim of minimizing risks and reducing environmental load. In 2022, we analyzed a total of 43 sites, including all domestic and overseas manufacturing sites of our own.



Water Resources Management

Analysis of Water Risk & Opportunity

Water Risk | KT&G's largest manufacturing site, the Sintanjin Plant, is evaluated as having a slightly higher water stress index of "Medium-High" as a result of the WRI water risk analysis. Water stress is a measure of the ratio of total water withdrawal to available surface water and groundwater supply. The higher the value, the more competition there is among water users. In particular, considering the location of the Sintanjin Plant, where a large number of manufacturing plants are concentrated, an increase in water withdrawal by other companies may act as a risk to the stability of KT&G's production. In addition, the increase in demand for water supply and the resulting price increase can lead to higher operating costs for the entire water withdrawal and discharge process.

Most of the water used at the Sintanjin Plant is tap water (water supply), with groundwater taking a small proportion. If the production capacity of the plant increases by 5-15%, water withdrawal is expected to increase at a similar rate. The additional water withdrawal due to the potential increase in production will be more expensive than it is today. The operating expenses (OPEX) of wastewater treatment must be taken into account, as well as the cost of water supply. The potential financial impact of a 5-15% increase in production is analyzed from a minimum of KRW 37 million to a maximum of KRW 111 million.

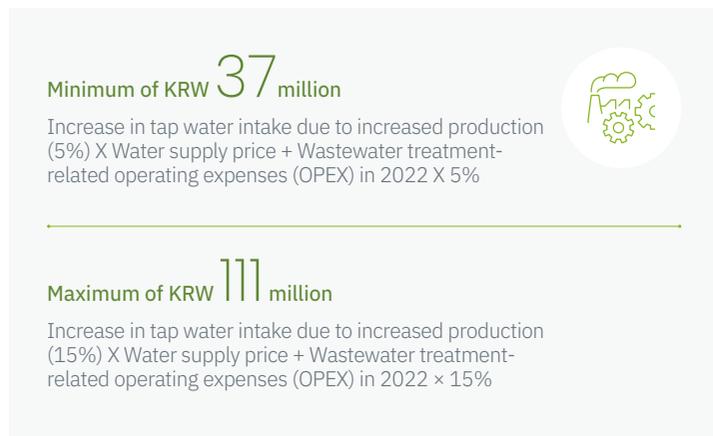
Response Strategies In order to respond to water risks, KT&G is promoting activities to improve water efficiency, increase water reuse and recycling, and conserve water. With the aim of reducing water withdrawal by 20% by 2030 and lowering the dependence on water, the Sintanjin Plant has conducted a feasibility study on the use of rainwater and reused water, while also carrying out water conservation activities such as replacing water pipes and check valves on cooling water pumps to increase boiler condensate recovery. In addition, it operates in-house wastewater treatment facilities, rigorously enforces effluent water quality management, and mitigates water-related risks by obtaining ISO 14001 certification and purchasing environmental liability insurance.

Water Opportunity | KT&G has set a mid- to long-term goal to efficiently use water, which is an essential resource for the production of tobacco products, and to reduce the amount of used at its business sites by 20% by 2030 compared to 2020. This can be an opportunity to lower dependence on water resources and reduce operating costs through reuse and recycling. As water withdrawal decreases, so does the operating costs incurred for discharge, which is an opportunity for us given our goal of reducing water withdrawal by 20% by 2030.

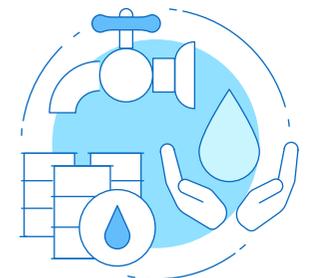
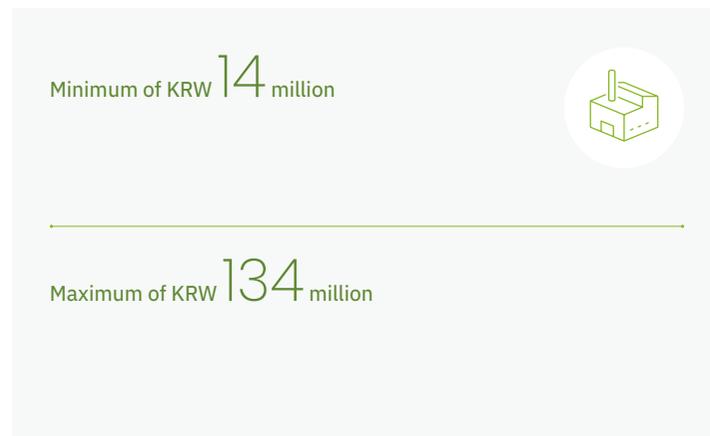
As a result of internal analysis, it is estimated that 7,759 tons of water can be recycled annually if additional reuse and recycling facilities are not installed, whereas 59,528 tons of water can be recycled annually if additional facilities are installed (Sintanjin, Yeongju, and Gwangju Plants). Positive financial impact of applying the average water supply unit price is estimated to be at least KRW 14 million and up to KRW 134 million.

Response Strategies In order to achieve the 2030 water withdrawal target, KT&G is considering measures to reuse purified wastewater treated at the wastewater treatment plant for cleaning dehydrators and dissolving chemicals for four domestic plants in Sintanjin, Yeongju, and Gwangju that operate wastewater treatment plants. In addition to production, we analyze the amount of water used by each place, and according to the results, we carry out various activities to reduce water consumption. In connection with this, KT&G is pursuing the task of acquiring AWS (Alliance for Water Stewardship) certification, a global initiative for water resource management, starting with one business site in Korea, and gradually expanding to all business sites.

Potential Financial Impact (Risk)



Potential Financial Impact (Opportunity)



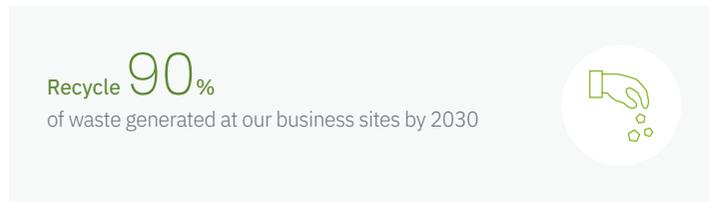
Waste Management

Waste Management Goals and Implementation Plans

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

Acquisition of ZWTL Certification KT&G is pursuing the acquisition of ZWTL (Zero Waste To Landfill)¹⁾ certification which is given to workplaces with a high waste recycling rate of 80% or more. We first strive to obtain the certification for our Cheonan Plant, and afterward, will pursue ZWTL certification acquisition for other business sites as well.

Waste Recycling Target



Waste Management System

KT&G strives to create practical results by compiling the waste generation and recycling rate of nine plants at home and abroad every month to analyze the causes of increases/decreases and strengthening communication with the person in charge of each plant through ESG Monthly video conferencing. For the waste that is difficult to recycle in plants due to its unusual nature, we maintain a close collaboration system with the Energy Environment Department at the head office to speed up the recycling conversion by exploring legal disposal methods and finding waste disposal companies.

In addition, since the second half of 2021, we have strengthened the obligations of waste disposal companies, such as obliging due diligence evaluation tables before contracting with the companies, unifying due diligence evaluation tables for each plant, adding evaluation items for compliance with air and water quality laws, and regularly checking whether the disposal companies properly dispose of waste through the “Allbaro” system. In particular, we put the contents in the Energy Environment Guidelines, our internal work manual, as part of our efforts fully implement them while planning to upgrade them moving forward.

Waste Recycling Performance in 2022



Reducing Process Waste and Increasing Recycling

In 2022, due to the increase in tobacco production, our domestic and overseas waste emissions increased by 17.3% (1,798 tons) year-on-year, but our active recycling efforts increased recycling by 33.6% (2,492 tons) year-on-year, improving the total recycling rate by 9.9%p from 71.5% to 81.4%. Comparatively, non-recyclable waste decreased by 23.5% from 2,959 tons in 2021 to 2,265 tons in 2022.

Reducing By-products in the Tobacco Manufacturing Process In order to fundamentally reduce the amount of waste generated, KT&G operated TFT aiming to reduce the amount of by-products generated in the process at the Sintanjin Plant, Yeongju Plant, and Gwangju Plant. As a result, we were able to reduce the amount of by-products generated in 2022 by 17.9% (214 tons) compared to 2021.

Sintanjin Plant 2's Conversion to Recycling Waste Membrane Materials The waste generated during the manufacture of flavor capsules was incinerated in a non-recyclable manner at the Sintanjin Plant 2. We have however successfully confirmed the viability of transitioning to recycling through solid fuels, on the back of our proactive self-rescue efforts, which involved analyzing the composition of waste membranes and reviewing laws based on the molecular weight of membrane components. In 2022, we were able to convert 230 tons into recycling, improving the waste recycling rate by 2.3%p by selecting a shredding and crushing company for solid fuel conversion through due diligence.

Waste Management at Overseas Business Sites

KT&G has incorporated waste discharge and recycling rate into KPIs (Key Performance Indicators) of overseas plants to raise their level of waste management to that of domestic plants. Accordingly, we will strive to minimize waste generation and increase the recycling of inevitable wastes as much as possible, thereby achieving resource circulation. Furthermore, we will work closely with the overseas plants to introduce the waste recycling methods developed in our domestic plants to improve their recycling rate.

¹⁾ Validation from UL, a global safety science company. UL evaluates the waste recycling rate of a workplace and assigns it a rating of SILVER (recycling rate: 90-94%), GOLD (95-99%), or Platinum (100%), the highest level. With ZWTL certification, a company can benefit from reduced costs associated with waste disposal, lower reliance on limited landfill space, and implementation of corporate social responsibility for the environment.

Biodiversity

Approach to Biodiversity & No Deforestation



KT&G is aware of the environmental responsibilities of companies. Primarily, we know that business operation depends on the ecosystem and impacts biodiversity changes when using natural resources, such as forests, land, and water. We have therefore declared the Biodiversity & No Deforestation Policy to establish a sustainable relationship with the ecosystem. The scope of our Biodiversity & No Deforestation Policy covers the entire value chain, including domestic and overseas work sites, as well as farms and partners in its supply chain.

Biodiversity & No Deforestation Policy aims to prevent and mitigate risks across the business. It is based on international agreements and guidelines, such as the Convention on Biological Diversity, Guidelines for Applying Protected Area Management Categories (IUCN), and Convention on International Trade in Endangered Species of Wild Fauna and Flora. Based on this, KT&G will identify endangered areas and species and establish a management plan, strengthen the management system for biodiversity protection through regular evaluation and continuous monitoring, and strive to achieve NNL¹⁾ and NPI²⁾ across its value chain.

Joining the TNFD Although natural capital is the bedrock of the economic system, the risks and opportunities associated with it are not adequately reflected in management decision-making, and many of the critical ecosystems that benefit business have been declining in recent years. Companies and government agencies around the world recognize biodiversity as a material issue that must be addressed along with climate change and are preparing strategies to deal with it. The financial society, including investors, also recognizes nature, which consists of oceans, soils, fresh water, and atmosphere, as “capital” and requires companies to identify their financial impact and disclose the results. In response to this demand for information disclosure on natural capital and biodiversity, the TNFD (Taskforce on Nature-related Financial Disclosures)³⁾, a global environmental consultative body, is developing voluntary disclosure standards based on seven principles such as market usability, science-based, nature-related risks, natural capital dependence and impacts, and integrated and adaptive approaches to climate and nature-related risks. The standards are expected to be published in 2023.

KT&G joined the TNFD in December 2022 to actively monitor and communicate related trends in consideration of the characteristics of the business group that operates the food and tobacco business with a high dependence on natural capital. Based on the TNFD framework, we will set biodiversity management indicators, proactively respond to risks, assess the impact of natural capital in the value chain, prevent nature loss, contribute to ecosystem recovery, strengthen ESG management in consideration of the characteristics of the industry, and promote external communication based on global initiatives. Through this, we will strengthen our ability to respond to natural capital issues, which are growing in importance, and make continuous efforts to reduce the impact on biodiversity due to our business operations.

Biodiversity Risk Management Framework KT&G monitors and manages biodiversity risks and impacts on natural capital across the entire value chain by comprehensively considering the company’s situation and the characteristics of the industry. We have selected domestic and overseas manufacturing sites (Indonesia, Turkey, Russia) and their neighboring areas as the main risk management scope for which we must conduct biodiversity risk management through our integrated company-wide risk management system that considers the biodiversity risk a key factor in our environmental risks along with climate change. We also want to manage the biodiversity of our upstream suppliers, such as raw material suppliers, and downstream partners in the areas of logistics and sales, among others, which may affect our work sites as well as the impact that they may have on our business process. KT&G’s biodiversity risk is managed based on the TNFD Guidelines and the LEAP (Locate, Evaluate, Assess, Prepare) approach.

¹⁾ NNL (No Net Loss): Avoid negative impacts of business activities on biodiversity of nearby major preservation areas

²⁾ NPI (Net Positive Impact): Offset the negative impacts of business activities on biodiversity and create positive effects by additional preservation activities

³⁾ In June 2021, celebrating World Environment Day, the TNFD was launched to prevent nature loss and restore ecosystems. More than 350 global companies have joined it.

Biodiversity

Biodiversity Risk Assessment Process

	Step 1	Step 2	Step 3	Step 4	Step 5	Step 6
	Analyze industry-specific biodiversity risk	Set the risk management scope	Identify the status of biodiversity in the vicinity of the business site	Conduct biodiversity risk assessment	Identify mitigation measures for each business site	Monitoring and reporting
Activities	Using the ENCORE tool to identify industry-specific biodiversity and natural capital dependency and impact.	Determining the management scope for each manufacturing site or its value chain stage (up/down)	Identifying endangered species in the vicinity of our business sites, the distribution of UNESCO World Heritage Sites, IUCN areas, and the habitats of endangered species.	Analyzing specific biodiversity-related risks for each business site at home and abroad with the WWF BRF, etc.	Implementing mitigation activities for each business site at home and abroad to minimize biodiversity risks.	Monitoring, reporting, and reviewing
Tool	ENCORE	TNFD LEAP	IUCN, etc.	WWF Biodiversity Risk Filter, TNFD LEAP	TNFD LEAP	TNFD LEAP

Using the ENCORE¹⁾ tool, KT&G has conducted a primary analysis of biodiversity-related dependence and impact according to the characteristics of the tobacco industry and manufacturing process. Out of 21 indicators analyzing ecosystem service dependency, five indicators related to underground/surface water and other raw materials were found to be linked to the tobacco industry demonstrating a high dependency on the corresponding natural capital. On the other hand, out of the 11 impact factors on the ecosystem, six, including water consumption and GHG emissions, were identified as having an impact on the tobacco industry.

Moreover, in order to analyze biodiversity risks that may occur in the process of manufacturing in and around our domestic and overseas manufacturing sites, we use WWF (World Wildlife Fund) Biodiversity Risk Filter, IUCN (International Union for Conservation Nature) Red List, etc. We are analyzing the impact and risks on the ecosystem around our domestic and overseas manufacturing sites according to their dependency on natural capital and impact indicators, and intend to expand mitigation measures for each business site in an active manner.

Leading example includes our efforts to minimize the impact on water consumption from tobacco production activities by reusing effluent from wastewater treatment plants in Korea and reusing concentrated water based on RO technology at overseas sites. In particular, we are doing our best to mitigate ecological risks caused by business activities by regularly monitoring air, water, and soil pollutants at all our domestic and overseas business sites, managing the total amount of annual emission targets, and conducting soil contamination inspections. Going forward, we will strengthen the monitoring and reporting of biodiversity in the vicinity of work sites and value chains while managing risks more systematically through biodiversity risk mitigation activities.

Dependency and Impact on Tobacco Production of Natural Capital Assets

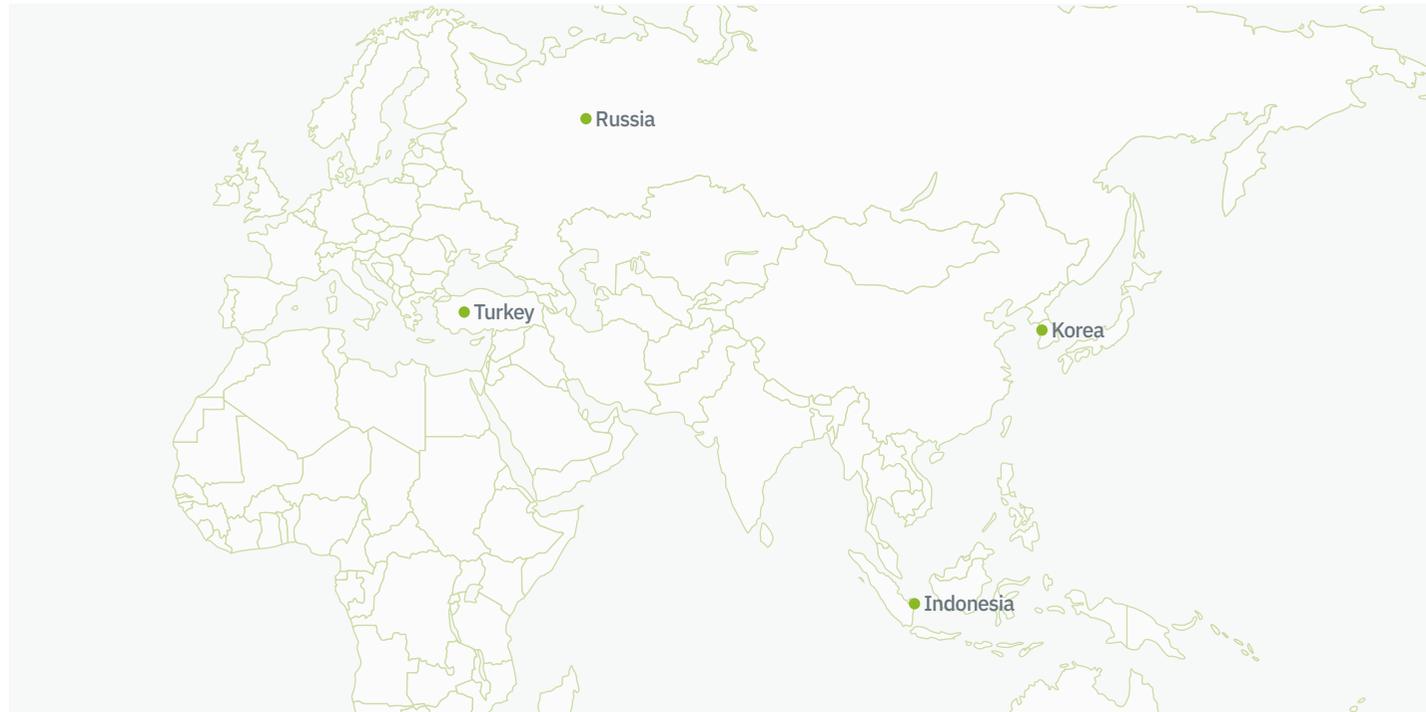
Category	Related Indicators	Level
Dependency	Fibers and other materials	Very High
	Mass stabilization and erosion control	Low
	Ground water	Very High
	Surface water	Very High
	Water flow maintenance	Medium
Impact	Water use	High
	Terrestrial ecosystem use	Very High
	Other resource use	Low
	GHG emission	High
	Water pollutants	High
	Soil pollutants	High

* Source: Natural Capital Finance Alliance ENCORE (Exploring Nature Capital Opportunities, Risks and Exposure)

¹⁾ A tool that analyzes the type of natural capital that a company relies on for business operations (dependency) and the impact of changes in the natural environment caused by economic activities by industry

Biodiversity

Analysis of Biodiversity and Endangered Species in Areas Around KT&G's Major Business Sites



Domestic Plants

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

Indonesia Plant

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

Russia Plant

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

Turkey Plant

- TOSBİ YOL4 street No:12, 35900 İbni Melek Osb/Tire/İzmir

Country	IUCN Red List of Threatened Species	Number of Threatened Species	Total
Korea	Mammals, birds, reptiles, fish, insects, land plants, amphibians	14	14
Indonesia	Reptiles, fish and shellfish, mammals, fish, fagales, lacertidae	Vulnerable: 31 Endangered: 27 Critically Endangered: 7	65

Country	IUCN Red List of Threatened Species	Number of Threatened Species	Total
Russia	Bivalvia, birds, insects	Vulnerable: 10 Endangered: 3 Critically Endangered: 1	14
Turkey	Fish, fern, fish and shellfish	Vulnerable: 12 Endangered: 7 Critically Endangered: 2	21



Biodiversity

Biodiversity Risk and Impact Analysis at KT&G's Major Business Sites

Business Site		Dependency Risk ¹⁾		Business Site Impact			Nearby Areas				
Name	Size	Water Risk (Main water sources, etc.)	Biodiversity Risk	Discharge and Wastewater Treatment	Waste	Air Pollution	Soil Contamination	Endangered Species in the City/District where the Plant is Located (No biodiversity reserve within 2km)	UNESCO World Heritage Sites within 5KM of the Business Site	IUCN Area/Endangered Species within 5km of the Business Site	
Sintanjung	393,124m ²	Middle (Geum River, groundwater)	High	Low (below 70% of legal standards)	Low (below 70% of legal standards)	Low (below 70% of legal standards)	Low (regular soil contamination leakage inspections)	N/A	N/A	N/A	
Yeongju	345,679m ²	Middle (Nakdong River, groundwater)	High					Little tube-nosed bat, otter, black stork, long-billed plover, gobiobotia naktongensis, macromia daimoji, parnassius bremeri, lilium tsingtauense	N/A	N/A	
Gwangju	316,307m ²	Middle (Yeongsan River)	High					Polyommatus, cyrtosia septentrionalis	N/A	N/A	
Gimcheon	160,499m ²	Middle (Nakdong River)	High					Low (no waste disposal at the site, and regular monitoring)	Otter, long-billed plover, eremias argus, macromia daimoji, prickly water lily, cyrtosia septentrionalis	N/A	N/A
Cheonan	76,592m ²	Middle (Geum River)	High					Low (no self-treatment)	Vespertilionidae, dryophytes suweonensis	N/A	N/A
Indonesia	194,512m ²	High (Jungpinang Rive, groundwater)	High					65 species including Siamese crocodile, requiem shark, wide-nosed rhinobatos schlegelii and common kingfisher	N/A	N/A	
Turkey	145,253m ²	Very High (Menderes River)	Very High					Low (below legal standards)	Low (below legal standards)	Middle	14 species including notochelys platynotan, orthonevra plumbago, melanogaster jaroslavensis, and saker falcon
Russia	103,418m ²	Low (Istya River)	Middle	21 species including wave-patterned batoidea, rhinoptera adspersa, Greek deracantha ransversa, and cushion coral	N/A	N/A					

¹⁾ Source: WWF Biodiversity Risk Filter, WRI Water Risk A

Biodiversity

Activities to Preserve Biodiversity by Value

Biodiversity-related Mitigation Activities | KT&G aims to balance the biodiversity impacts that may occur throughout the value chain as a result of its activities through various mitigation measures. To this end, as recommended by the Science Based Target Network (SBTN) Guidelines, we are pursuing a range of mitigation actions involving our key stakeholders based on the AR³T¹⁾ framework.

Preserving Biodiversity Nearby Our Business Sites | KT&G has signed an MOU on “Ecosystem Conservation and Biodiversity Promotion” with the National Institute of Ecology to create a sustainable environment by promoting biodiversity, which is threatened by environmental degradation. Through this agreement, KT&G intends to collaborate with the institute for three years from 2023 while discovering a new agenda for biodiversity conservation every year and carry out activities to improve it.

In 2023, we plan to implement activities to protect the Janggu catfish wetland located in Yeongyang County, an area nearby our Yeongju manufacturing site. The wetland located in a mountain range over an area of about 38,000 m² is an excellent wetland that has been recommended as a protection area for its vastness and naturalness. It is a biological habitat that has been surveyed by the Wetland Center of the National Institute of Ecology. However, its biodiversity is decreasing due to the destruction of biological habitats due to silt inflow and scouring phenomenon³⁾ caused by the surrounding roads. In response, KT&G and the National Institute of Ecology plan to carry out research on the restoration of the wetland and the species that inhabit it. We will continue work with the National Institute of Ecology for various biodiversity activities such as the protection of endangered animal/plant species and habitats even after the first phase is completed.

Mitigation Activities by AR³T Framework

KT&G Approach		Major Mitigation Activities
Avoid	We prioritize direct operations and avoidance of negative biodiversity-related impacts across the value chain with focus on domestic and overseas manufacturing sites.	<ul style="list-style-type: none"> Aim to achieve NNL (No Net Loss) and NPI (Net Positive Impact) across the value chain Establish STP²⁾ guidelines on soil preservation, pollutant management, and standard farming practices for leaf tobacco farms and conduct training Analyze biodiversity risks that may occur during manufacturing, centered around the vicinity of domestic and overseas manufacturing sites
Reduce	We strive to reduce unavoidable impacts and to minimize them through various practices throughout KT&G's business activities.	<ul style="list-style-type: none"> Reuse effluent from the wastewater treatment plants (domestic) and concentrated water using R/O technology (overseas) Conduct regular monitoring of air and water quality and soil contaminants, manage annual emissions target, and conduct soil contamination inspections Conduct LCA (Life-cycle assessment) for major products to evaluate the environmental impact of products we produce and/or sell
Restore & Regenerate	If negative impacts cannot be avoided or minimized, we endeavor to promote ecosystem resilience as much as possible in collaboration with external forestry experts, etc.	<ul style="list-style-type: none"> Derive agenda items and make improvement activities for biodiversity conservation every year in partnership with the National Institute of Ecology (promoted wetland protection activities near the Yeongju Plant in 2023) Implement forest restoration and forest creation activities at home and abroad.
Transform	We pursue business model innovation to improve ecosystem sustainability across the value chain and encourage cooperation within local communities to mitigate negative environmental impacts.	<ul style="list-style-type: none"> Promote the development of a non-plastic eco-friendly cigarette filter using “Lyocell fiber” (in collaboration with Kolon Industries) as part of our fundamental measures to improve the sustainability of the ecosystem at the product disposal stage

Overview of the 1st Year Projects for the MOU on Ecosystem Conservation and Biodiversity Promotion

Target Area	Janggu catfish wetland nearby the Yeongju Plant
Restoration Area	Approximately 38,000 m ²
Major Species identified	<ul style="list-style-type: none"> Endangered Species Level II: 3 bird species (Eurasian goshawk, fairy pitta, black paradise flycatcher) and 3 mammal species (yellow-throated marten, leopard cat, Siberian flying squirrel) National Red List Near Threatened (NT): 1 insect species (migrant hawk) National Red List Least Concern (LC): 3 plant species (trigonotis icumaevine, eleutherococcus divaricatus var. chiisanensis, lysimachia coreana Nakai), 7 insect species (agelastica coerulea Baly, etc.)

* Based on the National Institute of Ecology's pre-inspection report on Janggu catfish wetland

¹⁾ AR³T: Avoid – Reduce – Restore & Regenerate – Transform

²⁾ Sustainable Tobacco Program

³⁾ Local erosion of seabed topography adjacent to coastal structures such as breakwaters and seawalls due to seawater flow or waves

Biodiversity

Forestation at Home and Abroad | KT&G has invested an estimated KRW 5 billion for 18 years since 2006 to carry out eco-friendly CSR activities to improve the forest environment at home and abroad. As the first of the three generations of forest creation activities, we have been engaged in forest restoration volunteer activities led by the KT&G Welfare Foundation since 2006. From 2006 to 2012, we planted 38,000 trees in the wildfire-stricken area of Naksan Temple in Yangyang, Gangwon-do. Since 2013, we have planted 14,000 trees and removed harmful plants to restore the ecology of Mt. Bukhan. Furthermore, since 2016, we have expanded our activities from restoring deforested land to helping local communities recover from damage caused by wildfires, and donated relief funds to areas affected by large wildfires. In 2019, we donated KRW 500 million to the relief of the victims of the Goseong and Sokcho wildfires, KRW 50 million for the victims of 2021 Turkey wildfires, and KRW 500 million for the relief of the victims of the Uljin and Samcheok wildfires in 2022.

Since 2022, we have taken one step further from our existing CSR activities to ESG management activities by creating KT&G SangSang Forests. The KT&G SangSang Forest Project, which is being promoted not only in Korea but also overseas as the company’s third-generation project, is financed by the Imagination Fund created through a voluntary contribution of KT&G employees. So far, we have invested a total of KRW 600 million in the creation of forests with a total of 15,000 trees in Korea and Mongolia, an overseas business destination, and contributed to carbon reduction and climate crisis relief.

The first KT&G SangSang Forest was completed in 2022 in Daegwallyeong and the creation of the second forest is underway in Bonghwa County, with the scheduled completion set for 2023. The Daegwallyeong SangSang Forest was created with approximately 1,000 trees in an area of about 1.5 hectares along the national forest trail. The saplings needed to create the forest were secured by participants in an in-house plogging campaign. The SangSang Forest in Bonghwa County started being created in 2022 to plant 5,500 trees in an area of about 1.8 hectares to restore a wildfire-stricken region in Hwacheon-ri. It is scheduled to be completed in 2023. The Forest is characterized by increased eco-friendly impact through the plantation of bee trees, fostering the restoration of biodiversity as well.

Moreover, among the countries where we conduct our international business operations, we are creating SangSang Forests in Mongolia, where desertification is rapidly progressing. While planting pine trees, we distributed saplings of fruit trees purchased through the SangSang Fund to residents in low-income areas near Ulaanbaatar. A total of 500 households planted 3,000 trees to create the first Mongolian SangSang Forest, which was started in 2021 and completed in 2022. The second Mongolian SangSang Forest, which will be completed in 2023, will have 5,200 trees planted by 1,000 households. In 2021, the President of Mongolia and the Minister of Environment and Tourism visited the site of the SangSang Forest and expressed great support to the project that is contributing to Mongolia’s “One Billion Trees” national campaign.

History of KT&G Forestation Project



* 1st and 2nd generation projects are also underway

Outcomes of Forestation Project

Value of the SangSang Forest created in Daegwallyeong, Korea in 2022¹⁾



Carbon dioxide absorption

9,248 kg/year

Fine dust absorption

47,872 g/year

Value of the SangSang Forest created in Mongolia in 2022²⁾

Carbon dioxide absorption³⁾

502.8 tCO₂eq/year

Preventing desertification

3 ha

(Equivalent to 4 soccer fields)



SangSang Forests in Mongolia created using the SangSang Fund

¹⁾ Estimate of the partner organization Tree Planet

²⁾ Estimates of partner organization Green Asia Network

³⁾ Including soil carbon absorption due to the restored land

Building a Sustainable Business Ecosystem

MANAGEMENT APPROACH

KT&G participates in the STP (Sustainable Tobacco Program), a joint evaluation platform developed by major global tobacco manufacturers to manage environmental and social impacts, to stably procure high-quality leaf tobacco cultivated on the basis of sustainable agriculture. We also promote various activities to fulfill our social and environmental responsibilities, such as guaranteeing the right to work, the stable management of leaf tobacco farmers, and the reduction of GHG emissions.

As our global business expands and supply chains become more complex, human rights and diversity issues are spreading throughout the corporate value chain. KT&G recognizes the importance of respecting human rights and diversity and their impact on the company operation process. We have therefore established the Human Rights Management Policy to respect the human rights of all stakeholders working with KT&G and manage risks pertaining to human rights violations that may occur throughout business activities, and all employees comply with the policy. In addition, KT&G expands the scope of assessing human rights impacts, draws up measures to identify and preemptively respond to major potential risks to human rights, and continuously strengthens the human rights management process.

- Supply Chain Sustainability
- Human Rights Management
- Employee Diversity and Inclusion
- Attraction of Talents and Capacity Building
- Workplace Safety and Health
- Social Contributions
- Consumer-centered Management



Key Performance Indicators



0

Non-compliance with the Responsible Marketing Policy



KRW 503.3 billion

Contributions to creating social and environmental value for leaf tobacco farmers



KRW 3 billion

Amount of value chain-related social contributions

Supply Chain Sustainability

Supply Chain Sustainability Management System

 [Supplier Code of Conduct](#)

Supply Chain Management Policy KT&G manages the supply chain because it is a core task for creating a sustainable industrial ecosystem and an essential requirement for mid-to long-term business strategies. We are therefore making active efforts at the enterprise level to strengthen sustainability competitiveness and manage partners systematically within the supply chain of the global tobacco industry as well as the domestic tobacco industry. We have established the Supplier Code of Conduct for the management of a supply chain sustainability and encourages partner companies to participate in ethical management by establishing special terms and conditions for partners to conduct ethical business practices.

KT&G inspects the current status of ESG risk management for major partners of domestic and overseas subsidiaries and makes improvement, aimed at establishing and operating a partner management system conforming to global standards. In addition, our procurement-dedicated department provides ESG training to partner companies every year to enhance supply chain sustainability. Going forward, KT&G will strive to contribute to improving the sustainability of the entire value chain and run our business in a more responsible way by implementing various cooperative projects with partners while also minimizing supply chain ESG risks by advancing supply chain management policies and evaluation systems.

Supply Chain Management Governance KT&G is establishing sustainable supply chain governance that conforms to ESG standards. We ensure compliance with the Supplier Code of Conduct when purchasing from partners and conducts continuous reviews to prevent conflicts with ESG requirements. If a partner is found to be disqualified from the certification conditions, KT&G will inform the contents and grounds for disqualification and conduct a re-examination to prevent transactions with partners that fail to comply with ESG standards and maintain a sustainable supply chain. KT&G also strengthens partner company management by giving priority to partners with excellent ESG performance when selecting them. KT&G increases the sustainability of the supply chain by strengthening cooperation with sustainable partners by reflecting ESG indicators when selecting partners and receiving orders. KT&G provides ESG-related training to partners so that they understand the importance of social/environmental impact management and ethical management in operating their business and supports them to actively participate in programs to improve insufficient matters. In addition, the department in charge of procurement and the department that manages procurement compliance cooperate, with the ESG Planning team playing a role as a control tower, and the strategy for managing supply chain sustainability is reported to the ESG Committee, the top decision-making body.

Supplier Code of Conduct KT&G has established and implemented the Supplier Code of Conduct to spread a corporate culture that promotes the fulfillment of social and environmental responsibilities and prevents and reduces supply chain risks. We enhance supply chain sustainability by requesting materials partners to attach the Supplier Code of Conduct as a condition when signing a contract. The Supplier Code of Conduct includes the purpose of establishment, scope of application, responsibility, and role, and presents compliance standards for human rights and labor, health and safety, environment, and ethics as major areas of ESG. Partners themselves can confirm the fulfillment of their social/environmental responsibilities through the process of code of conduct and partner certification, and comprehensive evaluation. Based on this, KT&G is improving the sustainability of its supply chain by evaluating partners' ESG management level in addition to their ability to fulfill contracts, and we provide support for improvement if any insufficient aspect is found.

Inspection of the Supplier Code of Conduct | To inspect the compliance and implementation of the Supplier Code of Conduct, KT&G inspects compliance in writing and on-site to the extent permitted by law. To comply with the OECD actual inspection guidelines, KT&G and a third-party institution conduct the instruction and visit. Based on the results of actual inspections on the Code of Conduct, we recommend partner companies to make improvement for identified risks and prevents business risks in advance by monitoring partners on a regular basis so that they can devise risk mitigation plans and carry out implementation actions for matters to improve.

ESG Management Area within the Supplier Code of Conduct

Human rights and labor	Environment	Health and safety	Ethics
 <ul style="list-style-type: none"> • Prohibition of forced labor • Prohibition of child labor • Prohibition of discrimination and harassment • Humane treatment • Keeping working hours • Wage and benefits • Freedom of association and collective bargaining 	 <ul style="list-style-type: none"> • Establishment of environmental management structure • Environmental permit and report • Hazardous substance control • Less use of resources • Waste and air pollutants management • Water resource management • Energy consumption and GHG emissions 	 <ul style="list-style-type: none"> • Establishment of a safety and health management system • Safety management • Emergency response • Incident and injury management 	 <ul style="list-style-type: none"> • Business integrity • Compliance with the Special Agreement on Ethics Commitment • Protection of intellectual property rights and trade secrets • Protection of whistleblower • Information security • Responsible procurement of raw materials

Supply Chain Sustainability

Special Agreement on Ethics Commitment In order to enhance the ethical management in the supply chain and minimize internal and external risks, KT&G has established the Procurement Regulations. In addition, we have made the attachment of the KT&G Special Agreement on Ethics Commitment mandatory when signing a contract with partners to induce them to participate in ethical management.

Supply Chain Status

Classification of Partners | KT&G defines significant suppliers by comprehensively considering finance, ESG, quality control, delivery quality, level of cooperation, international certification, etc. and conducts ESG evaluations for these significant suppliers, and classifies manufacturing partners whose quality control is important and partners with a purchase amount over KRW 100 million as significant partners.

Partner Status | KT&G's partners are classified into materials, facility construction of Real Estate HQ, sales goods of Sales HQ, and overseas. Our significant materials partners are based on a purchase amount of over KRW 100 million and a purchase ratio of over 96%, and they are managed by classifying into manufacturers and service providers. In addition, 2nd-tier and 3rd-tier partners (non-tier 1 partners) manufacture products that require proactive responses to environmental issues such as waste and chemicals of high social interest, and they were selected in consideration of the importance and transaction size in the supply chain.

Partner Status in 2022-2023*

(Unit: Companies)

Category	No. of Significant Suppliers (%)	Others (%)	Total (%)
Tier 1 (1st-tier) ¹⁾	64	13	77
Non-tier 1 (2nd-tier and more)	2	-	-
Total	66	-	-

* Based on materials partners

¹⁾ Tier 1 (1st-tier) = Direct transaction, Non-tier 1 (2nd-tier and mor) = Indirect transaction

3 Clauses in the Procurement Regulations for the Ethical Practice of Partners (Articles 24-26)



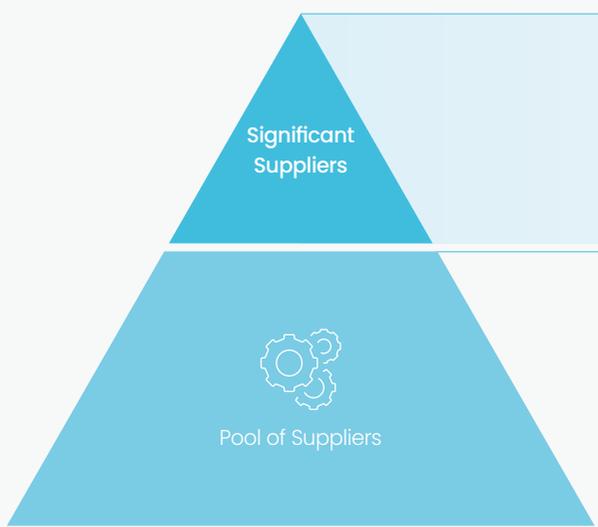
We shall maintain business relationships with partners that comply with laws and regulations on ethics, human rights, labor, environmental safety, and occupational health.



We shall comply with the Fair Trade Act, the Subcontracting Act, and the Win-Win Cooperation Act for fair procurement.



We shall comply with the practices presented by the Fair Trade Commission.



Evaluation Group	Evaluation Indicators	Targets
I	Finance, ESG, quality control, delivery quality	Manufacturing partners whose quality control is important
II	Finance, ESG, delivery quality, level of cooperation	Purchase amount over KRW 100 million
III	Finance, delivery quality, cooperation	Purchase amount less than KRW 100 million
IV	Finance, delivery quality, level of cooperation, international certification	Overseas partners
V	Construction capability, quality control, safety management, qualitative evaluation	Partners of the Real Estate HQ
VI	Regular evaluation, design contribution, bidding participation rate, qualitative evaluation	Partners of sales goods for Sales HQ

Supply Chain Sustainability

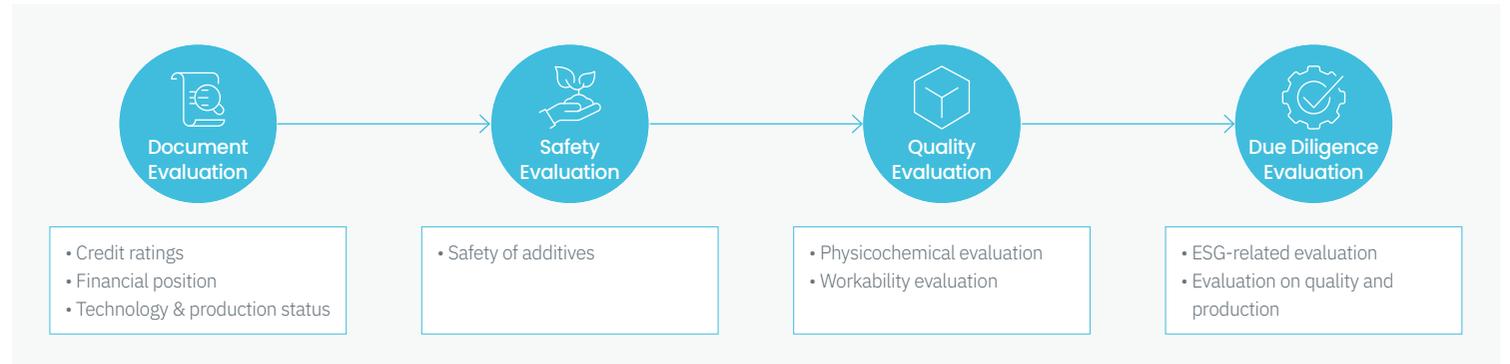
Supply Chain ESG Evaluation/Due Diligence and Monitoring

Pre-screening of Supplier Quality KT&G evaluates and manages partners to strengthen competitiveness throughout the supply chain by securing objectivity in purchasing and improving partners' ability to fulfill contracts. When selecting new partners, KT&G identifies potential ESG risks through pre-screening of supplier quality (SQ) based on ESG factors such as human rights and labor conditions, environment, and business management. Since we procure raw and subsidiary materials such as leaf tobacco, filters, and wrapping paper from the supply chain, we divide suppliers into leaf tobacco raw material suppliers and other material suppliers to trace related risks. The country risk is low because most materials partners are located in Korea. However, we screen overseas leaf tobacco suppliers based on the items required by the Sustainable Tobacco Program (STP). KT&G also determines whether partners have relevant policies and implement programs for each item by screening the ESG risks of the partners based on regular ESG evaluations. We have conducted screening of a total of 95 companies since 2011. 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 an onsite inspection.

Partner Pre-screening Criteria

Category	Issues to Identify
Country risk	Business site location (domestic/overseas)
Raw material risk	Conflict minerals
Product risk	Type
ESG risk	Labor and human rights, safety and health, environment, ethics, management system

Partner Pre-screening Process



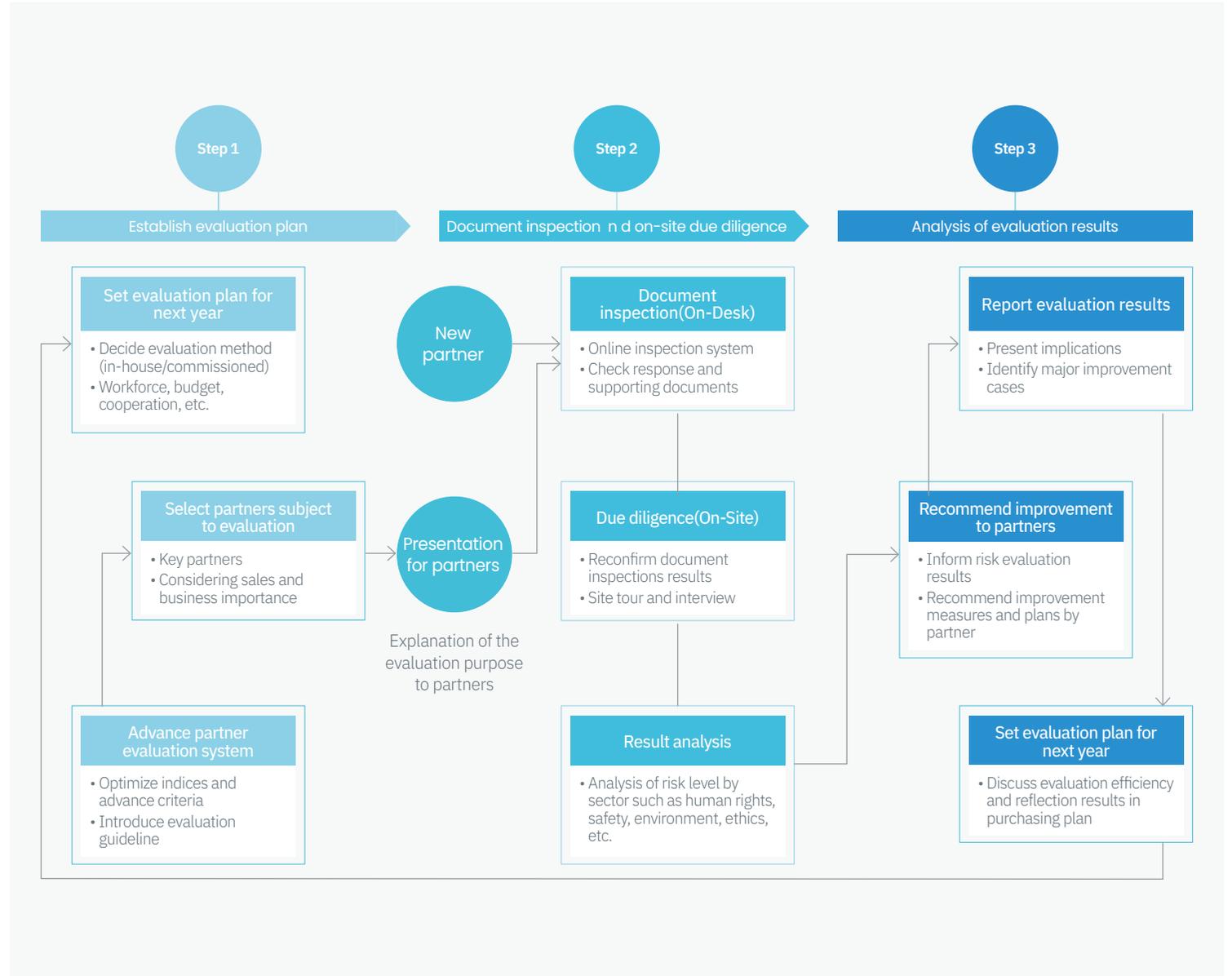
Partner Pre-screening Factors

Evaluation Item	Status		
Society	Human rights	Medium	The risk level of violating the Labor Standards Act and labor practices, such as working hours, wages, and discrimination, and workplace safety regulations is low. However, there is room for improvements in SME's management system.
	Working conditions		
	Safety & health		
	Grievance handling		
Environment	Pollution prevention	Low	The regulation level of domestic environmental laws is high. However, there is room for improvements in the established of regulated policies and some part of internalization process.
	Resource use		
	Chemical substance		
Ethics and Governance	Corporate ethics	Medium	It is required to establish regulated policies and provide to support the program operation in order to prevent corruption such as bribery and conflict of interest
	Pre-and post-management		
Business management	Human resources	Medium	With regard to SMEs, there is room for improvements in the overall business management system for sustainable management.
	Supply chain management		
	Product & service		
	Local communities		
Country risk	Medium		Most of the workplaces are located in Korea, but some headquarters and core business sites are located overseas.
Raw material risk	Low		The risk of conflict minerals is low.

Supply Chain Sustainability

Regular Comprehensive Evaluation of Partners KT&G conducted evaluations on 162 significant partners trading with the three institutions according to the partner evaluation process, including 77 NTM/NGP materials partners, 64 real facility construction partners of Real Estate HQ, 11 sales goods partners of Sales HQ, and 10 overseas leaf tobacco partners.

We conduct online evaluations on the top partners with a high manufacturing and transaction volume among NTM/NGP materials partners. Based on the online evaluation results, we select partners and conduct due diligence considering legal risks and stable introduction of evaluation. KT&G is trying to enhance ESG management and ESG capabilities by increasing the number of participating partners from 2021. According to the evaluation results, the average score of all evaluation areas has increased over the past three years. In particular, the scores in the ethical management area have significantly increased every year, verifying that the ethical management of partners is properly established. We present improvement tasks based on partner evaluation results, and if a partner's evaluation result scores by area are not good enough, we provide consulting services to improve their ESG capabilities.



Supply Chain Sustainability

Regular ESG Evaluation of Partners | KT&G has set in place an evaluation system to identify, mitigate and improve risk factors across ESG that can potentially or actually occur within the supply chain, including labor and human rights. To this end, we conduct ESG evaluations on a regular basis and receive verification from a third-party to ensure the objectivity and professionalism of the evaluation results and to minimize legal risks. KT&G divides ESG evaluations into 5 indicators based on the criteria presented by global supply chain ESG evaluations such as RBA (Responsible Business Alliance) and conducts online self-assessments and some on-site inspections. The evaluation areas consist of a total of 85 questions on labor and human rights, safety and health, environment, ethics, and management system. We enhance the ESG management of partners by reflecting ESG evaluation results in the comprehensive partner evaluation.

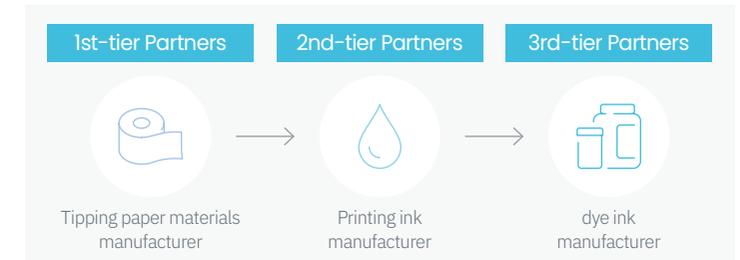
Result of Regular ESG Evaluation | KT&G conducted regular ESG evaluations on partners in five areas, such as labor and human rights, safety and health, environment, ethics, and management system. In addition, a third-party evaluation agency also visited the site to ensure the expertise, objectivity, and reliability of the ESG evaluation to increase significant partners' awareness and capabilities of ESG management. The potential risks are inspected by the agency, and the results are reflected in the comprehensive evaluation.

In addition, a third-party conducted due diligence targeting the partners with identified potential risks considering the legal risks and ESG evaluation results, and the results were provided as a result report. Partners establish improvement plans based on the result reports and control potential and risk factors. According to the partner ESG evaluation results, the average score was 84.4 points (standard deviation of 15.6 points). Among the five indicators, safety and health showed the best performance (91.5 points), and ethics (74.8 points) was found to require relative improvements. More than half of the partners showed an increase in ESG evaluation scores in ESG evaluation, compared to the previous year. In particular, no violations related to the partner codes of conduct were reported. Going forward, we will continue to make efforts to enhance the capability of controlling ESG risks in the supply chain through active support.

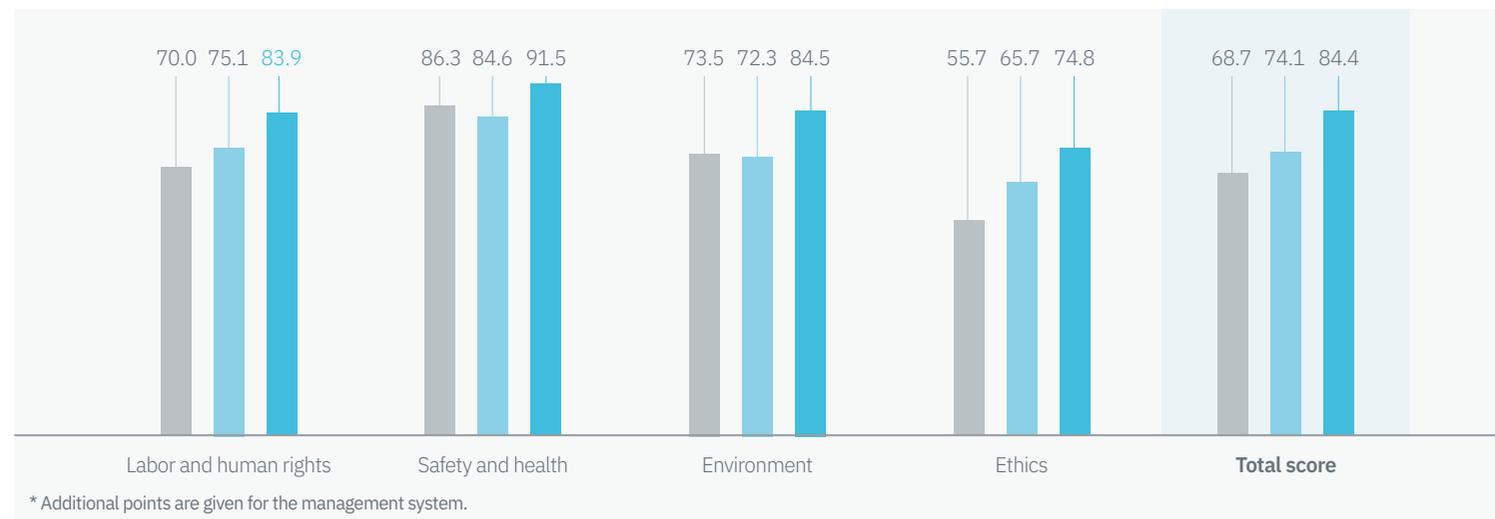
ESG Risk Assessment of Non-tier Partners | KT&G has been operating partner ESG evaluations conducted by independent third-party organizations since 2021 to spread the KT&G sustainability management policy to trading partners and improve the standard for managing supply chain sustainability. In the first half of 2023, we conducted ESG risk assessments on non-tier partners (2nd-tier and 3rd-tier partners) to expand the scope of responsibility for supply chain management.

The manufacturing partners that produce goods require proactive responses to environmental issues, such as waste and chemicals of high social interest, were selected in consideration of their importance and the scale of transactions within the supply chain. An evaluation team composed of KT&G employees with related work experience conducted the ESG evaluation, and we plan to continue risk management activities related to the sustainability of non-tier partners with a focus on major materials.

Conducting ESG Risk Assessment of Non-tier Partners



Result of Regular Partner ESG Evaluation for 3 Years



Status of Regular ESG Evaluation of Partners

Category	2022-2023	
ESG Evaluation Status	Number of partners received written/on-site due diligence	64 companies (Purchasing ratio 96%)
	Ratio of the significant suppliers evaluated (%)	100%
	Number of partners assessed to have significant actual and potential adverse impacts	21 companies
Measures Taken	Ratio of partners with significant actual and potential adverse impacts that have corrective measures and improvement plans (%)	100%
	Number of partners that completed corrective measures and eliminated significant actual and potential adverse impacts	21 companies
	Number of partners that received support for the implementation of corrective measures plans	21 companies
Win-win Growth Programs	Ratio of significant suppliers that received support for the implementation of corrective measures plans (%)	100%
	Number of partners participating in the win-win growth program	27 companies
	Ratio of significant suppliers participating in the win-win growth program (%)	42%

Supply Chain Sustainability

Helping Partners Manage and Make Improvements

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

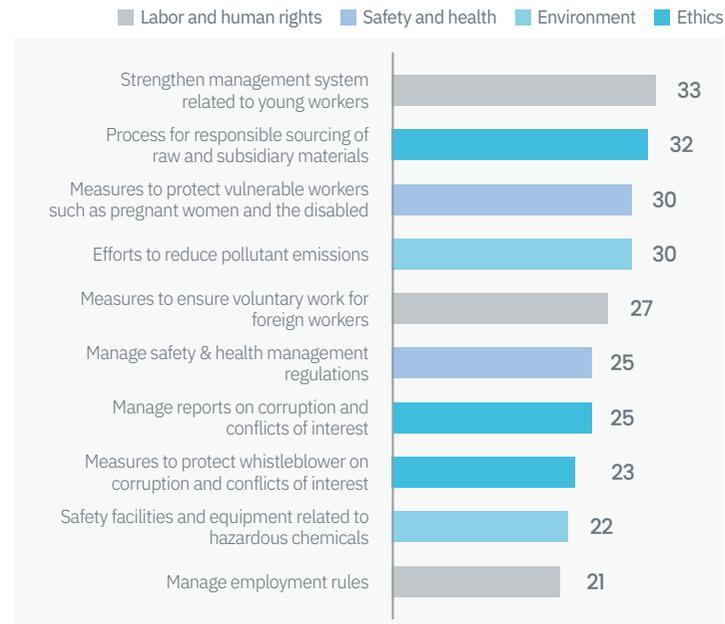
Support for Partners' ESG Risk Improvement Plans | KT&G helped partners set plans to eliminate ESG risks by combining the partner ESG evaluation results and the diagnosis results of the labor and human rights area where the partners are particularly vulnerable. Based on the ESG evaluation results, we selected high-risk partners with insufficient self-diagnosis scores and visited 13 partners among them to identify matters to improve after on-site diagnosis.

KT&G conducted detailed inspections with labor experts to improve the labor and human rights management of the partners, identified potential risks by providing on-site consulting on 26 items in 7 detailed areas related to labor and human rights, and proposed improvement schemes for enhancing ESG capabilities. We also provided ESG consulting together with ESG experts for risk management in the overall area, based on the ESG evaluation results, and enhanced the ESG capabilities of the partners by checking the labor and human rights, safety and health, environment, and ethics areas on site, and proposed the method of practical risk improvement and management plans. These activities enabled partners to better understand ESG and set ESG improvement tasks according to their ESG management level based on the benchmarking data offered to the partners. Moving forward, we will make continuous efforts to manage ESG risks in the supply chain by supporting partners in improving their ESG management.

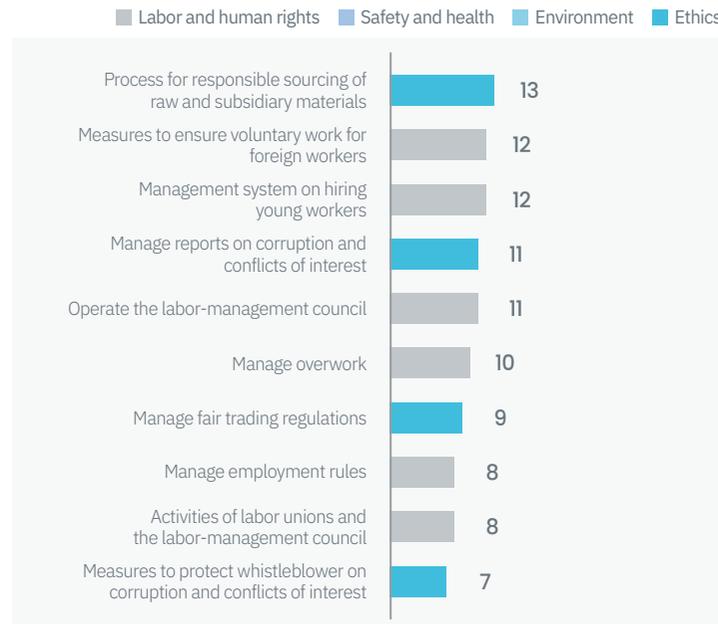
Improvement Support Process for Partners



Top 10 Improvement Tasks of Manufacturing Partners



Top 10 Improvement Tasks of Service Partners



Major Consulting on Supporting Partner's Improvements

Area	Consulting contents
 Labor and human rights	<ul style="list-style-type: none"> Supporting establishment and revision of employment rules Providing samples to establish grievance handling regulations
 Safety and health	<ul style="list-style-type: none"> Supporting the establishment of safety and health management regulations Guiding risk assessment process
 Environment	<ul style="list-style-type: none"> Supporting energy and greenhouse gas control plans Supporting waste control implementation plans
 Ethics	<ul style="list-style-type: none"> Advising establishment of processes related to raw and subsidiary materials Guiding establishment of corporate code of ethics and policies

Supply Chain Sustainability

Supply Chain ESG Joint Growth

Building “Green Impact Alliance” – Partner Collaboration System KT&G has been holding partner workshops since 2021, aimed at creating positive value by establishing and implementing common goals with partners, thereby enhancing the sustainability across the value chain. 17 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.

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. We have been supporting the establishment of GHG inventory and energy diagnosis consulting for significant partners since the second half of 2022. During this workshop, we shared the results of establishing the GHG inventory of each partner and discussed the establishment of reduction targets for 2030 for each partner based on the guidelines of the Science-Based Target Initiative (SBTi). We will support the implementation of GHG reduction plans established by SME partners, which were identified by consulting such as energy diagnosis, and endeavor to lay the foundation for partners to respond to climate change together with partners. KT&G also helped partners in understanding ESG management through education on ESG standards (environmental management, human rights management, labor practices management, ethical standards, etc.) for SMEs, and shared the ESG evaluation results of KT&G partners, which have been conducted over the past three years, and future management direction.

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 ecofriendly materials with less environmental impact and recyclable materials as a common goal under collaboration and support.

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. KT&G significantly contributes to carbon emissions from trucks by improving drivers’ driving habits.

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. Up to 10 cars per year are selected to be the target of ECO Change through pre-application, and we support KRW 5 million per vehicle. Four out of 43 old vehicles were selected and replaced over the past two years. We reduced 44.4kg of fine dust annually by replacing old vehicles and will continue to strive to practice eco-friendly and mutual prosperity management with partners through ECO Change program.

Supporting Supply Chain Win-win Growth KT&G helps its partners improve quality, productivity, and technological prowess as a way to enhance mutual growth of the partner company and KT&G and thus to achieve win-win growth by supporting investment funds. Projects for 11 proposals from six partners were completed or in progress in the first half of 2023, and additional support projects will be reviewed through effectiveness analysis when the projects are completed. We also operate various joint growth systems, such as supporting welfare benefit promotion to resolve the financial difficulties of leaf tobacco farmers as well as partners. In particular, we pay cash when purchasing materials every month and encourage 1st-tier partners to pay cash to 2nd-tier partners as well. In 2022, we paid KRW 96.6 billion early before the national holidays to support partners. In addition, we make continuous efforts to conduct effective mutual prosperity activities, such as increasing the purchase contract amount to relieve the burden on partners when raw material prices increase from the point of contract due to cost fluctuations such as rising raw material prices.

ESG Capability-Building Programs for Partners



Supply Chain Sustainability

Sustainable Agriculture



Promoting STP for Leaf Tobacco Production

Participation in the Global Sustainable Tobacco Program | As KT&G runs the tobacco business, leaf tobacco is a very important raw material for KT&G. Therefore, KT&G participates in the Sustainable Tobacco Program (STP), a joint evaluation platform for strengthening positive environmental impacts, together with major global tobacco manufacturers, in order to stably procure high-quality leaf tobacco cultivated on a basis of sustainable agriculture.

With the participation in STP, KT&G is continually improving the soundness of the sustainable leaf tobacco supply chain by jointly evaluating social and environmental impacts on the supply chain, conducting third-party on-site due diligence, and devising improvement plans, in addition to cultivation management focusing on quality and quality. In 2022, we purchased tobacco leaf from growers certified by GAPC (Good Agricultural Practices Connection program)¹⁾, as part of STP for imported leaf tobacco, which accounts for 85% of flue-cured tobacco we purchased.

Establishment of a Domestic Sustainable Tobacco Program | KT&G has introduced and utilized the global standard STP to strengthen the sustainable production foundation of leaf tobacco farms in Korea. We have developed a program which includes Governance, Crop, Environment, People (labor and human rights) and plan to expand the scope of its operations. To this end, we held the Domestic Leaf Tobacco ESG Proclamation Ceremony in June 2022, provided training to employees of the Korea Tobacco Growers Organization, and established the Sustainable Agriculture Policy that contains KT&G's basic principles. Moving forward, we will promote the solidifying of management by carrying out test operation and developing a regulation and evaluation system suitable for the domestic farming environment, and jointly seek ways to reduce environmental impacts, such as supporting hardware to improve the thermal efficiency of leaf tobacco dryers.

Progress of Adopting Domestic Sustainable Tobacco Program

- Held the ESG Proclamation Ceremony (June)
- Operating the ESG TFT operation: Tobacco Production Stabilization Foundation, Korea Tobacco Growers Organization, KT&G
- Provided STP training to employees of the Korea Tobacco Growers Organization
- Monitoring of STP implementation status on domestic leaf tobacco farmers: Conducted a survey on STP demonstration farms

Focus Areas of the Domestic STP in 2023

<p>Efforts to analyze the environmental effect of equipment used in the cultivation of tobacco and respond to minimize environmental pollution</p>	<ul style="list-style-type: none"> • 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 crop protection materials 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)
<p>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</p>	<ul style="list-style-type: none"> • Prohibit child labor and forced labor • Comply with safety regulations on work • 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

Outline of Global STP

Purpose	A platform jointly developed by tobacco manufacturers to stably procure high-quality leaf tobacco, which is cultivated based on sustainable agriculture.
Member Companies	7 companies including KT&G
Evaluation Indicators	9 (Climate change, Water, Crop, Soil health, Human rights, Livelihoods, Governance, etc.)
Method	Supplier's self-assessment based on risk analysis by country once a year, due diligence of some leaf tobacco farms

Global STP Operation Process

Category	Phase 1 Risk Assessment	Phase 2 Self-Assessment	Phase 3 In Depth Assessment
Description	General risk assessment by supply and demand country → Reflecting the composition of risk questionnaires by country	Conducting self-assessment by country and supplier	Conducting after selecting sample countries and suppliers, considering member companies' needs and risk levels
Evaluation subject	Leaf tobacco cultivation countries	Leaf tobacco supplier	Sample farmhouses in some countries
Period	Every year		
Subject	Third-party company (Global risk and strategy consulting firm)	Self-evaluation by each supplier (verification by STP Secretariat)	Third-party company (selection through bidding)

¹⁾ A Tennessee-based service company that conducts a third-party audit on the cultivation, environmental, and labor of U.S. growers.

Supply Chain Sustainability

Supporting the Leaf Tobacco Farmers

Win-win Growth with Leaf Tobacco Farmers | KT&G continuously conducts local mutual prosperity activities by implementing various support projects to help tobacco growers live stable lives. Although there is no obligation of purchasing domestic leaf tobacco as the tobacco manufacturers' manufacturing monopoly was abolished in 2001, KT&G is the only company that purchases all of the leaf tobacco and uses them for products among tobacco manufacturers so that domestic leaf tobacco farms can be operated stably. In 2022, KT&G purchased 7,224 tons of domestic leaf tobacco worth KRW 71.7 billion, and plans to purchase about 7,500 tons of domestic leaf tobacco in 2023.

KT&G also promotes the financial stabilization of tobacco farmers by implementing "Understanding mind" projects that support tobacco farmers in cultivating and selling red peppers by utilizing resources such as farmland and technology owned by tobacco farms so that farms can generate additional income other than leaf tobacco. KT&G is endeavoring to stabilize the production base of domestic leaf tobacco by actively contributing to the establishment of the "Tobacco Production Stabilization Foundation" for economic and social stability and productivity increase of domestic leaf tobacco growers.

Leaf Tobacco Farm Support Activities in 2022

 <p>Increased purchase of box packaging</p> <p>KT&G is trying to change the packaging method of leaf tobacco to relieve the environmental burden and simplify the packaging method for growers. KT&G purchased 514 tons in 2022, and the purchase amount will be expanded to 2,600 tons in 2023.</p>	 <p>Supplying of fuel reduction devices on leaf tobacco driers</p> <p>In 2022, KT&G supplied 84 fuel reduction devices (support amount of about KRW 76 million) to the growers to improve farm household income and reduce GHG emissions by reducing fuel cost. KT&G plans to increase the scale of support to 100 units (support amount of about KRW 116 million) in 2023.</p>	 <p>Support for farmer health checkups and scholarships</p> <p>KT&G provided a total of KRW 3 billion and 333.6 million for farmer health check-up fees and scholarships for their children to leaf tobacco farmers from 2013 to the present, to improve the welfare of leaf tobacco farmers.</p>	 <p>Farming season labor service</p> <p>KT&G employees have been conducting volunteer activities for leaf tobacco farmhouses every year for 16 years since 2007 during the grown seedling transplanting season and the leaf tobacco harvesting season which requires a lot of labor, in order to support stable farming activities by helping farmhouses suffering from labor shortages.</p>
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KT&G also pays 30% of the payment between April and May without interest so that tobacco farmers can pay for equipment and labor costs and constantly provides cash support to improve the welfare of the farms to overcome the COVID-19 situation.

Two-way Communication with Farmers | KT&G identifies and resolves difficulties in the field through smooth communication with leaf tobacco farmers. To solve the difficulty of the farmers due to the labor shortage, KT&G employees have actively participated in voluntary services every year during the leaf tobacco transplanting and harvesting season and provided consolation money for quick recovery to leaf tobacco farms that suffered from natural disasters. In addition, we support farmers' health checkups and scholarships for their children every year, to improve farm household welfare.

From 2022, KT&G has simplified leaf tobacco trimming and packaging and purchased frequently at the shared trimming and packaging site and minimized the labor burden on farms by purchasing boxed leaf tobacco. In 2023, KT&G plans to expand these policies further to minimize the labor burden on farms caused by trimming and packaging of leaf tobacco.

Performance of Supporting Leaf Tobacco Farmers in 2022

Purchasing of domestic leaf tobacco

2,706 persons

(based on the number of cultivators)

7,224 tons | **KRW 71.75** billion



Support through the Haearin project

9,750 kg | **21** persons | **KRW 190** million

Fund raising

KT&G

Other manufactures

KRW 427.36 billion | **KRW 102.27** billion

(Cumulative from 2002-2022)

Support for farmer health checkups and child scholarships

KRW 3,336 million

(Cumulative from 2013-2022)



Child scholarship for leaf tobacco farmers

Supply Chain Sustainability

Responsible Sourcing of Minerals

Conflict Minerals Management System

Direction of Conflict Minerals Management | KT&G considers human rights violations and environmental destruction during the mining, production, and distribution of minerals as a serious problem that has negative impacts on society and the environment. We are therefore making efforts to monitor the containment of conflict minerals in all delivered products and raw materials to prevent the use of conflict minerals that are unethically mined. KT&G will continue efforts to prevent and resolve the risks related to conflict minerals according to the “Responsible purchase of raw materials” policy specified in the Partner Code of Conduct.

Conflict Minerals Management Policies | KT&G stipulates conflict minerals management through its Human Rights Management Policy and Supplier Code of Conduct. In particular, we require regular inspections to ensure that minerals purchased from partners are not related to human rights violations.

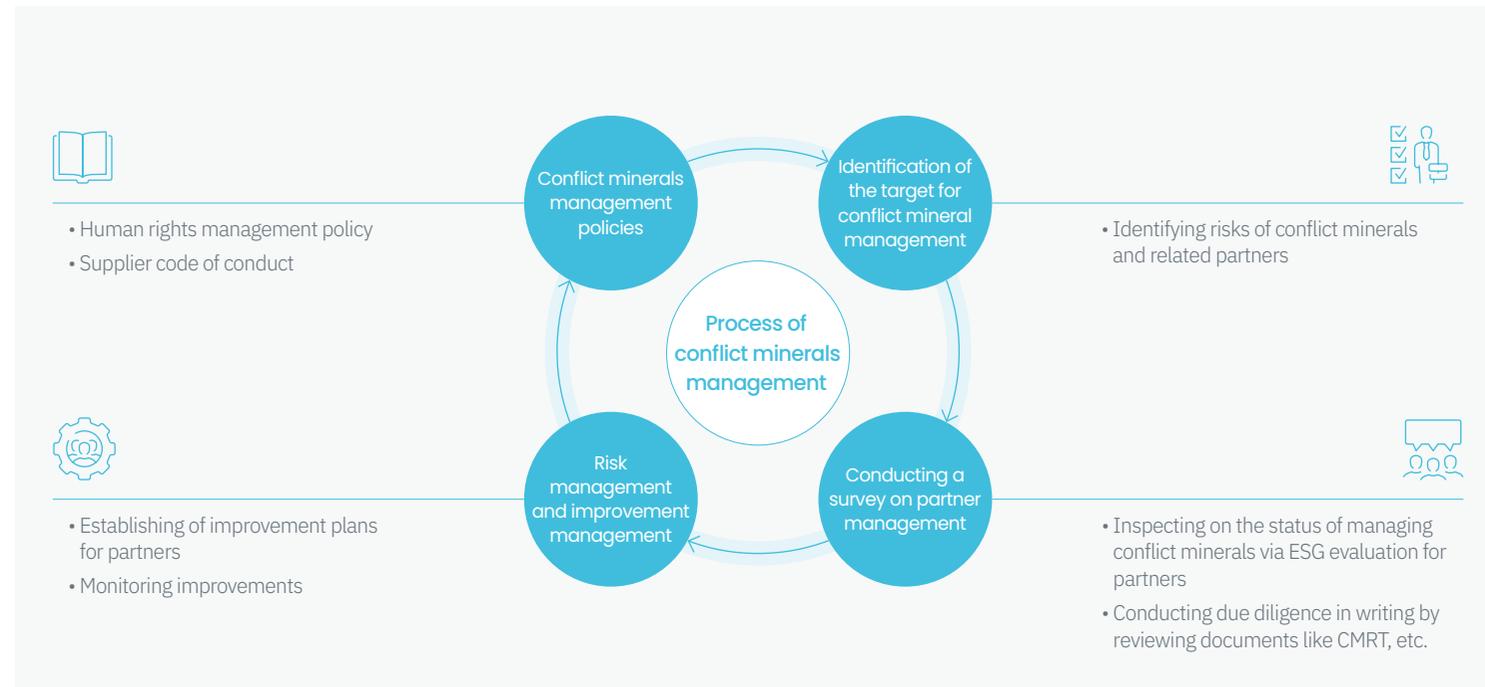
Identification of Target for Conflict Mineral Management | KT&G strives to identify partners highly related to conflict minerals risk by analyzing partners’ characteristics and minerals used. We are aware of the need for risk management focused on e-cigarette manufacturers and will inspect the relevance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

Conflict Minerals Management Activities

Due Diligence on Partners’ Conflict Minerals Management | KT&G exams ESG risk in the supply chain on a regular basis through ESG evaluation for partners. The evaluation includes an item to check whether the raw and subsidiary materials are produced responsibly. We received CMRT (Conflict Minerals Reporting Template) from all four partners that manufacture NGP devices and inspected the present condition of conflict minerals management by reviewing the document. We will expand this management system to other responsible minerals also and continue to expand the scope of management to check the location of all smelters and refineries in the supply chain.

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

Process of Conflict Minerals Management



Human Rights Management

Human Rights Management System

KT&G preemptively handles human rights risks that may arise during management activities, is promoting phased implementation by establishing a goal of 100% human rights impact assessment for domestic and overseas subsidiaries by 2025 to strengthen human rights protection. We also aim to conduct human rights impact assessment for all Group subsidiaries at home and abroad by 2030. In addition, we encourage our core supply chain, including leaf tobacco farmers and material partner companies, to strengthen risk management. To this end, we provide support for sustainability diagnostic evaluation and other activities so that they can make efforts to improve human rights awareness, understand and comply with laws and regulations.

Human Rights Management Policy KT&G respects various international human rights initiatives relating to basic human rights that have been adopted and announced by international organizations, such as the Universal Declaration of Human Rights, International Bill 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 (ILO) and Corporate Human Rights Benchmark (CHRB).

In order to respect and protect the human rights of all stakeholders, including employees, overseas production and sales corporations, subsidiaries, and partner companies, KT&G has established and strictly complies with the Human Rights Management Policy based on international standards and principles related to human rights and labor and is strengthening the human rights management process including activation of internal and external communication and relief procedures.

Principles of Human Rights Management

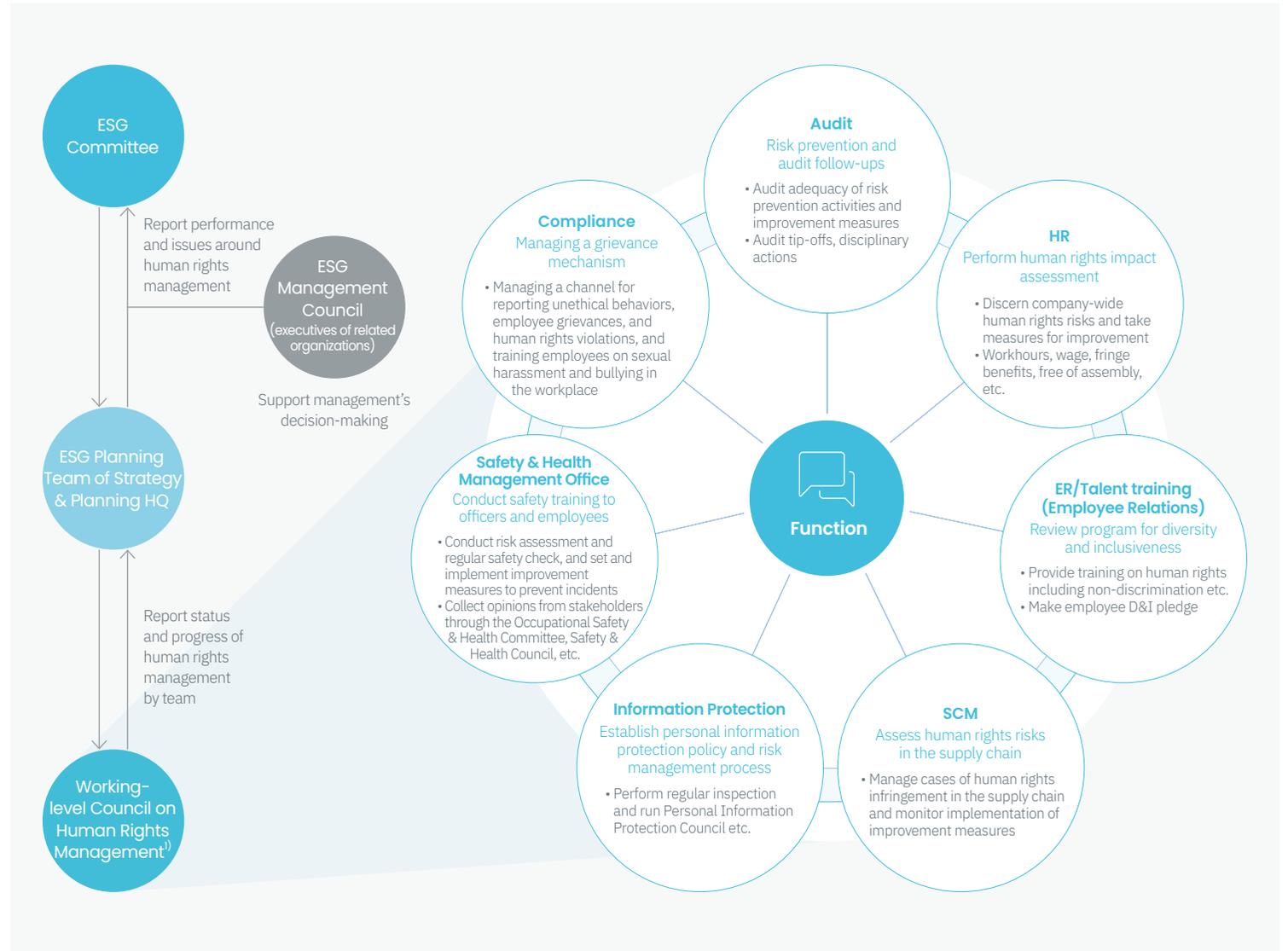
 [Human Rights Management Policy](#)



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 “ESG Committee – ESG Management Council – ESG Planning Team of Strategy & Planning HQ – Working-level Council”. The Sustainability Committee under the BOD is the highest decision-making support organization on human rights issues. With the ESG Planning Team as a control tower, we will promote human rights management through the working-level council and report the implementation to the Sustainability Committee, the highest decision-making organization. The Working-level Council comprises of working-level officials from related departments, discussing the roadmap for human rights risk management and implementation plans. We also operate a variety of channels to communicate with key stakeholders such as employees, partner companies, customers, local communities and NGOs, shareholders and investors, the government, and the media and reflects the opinions collected through this when identifying human rights issues and establishing improvement plans.

Human Rights Management Governance



¹⁾ T/F composed of in-charge personnel by team

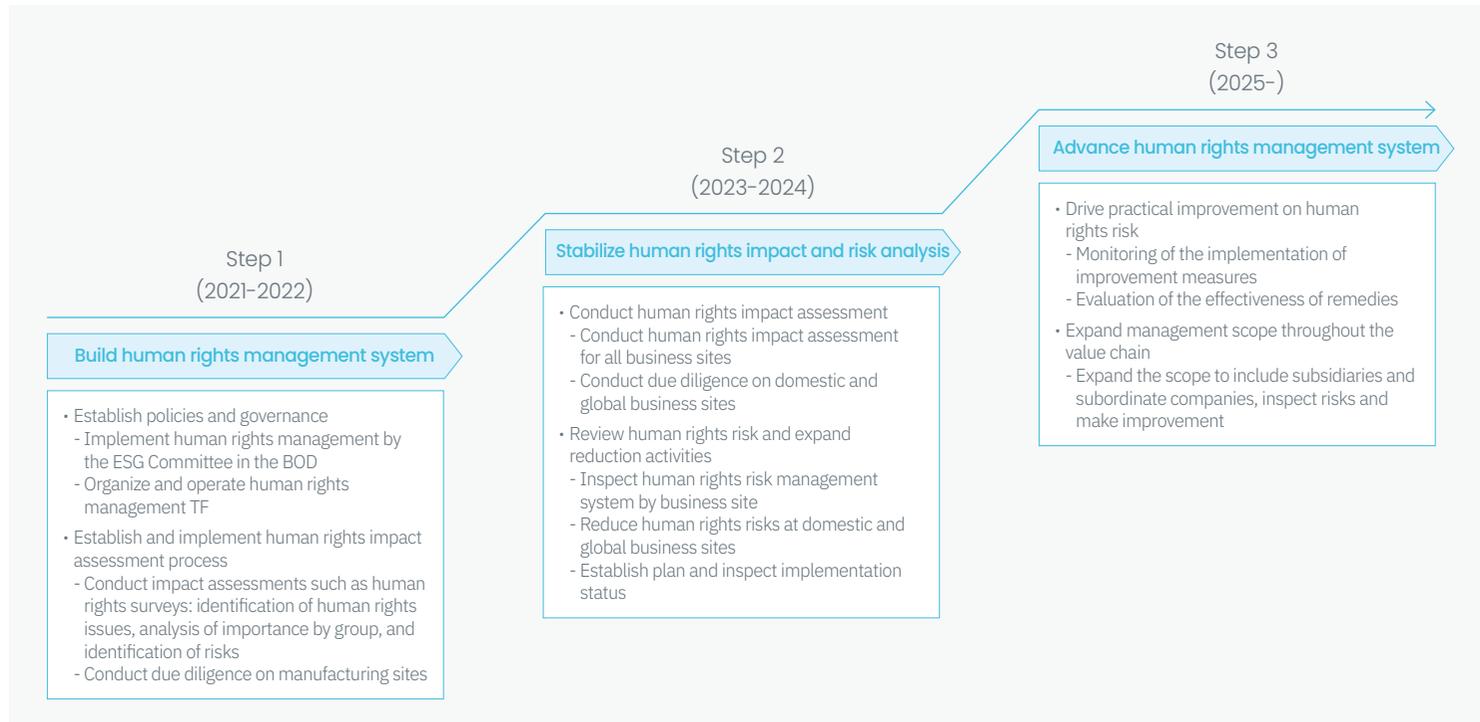
Human Rights Management

Human Rights Risk Management Roadmap KT&G has established a management roadmap to strengthen human rights management and advance risk management. We plan to expand human rights risk response throughout the value chain by establishing a human rights management system based on the human rights management roadmap and responding to potential human rights risks through more practical risk management.

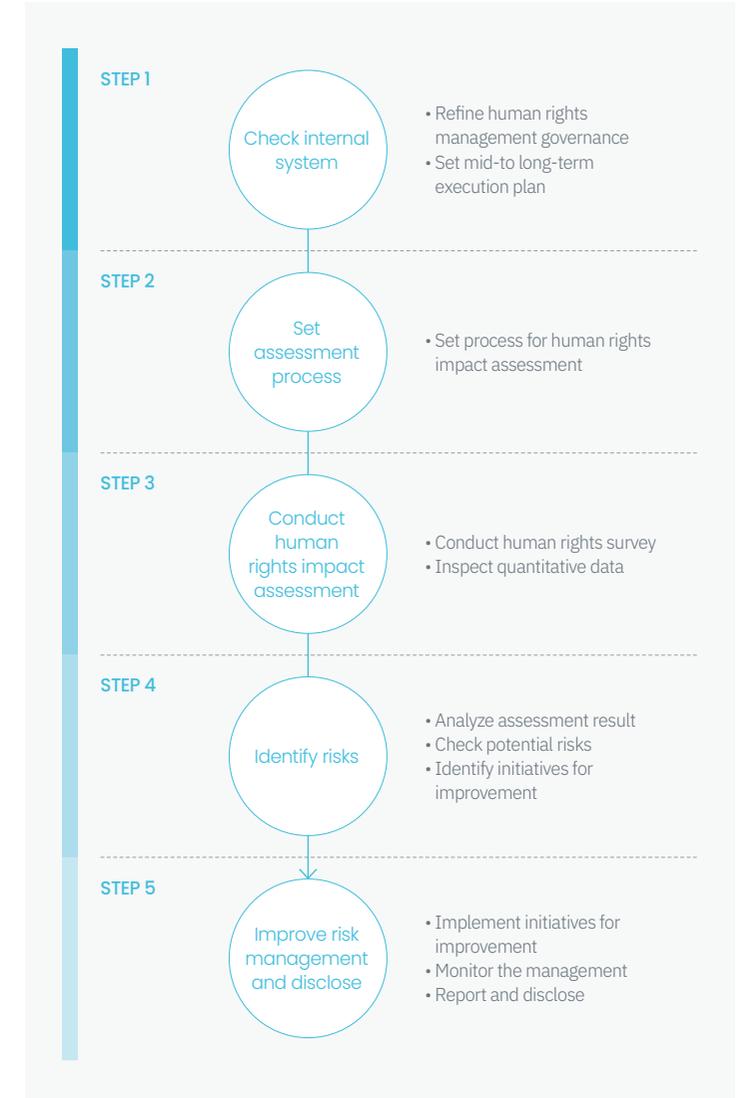
Framework for Human Rights Impact Management

KT&G conducts human rights monitoring and due diligence to identify and improve potential human rights risks that exist throughout the value chain, including domestic and overseas business sites, subsidiaries, and partner companies and reflects them in the human rights business management system. KT&G, which has reorganized human rights management governance and developed and implemented a human rights impact assessment process, conducted a human rights impact assessment in 2022 to identify the actual state of human rights management inside and outside the company, such as sampling online surveys for domestic employees and due diligence for Yeongju business site. Going forward, we will advance and regularize the human rights impact assessment method and gradually expand the scope of the assessment to all business sites of the Group at home and abroad.

Human Rights Management Roadmap



Framework for Human Rights Impact Management

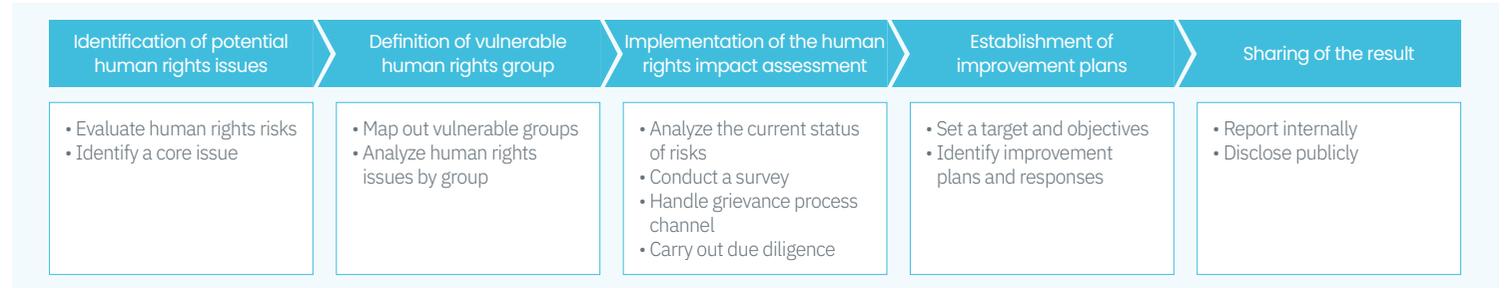


Human Rights Management

Human Rights Risk Assessment Process | KT&G establishes and promotes a human rights risk assessment process to identify potential human rights risks that exist throughout the business operation process, preemptively identify problems, and come up with improvement measures. Through human rights risk assessment, we aim to create a better culture of respect for human rights by setting goals for our human rights issues and conducting continuous monitoring.

Human Rights Management Areas | KT&G has established a human rights due diligence checklist to regularize human rights risk assessment, based on which, we will identify the management system for each human rights issue and confirm compliance with global standards.

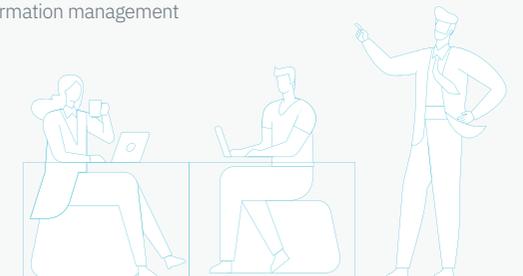
Human Rights Risk Assessment Process



Human Rights Management Areas

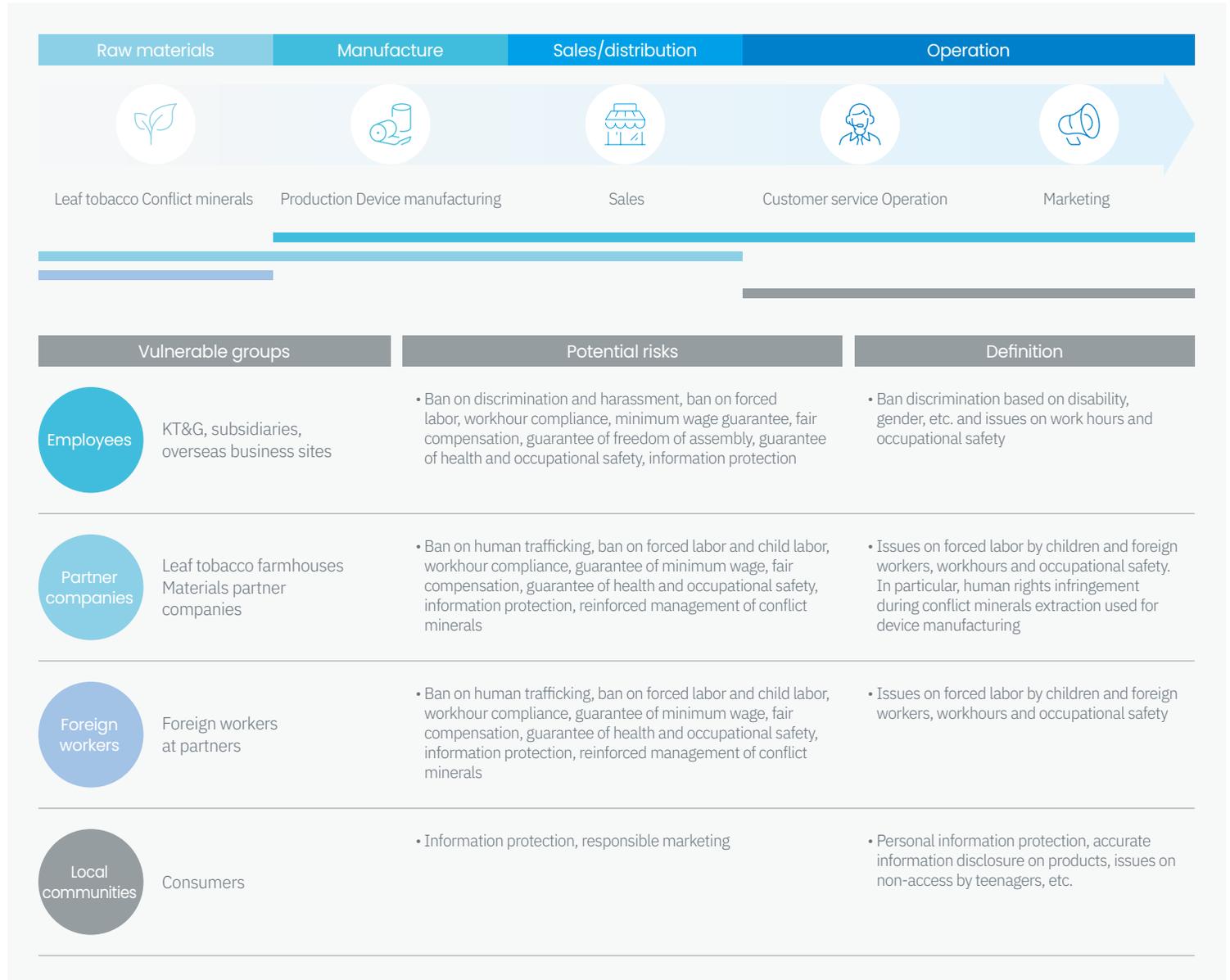
Category	Item
	<p>Establishment of human rights management system</p> <ul style="list-style-type: none"> Necessary measures for embedding human rights management in a system Reinforcement and internalization of human rights competency
	<p>Employment non-discrimination and humanitarian treatment of workers</p> <ul style="list-style-type: none"> Gender equality and non-discrimination Non-discrimination of contract based and/or foreign workers Maternity protection Prevention of workplace bullying and sexual harassment
	<p>Guarantee of freedom of assembly</p> <ul style="list-style-type: none"> Freedom of assembly and collective bargaining and ban on unfair treatment for joining labor union
	<p>Ban on forced labor</p> <ul style="list-style-type: none"> Ban on forced labor and child labor Ban on forced labor and child labor by subsidiaries and contractors

Category	Item
	<p>Guarantee of health and occupational safety</p> <ul style="list-style-type: none"> Protection of pregnant employees and the disabled Support to employees in industrial accident
	<p>Responsible supply chain management</p> <ul style="list-style-type: none"> Prevention of human rights infringement at partner companies and monitoring Responsible minerals sourcing
	<p>Protection of personal information</p> <ul style="list-style-type: none"> Strict personal information management



Human Rights Management

Defining Vulnerable Groups KT&G is implementing preemptive response measures by identifying groups that are vulnerable to human rights risks and are at relatively high risk of being negatively affected in the business process. Moreover, we will build a risk mitigation process by expanding stakeholder survey scope to subsidiaries and partner companies at home and abroad, through which we will collect more opinions and make necessary improvements.



Human Rights Management

Human Rights Impact Assessment

KT&G conducts human rights impact assessments every year to investigate employees' perceptions of areas such as anti-discrimination, sexual harassment, bullying, working hours, safety and health, information protection, and local communities, identifies potential risks based on the evaluation results, and derives improvement measures. As a result of the human rights impact assessment in 2022, physical sexual harassment, abusive language and profane language, bullying, and safe workplace management were selected as major human rights areas.

2022 Human Rights Impact Assessment | KT&G conducts human rights impact assessments every year to identify potential risks and derive improvements. KT&G identifies the perceptions of employees by classifying areas such as anti-discrimination, sexual harassment, bullying, working hours, safety and health, information protection, and local community, and in the case of 2022, physical sexual harassment, abusive language and profane language, bullying, and safe workplace management were selected as major human rights areas.

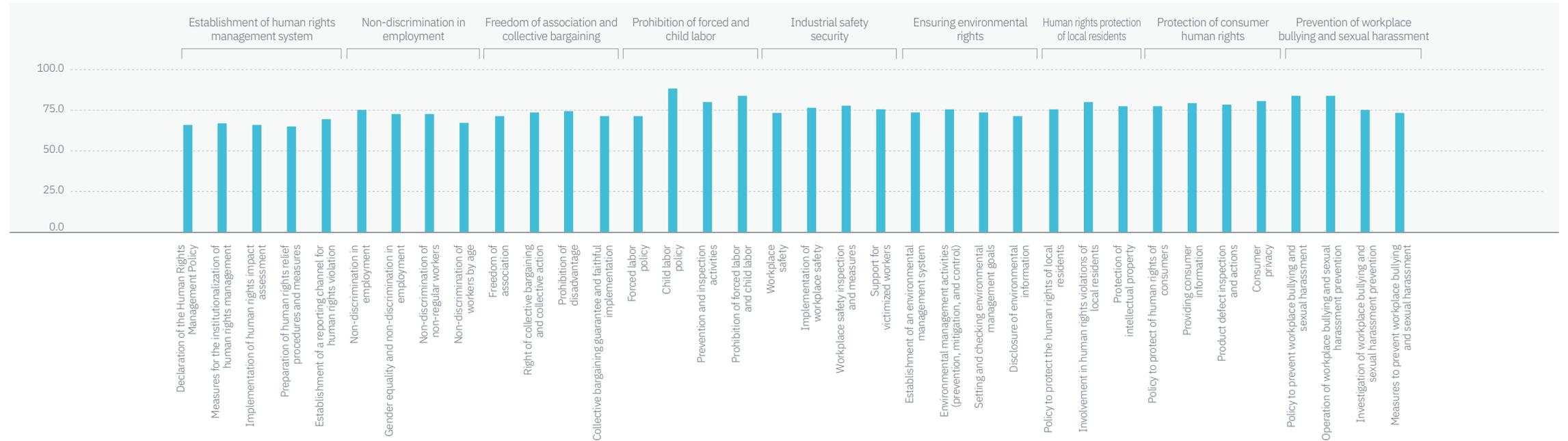
In addition, we are conducting due diligence on human rights at major domestic and overseas business sites. In 2022, we conducted due diligence for the Yeongju business site, and no material issues were found that significantly violated global guidelines. During the due diligence at the business site, some recommendations were confirmed in the areas of prohibition of forced labor, the establishment of a human rights management system, and the prohibition of child labor, and improvement plans and implementation were developed.

(Unit: %)

	Percentage of sites received assessment for the past 3 years	Percentage of sites where risks were identified among sites received assessment	Percentage of sites where mitigation/improvement actions have been applied among sites where risks were identified
Self-management activities ¹⁾	100	7 ²⁾	100
Supply chain partner companies	96 ³⁾	39 ⁴⁾	76 ⁵⁾

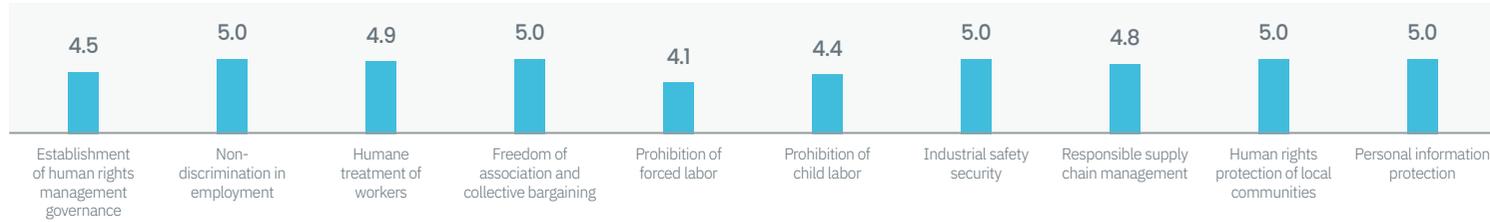
- ¹⁾ All business sites in Korea
- ²⁾ Sites which record 10% or lower against the average survey results
- ³⁾ Percentage of purchase amount
- ⁴⁾ Sites which record lower score than the average of labor/human rights indicators in the partner's ESG evaluation results
- ⁵⁾ Partners to which labor/human rights-related consulting support was provided or those with improved scores as of the first half of 2023

Management Importance by Employee Human Rights Survey



Human Rights Management

Results of Human Rights Due Diligence in 2022



Human Rights Impact Assessment Results and Effectiveness Analysis

Human rights area	Key stakeholders			Key issues in 2022		Effectiveness analysis (2022-2023)		
	Internal	Partner companies	Other stakeholders	Importance	Key issues	Improvements	Effect	Page
Establishment of human rights management system	Regional headquarter, manufacturing plant	Raw materials, manufacturing, sales, operation	Subsidiary, subordinate company	Medium	• Promoting practical dissemination of our human rights policy for employees at business sites through regular education	<ul style="list-style-type: none"> Revision of the Charter of Human Rights, implementation of due diligence on human rights at business sites, and expansion of the scope of human rights management Development of educational programs and promotion of expert's human rights training Regular supplementation and internal disclosure of human rights policies and regulations 	Medium	107, 111-112
Prevention of workplace sexual harassment	Regional headquarter, raw material plant	Raw materials, manufacturing, sales, operation	Subsidiary, subordinate company	High	• There are sufficient sexual harassment education and related awareness are also high, but the dissemination of detailed cases and strengthening organizational culture for gender equality against sexual harassment are needed	<ul style="list-style-type: none"> Introductory training for new employees other than regular compliance training, strengthening employee awareness through special compliance training, and strengthening reporting and relief procedures Development of case-oriented sexual harassment prevention education Periodic update of the response manual to protect vulnerable groups in human rights 	Medium	107, 112, 115, 152
Prevention of workplace bullying	Regional headquarter, raw material plant	Raw materials, manufacturing, sales, operation	Subsidiary, subordinate company	High	• Reorganizing response manuals and strengthening education to identify vulnerable groups such as new employees and women, and protect vulnerable employees	<ul style="list-style-type: none"> Inspection of safety and health management system and implementation of safety and health-related laws, the introduction of safety and health IT system, the establishment of internal and external cooperation system in 2022 Continuous monitoring for risk identification at business sites and implementation of assessment Operation of safety and compensation system 	High	123-127
Safety and health management	Manufacturing plant, raw material plant	Raw materials, manufacturing	Subsidiary, subordinate company	High	• Awareness of industrial accident management in manufacturing and raw material plants is high, and we also conduct regular reviews of the safety management system throughout the business operation process	<ul style="list-style-type: none"> Human rights inspections at business sites and supply chain ESG evaluations to check risks related to child and forced labor within the value chain Reduction of risks related to child and forced labor for raw materials by securing STP, CMRT/EMRT Plan to reduce potential risks of child and forced labor by expanding human rights risk inspections at global business sites Timely responses when problems are discovered by periodically monitoring the working conditions and labor contracts of business sites and partner companies 	Low	100-103, 105, 122
Prohibition of forced labor	Head office, regional headquarter	Raw materials, manufacturing	Subsidiary, subordinate company	Medium	• Systematic management of labor contracts and overtime work agreements throughout the value chain, including employees and partner companies at business sites	<ul style="list-style-type: none"> Regular inspection on partner company ESG and improvement management activities and support, development of Green Impact Alliance Promoting leaf tobacco supply chain STP Increasing the traceability of raw materials including CMRT/EMRT briefing sessions Checking and managing whether RMI-certified smelters are utilized for device partner companies 	High	100-103, 105
Prohibition of child labor	Head office, regional headquarter	Raw materials, manufacturing	Subsidiary, subordinate company	Low	• There are no child/young workers in our business sites, and moving forward, we will conduct monitoring to prevent potential risks in the global business sites and partner companies			
Local community & Responsible supply chain management	Manufacturing plant, raw material plant	Raw materials (leaf tobacco, conflict minerals), manufacturing	Subsidiary, subordinate company, local community	Medium	• The importance of risk management for leaf tobacco farms and conflict mineral smelters is increasing. We will therefore manage this issue through domestic and international certification and CMRT/EMRT			

Mitigating and Improving Human Rights Impact

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

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

Programs Designed to Enhance Human Rights Awareness

Human rights impact	Management system and prevention program
Freedom of assembly and guarantee of collective bargaining rights	<ul style="list-style-type: none"> Conduct collective bargaining every year Hold quarterly Labor-Management Council Notify agreements of collective bargaining via in-house intranet
Ban on discrimination in employment and at work	<ul style="list-style-type: none"> Diversify recruitment method and channel, pre-monitor discriminatory elements that could arise from recruitment procedures Hold 1:1 interview after evaluation and run objection system
Improvement of work conditions	<ul style="list-style-type: none"> Manage by blocking network and PC-off system Run job sharing model operation Run 1.3-5 campaign (5 promises for happy work and life)
Activities to prevent human rights violation (targeting all employees)	<ul style="list-style-type: none"> Establish handling guidelines to prevent office bullying and require written pledge submission by executives and employees Conduct training on preventing office bullying Designate call center operator handling sexual harassment cases and conduct training on prevention of sexual harassment Conduct training on improving awareness on the disabled

Employee Diversity and Inclusion

Establishment of D&I Management System

D&I Policy KT&G includes content that emphasizes diversity and inclusion in the basic principle of the KT&G Human Rights Management Policy and KT&G Group Business Ethics Charter established in June 2022, so that all employees are not discriminated against for any reason, such as gender, race, nationality, or religion, and are respected for fair opportunities and basic rights. We also expanded the scope of the implication to include overseas business sites in addition to domestic business sites and subsidiaries as a way to raise awareness of diversity and inclusion (D&I). In addition, through the preparation of the BOD Diversity Policy, we aim to fully consider the diversity of the members of the BOD, the top decision-making body of the company, and maintain objectivity in the composition of the BOD so as not to represent the interests of a specific group.

Direction of D&I Promotion A company that has a culture in which diverse backgrounds, experiences, values, and ways of thinking are respected can make decisions from more diverse perspectives, and this is the key to a company's mid-to long-term competitiveness. KT&G has established a mid-to long-term strategy for systematic management of D&I in the organization to create a culture in which employees can respect and embrace each other. The mid-to-long-term strategy for D&I has four core directions – equal opportunity and evaluation between the genders (Gender Diversity), acceptance of cultural diversity (Global Mobility), intergenerational convergence (Generation Communication), and consideration for the socially vulnerable (Generosity Protection) – and we are promoting various efforts to internalize it.

Code of Conduct Related to Diversity Included in the KT&G Group Business Ethics Charter

8.3 Anti-discrimination and Respect for Diversity

KT&G complies with the anti-discrimination laws of each country, considers the diversity of stakeholders, such as employees and partner companies, as an important value, and strives to create an inclusive environment so that different thoughts, perspectives, and beliefs can be respected.

KT&G does not unfairly discriminate on grounds of reasons such as personal characteristics, such as gender, race, skin color, nationality, religion, disability, age, pregnancy, military service, social status, political opinions, etc. in all situations related to work, including recruitment, promotion, placement, compensation, and education.

4 Core Directions of KT&G D&I



Employee Diversity and Inclusion

Mid- to Long-Term Goals of D&I While promoting the strengthening of our competitiveness in human capital diversity to become a global top-tier company, we at KT&G have established mid-to-long-term goals centered on gender diversity and global mobility based on the core direction of D&I. By 2030, we plan to build a foundation for organizational competitiveness that supports change and innovation by strengthening female employees and management positions, and actively nurturing competent locally hired employees within management and persons in duty across all domestic and overseas businesses.

KT&G always manages D&I issues that can affect overall personnel management, such as recruitment, training and education, job, and service, evaluation and promotion, etc. In order to promote smooth communication in the company, we operate a D&I discussion consultative body consisting of our human resources department, human resources development institute, ER team, global headquarters, business management office, and ESG planning team, verify the improvement tasks centering on the consultative body, sets the follow-up management indicators and periodically monitors the progress of implementation of mid-to long-term goals.

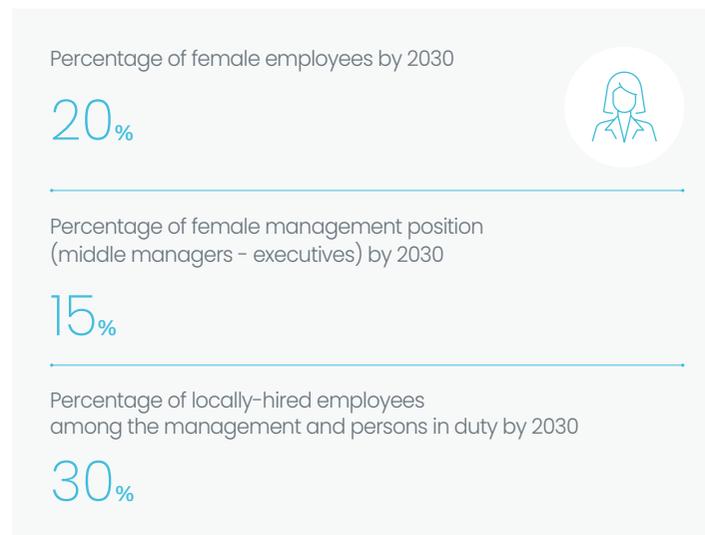
KT&G intends to conduct systematic monitoring of the change in awareness of employees and progress at the company level through the D&I internalization program. Going forward, we will improve IT system so that the heads of each organization (HQs in head office, plants, regional sales offices, etc.) can monitor and manage this through the in-house HR system Dashboard. This will enable us to establish a system that can regularly monitor management indicators reviews by year and plans for the next programs to promote D&I through management reports, listens to opinions from multiple stakeholders such as consumers, shareholders, and investors to promote diversity and inclusion and will do our best to contribute to increasing the value of KT&G D&I.

Ultimately, KT&G aims to establish a substantial implementation system by improving its D&I promotion system and programs, thereby being recognized for the D&I value that we pursue through external certification. As for the Equal Salary Certification, in which we have been participating since 2021, we are verifying the effectiveness of certification acquisition through monitoring and verification (audit) by a third-party every year, and moving forward, through our participation in more diverse global D&I initiatives, we plan to objectively review our D&I performance and implement improvement activities.

D&I Promotion Program

Gender Equality – Equal Opportunities and Fair Evaluation For gender equality and non-discriminatory in employment, we strive to improve gender discrimination factors throughout our human resources management, such as talent recruitment and employment, personnel evaluation, promotion, wage system, education and placement training, and retirement. As a result of these efforts, we obtained the Equal Salary Certification in 2021. Going forward, we will continue to provide equal opportunities to our employees and strive to ensure a fair evaluation.

Mid-to Long-term Goals of KT&G D&I



* Including domestic and overseas business sites

Key Systems and Programs

Announcement and recruitment	<ul style="list-style-type: none"> Strengthen PR activities focused on attracting more female job applicants Establish a system to root out prejudice against female workforce and culture averse to employing women <ul style="list-style-type: none"> Increase share of female interviewers for interview-based recruitment Continue with blind recruitment principle and require evaluators to submit written pledge Expand scope of applicants subject to AI interview and further utilize its results Run special program for female workforce management (follow-up course for new hires)
HR evaluation and promotion	<ul style="list-style-type: none"> Build training infrastructure to enhance competency of employees on long leave of absence due to childcare leave and to provide work support upon return Operate mutual interview and evaluation objection system to secure evaluation fairness and acceptability Operate the Promotion Review Committee for fair candidate evaluation and transparent promotion process
Compensation management (wage structure)	<ul style="list-style-type: none"> Obtain 2021 Equal Salary certificate
Training	<ul style="list-style-type: none"> Provide D&I awareness training to all employees Provide introductory training to new hires <ul style="list-style-type: none"> Assign 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	<ul style="list-style-type: none"> Support for infertility treatment leave and cost for in vitro fertilization for employees with infertility Support for maternity leave during pregnancy (the date of confirmation of pregnancy - before childbirth) and maternity leave subsidy Support for postpartum care center expenses and childbirth congratulatory gifts after childbirth Automatic transition to parental leave for prenatal and postpartum leave (maternity leave) users Support for subsidies for parental leave up to the second year of parental leave Support for childcare subsidies for children under the age of 6 to reduce the financial burden of childcare Installation and operation of workplace daycare centers (Seoul office building, Sintanjin Plant)

Employee Diversity and Inclusion

Acquisition of Equal Salary Certification | KT&G grants all opportunities fairly and equally according to each employee’s ability and capabilities and conducts a salary policy that does not discriminate against employees with the same qualifications and positions. As a result of efforts to have our salary policy officially recognized according to the professional and objective criteria of a third-party verification agency independent of the global non-profit foundation, we acquired the “Equal Salary Certification” for the first time as a listed company in Korea from the Equal Salary Foundation in August 2021. We take the acquisition of gender-equal salary certification as the starting point for developing a sustainable human capital management policy and system and strive to practice systematic human rights management through annual audit conducted every August.

The first basic audit (Main Audit) for Equal Salary Certification is conducted for about five months according to various processes such as statistical analysis, employee surveys and interviews, and verification of stipulated company policies. Verification and evaluation of the company’s wide range of policies and systems, such as recruitment, promotion, evaluation, compensation, and training, throughout HR are also conducted. In addition, intensive interviews to confirm top management’s commitment to gender equality and focus group interviews to investigate employees’ perceptions of the policy were conducted. In addition, whether the overall HR operation process includes factors that ensure fairness in wages, such as promotion and compensation, or not was comprehensively evaluated through document inspection and separate HR session discussions.

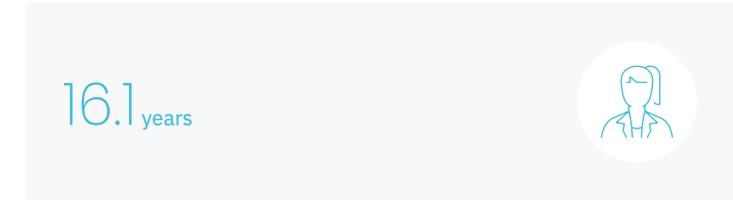
D&I Awareness Training | At KT&G, we believe that employees can immerse themselves in their work and grow in a culture where diversity, equity, and inclusion are respected. Therefore, in order to create an environment where different opinions can be respected and opinions can be expressed freely, we are promoting education for various classes and leading each class to establish the right awareness of D&I. We promote millennial leadership training for new executives, coaching leadership based on mutual communication for junior and senior leaders, organizational communication and generational sympathy curriculum for new employees, etc. through education for each class and operate them to establish the right awareness of D&I in each class.

Work-Life Balance | KT&G has set in place a maternity protection system and provides various support so that female employees can maintain a work-life balance and demonstrate their capabilities. As a result, the average years of service for female employees (based on full-time employees) was 16.1 years, which is above the average of the top 100 companies. For this reason, we were recognized for our achievements in our excellent organizational culture by numerous external

organizations, such as being selected as an “Excellent Work-Family Balance Company” organized by the Ministry of Employment and Labor in 2020.

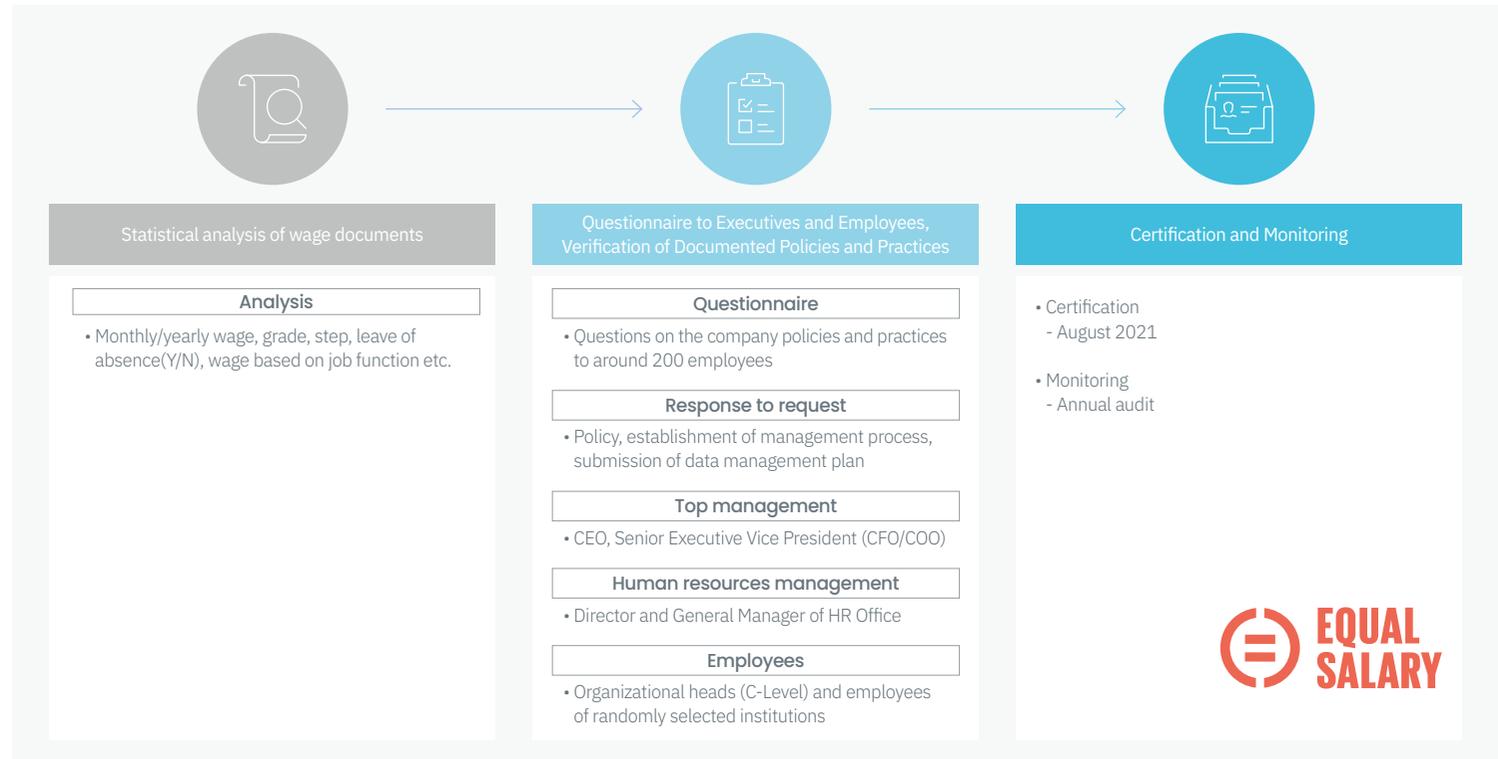
We run policies and programs related to birth and childcare to make sure female employees’ career is not interrupted by birth or childcare. Maternity leave is automatically applied for female executives or employees in birth leave and anyone who has a child under the age of eight can go on a childcare leave for up to two years. We also support KRW 1 million in the first year after birth and KRW 2 million in the second year. Other policies such as in-house daycare center, childcare allowance (KRW 0.2 million for first, second child, KRW 0.3 million for third child), leave of absence due to birth (KRW 1 million a month) are available for female employees upon pregnancy, support for infertility medical treatment expense, etc. are in place to help our employees strike work-life balance and be more engaged to their work.

Average Female Employee Tenure



* Based on full-time employees and as of 2022

Process to Obtain Equal Salary Certification



Employee Diversity and Inclusion

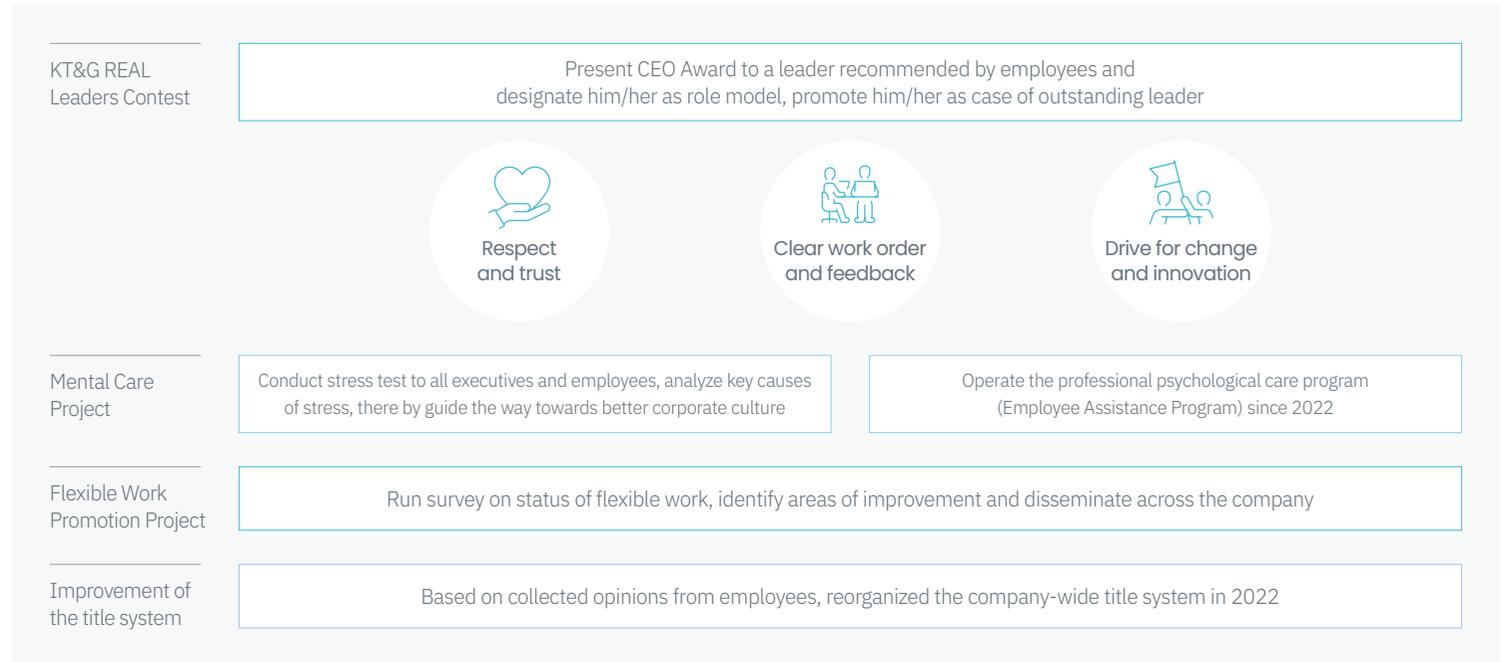
Intergenerational Convergence

SangSang Junior Board | In May 2021, KT&G reorganized SangSang Realization Committee, a body dedicated to improving corporate culture, and launched the first “SangSang Junior Board” represented by 10 employees in their 20s and 30s. We are now pursuing programs to create a culture that embraces the various backgrounds of employees, such as gender, race, experience, and age, centered on the SangSang Junior Board with the goal of establishing D&I of our own.

SangSang Junior Board represents the younger generation as next-generation leaders to communicate with management and contributes to the establishment of a horizontal organizational culture. We promote campaigns to create a culture that respects and embraces diversity and a culture that is dynamic and innovative, and we make management suggestions to improve the organizational culture directly to upper management. From 2023, based on employee votes, we select “D&I, Imagine a Better Tomorrow” as the D&I slogan of KT&G, and we hold a D&I pledge for all employees every year. In addition, we plan to strengthen communication to achieve our vision of becoming a global top-tier company and promote advanced two-way and strategic communication to enhance our employees’ work engagement.

CA Activities | KT&G launched CA (Change Agent), consisting of 19 employees representing sales agencies and plants across the country, to develop organizational culture improvement activities at the organizational level. Going forward, we will continue to take the lead in forming an organizational culture with happy employees.

SangSang Junior Board Organizational Culture Campaign



REAL Leaders Contest



SangSang Junior Board

Employee Diversity and Inclusion

A Culture of Mutual Respect and Communication between Labor and Management

| KT&G respects freedom of assembly as specified in International Labor Organization Conventions and domestic Labor Act. The company also guarantees free activities by the labor union. KT&G labor union is an industry-based labor union under the Federation of Korean Trade Unions. The labor union of the National Tobacco and Ginseng Corporation is an industrial union¹⁾ under the Federation of Korean Trade Unions, which was established in 1958 according to the formation standards of the Federation of Monopoly Bureau Labor Unions, and as of the end of December 2022, this union has 3,640 members, 100% of people subject to the union membership. Every year, labor union and the company open discussions on various agendas including HR, wage, fringe benefits, occupational safety and social contribution at the collective bargaining and produce solutions for improvement. Also, the two parties share KT&G’s mid-to long-term strategies set on the basis of business environment outlook and strategic directions in order to build a common ground for a brighter future. The management and labor union hold quarterly labor-management council, sessions with union members on as-needed basis. During COVID-19 emergency labor-management council meetings were held many times to respond to the pandemic situation by introducing flexible work hours, telecommuting and various other support measures for executives and employees.

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

Status of Labor Union Membership



* As of December 31, 2022, based on the subjects to membership²⁾

¹⁾ Unlike company unions established on a single business or workplace basis, a nation-wide trade union unites workers in the same industry across the country
²⁾ Full-time employees, excluding those who are subject to exclusion under the Labor Union and Labor Relations Adjustment Act (executives and managers who work for the employer regarding matters concerning the employer, managers of the business, or workers of the business, and those who work in the departments of human resources, audit, business management, legal affairs, etc.)
³⁾ A system that manages attendance, progress, results, etc. online

Cultural Diversity

In pursuit of successful “glocalization”, KT&G supports cultural inclusiveness as a global company with nine overseas subsidiaries and one overseas office. Accordingly, we enable our employees to take opportunities to grow into leaders of local subsidiaries while also running programs designed to develop their global competency and adapt to different cultures.

“Global Mobility” – Overseas Training Program for Core Talent

| Since 2016, KT&G has invited employees with outstanding abilities from overseas subsidiaries to Korea and operated globalization programs such as understanding the global business of companies other than the country they belong to and Korea and other cultures, training on job competency reinforcement such as marketing, brand, and sales, raining on global leadership competency, training on excellent sales and manufacturing management systems in Korea and enhancing loyalty. As of 2023, we are conducting a mobility education program to train next-generation global leaders by developing from the existing short-term education center to a global mobility strategy perspective. We operate various and in-depth education and competency development programs such as seeking ways to improve from a global perspective through dispatching employees of key duties from overseas subsidiaries to Korea to work together with employees from the head office in Korea, experience the company’s marketing, sales, and HR systems firsthand, and project collaboration.

Major Training Course for Overseas Employees

Category	Course (Content)	Note
Understanding of the company and business	Understating of KT&G Way, core philosophy, value chain, etc.	Online
Management philosophy and ethical management	Code of conduct, whistle blowing, etc.	Online
Duty	Ethical dales, manufacturing OP manual, global marketing checklist, etc.	Online
Core talent	Global MVP, Mobility, Indonesian Young Motivation Program, etc.	Offline
Common	Onboarding program for new hires, ERP, etc.	On/offline

In all overseas subsidiaries, we run onboarding programs for adaptation of locally-hired employees to the corporate culture, understanding of KT&G Group’s business and acquisition of KT&G Way and organizational culture for new hires, and basic job competency development. We also offer a wide range of job training such as sales and marketing, negotiation, communication, etc. In the head office, we provide major educational content by establishing “G-KISS”, an LMS (Learning Management System)³⁾ of overseas subsidiaries. In addition, training managers at each subsidiary and head office are closely communicating and collaborating through monthly video meetings to ensure smooth and timely training for overseas corporations.

“Global Zoom-in” – Card News to Introduce Global Business and Culture

KT&G is expanding related communications to enhance all employees’ understanding of the global market and business expansion and to establish a global mindset. We have been operating a new “Global Zoom-in” content that shares an introduction to the culture and related businesses of overseas countries where there are local corporations and branches to employees in the form of card news. In addition, through video content in the form of a talk show with employees who have had experience in dispatching expatriates, we have shared work cases that experienced cultural diversity in the local area. This will enable us to create a foundation for an inclusive culture where we work together with colleagues from various cultures by enhancing not only our understanding of business but also our understanding of the co-workers and cultures we work with.



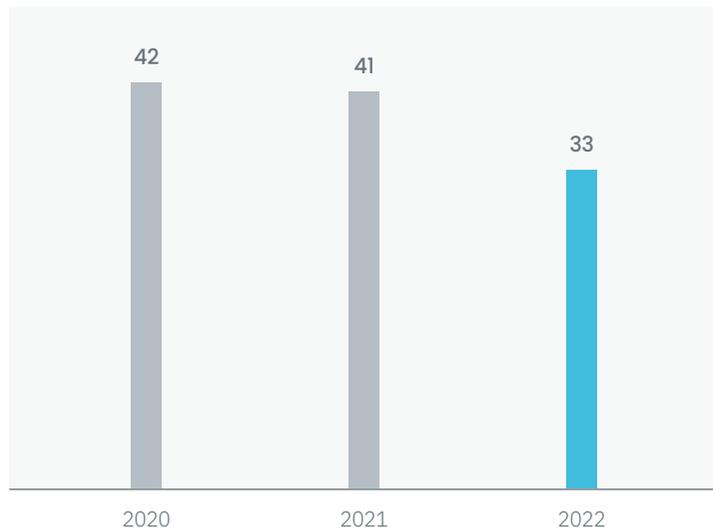
Training to accept cultural diversity (Global Mobility)

Employee Diversity and Inclusion

Consideration for the Socially Vulnerable | KT&G operates a high school graduate recruitment and retiree re-employment system to contribute to solving the employment crisis by providing fair opportunities without discriminating against the underprivileged in employment and fulfilling our corporate responsibility to our community. We consider the conflicts within the organization that may arise in the process of expanding employment for the socially vulnerable as a company-wide issue, not an individual issue, and operate a worksite mentoring program to promote convergence.

Support and Education for Prospective Retirees | In order to help our employees plan out their second life after retirement, we help them prepare to start a business or change jobs through the “job change support” system while in office, and we continue to provide customized support for employees by providing training once every six months for those who are scheduled to retire in the current year.

Re-employment Status of Retirees (Unit: Persons)



Strengthening Employee Communication

Improvement of Organizational Culture

KT&G CI (Culture Index) Diagnosis | KT&G strives to listen to the opinions of its employees and incorporate them in its management to create an advanced organizational culture at a global level. In order to systematically manage the organizational culture, we developed KT&G CI, which consists of four areas – corporate vision, leadership, working methods, employee relations – and diagnosed the current status of the organizational culture in 2020. Based on the opinions received through this, we are planning and implementing various programs. Based on the initially designed CI, KT&G intends to conduct an effective organizational culture diagnosis by constantly updating the CI by continuously reflecting global trends and internal issues. Through this, we identify the current awareness level of employees related to our organizational culture and analyze the trend of changes to promote systematic organizational culture improvement.

Organizational Culture and D&I Integrated Diagnosis Design | In order to enhance interest in D&I within our organization, KT&G expanded and reorganized the “employee relationship” area in the existing KT&G CI into the “diversity and inclusion (D&I)” to conduct an organizational culture diagnosis in 2022. In addition to identifying the current state of D&I within the organization and improvements through the diagnosis results, the diagnostic questionnaire itself served as an opportunity to spread the D&I culture at KT&G. We also selected a D&I slogan by taking the growing level of interest both internally and externally related to D&I into consideration, and made an employee pledge as well. Going forward, we plan to ensure that our organizational culture including D&I can continue to develop based on a series of processes such as CI updates and follow-up activities.

Results of the KT&G CI Diagnosis in 2022 | In 2022, the KT&G CI diagnosis went through the process of verifying the reliability of the CI composition and analysis of the results through an external professional company. Based on the KT&G CI diagnosis derived through this as a meaningful result, the department in charge is establishing and conducting various organizational culture improvement activity plans. We help our leaders improve their capabilities by delivering examples of the leader’s role in the organization, organizational management methods, and coaching skills through the publication of Leader’s Insight, a customized corporate culture newsletter targeting managers every month. In addition, to improve the flow of information in the company, we operate the KT&G Wiki platform, a collection of various information such as FAQs for each department and company PR content. To improve the reporting culture, we also introduced smart TVs for pilot organizations. Moving forward, we will continue to create a good organizational culture to work through effective follow-up activities based on the results of organizational culture diagnosis.



MZ Generation (Millennials and Generation Z) and Community Culture

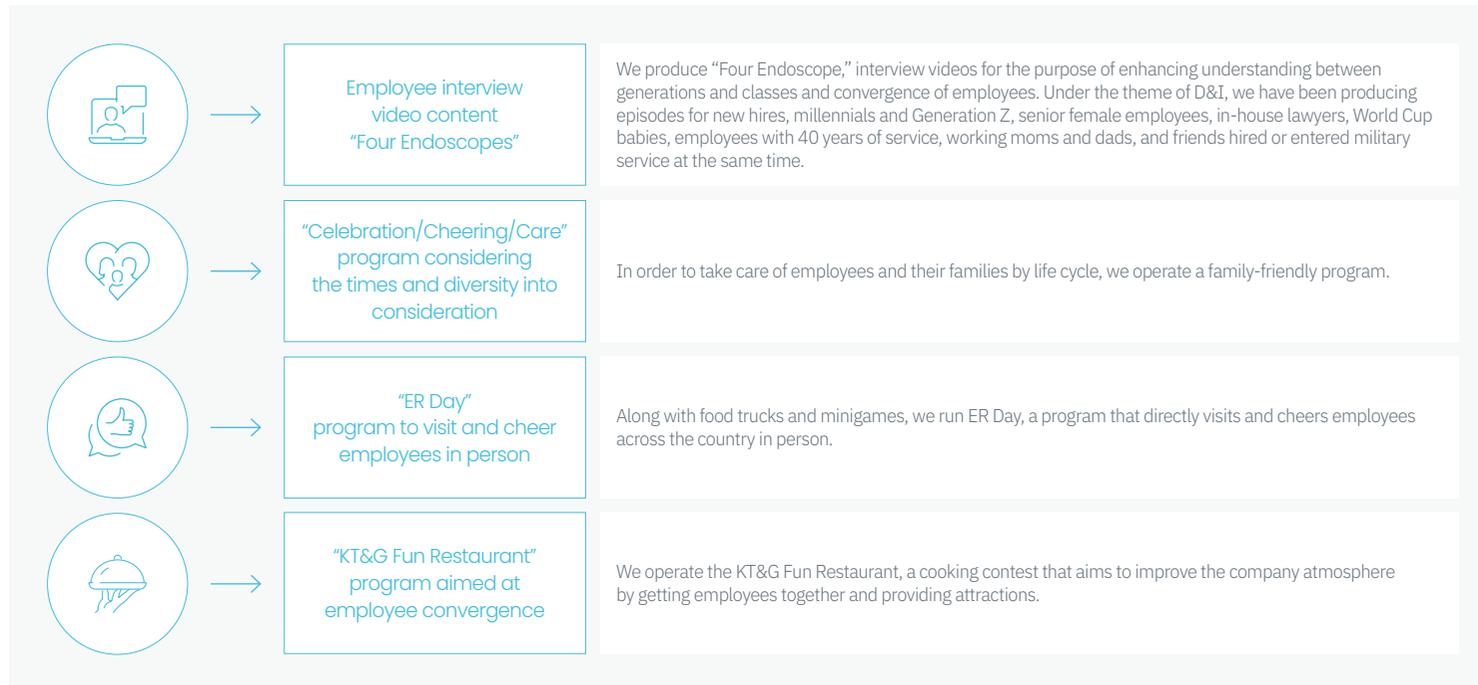
Employee Diversity and Inclusion

Expanding Employee Communication

Employee Relations (ER) | In April 2021, KT&G reorganized the Department of Communication and Empathy, an in-house communication department that has been operated since 2015, into the ER Team to create an advanced organizational culture at the global level. The ER Team is promoting various programs such as promoting family-friendly management, applying smart work methods, and developing employee convergence content to create a good working environment so that each employee can build a positive relationship with work, colleagues, and the company.

Inter-generational Communication Culture | KT&G creates an "All Together" organizational culture by holding event-type inhouse competitions that allow all employees to get together to enhance employees' understanding between generations and classes. Since 2022, we have operated the "Fun Restaurant" a cooking competition, to induce exchanges and physical contact among employees. Menu of the winner was introduced as a special menu at the inhouse cafeteria, which led to active communication among employees. In addition, we continue to produce and share content such as Four Endoscopes, and Baek's Café to listen to the stories of a wide variety of employees in our company so that employees can naturally recognize the diversity of their colleagues. We will continue exploring diverse contents at the right time with which everyone can communicate, build harmony with each other, hence create a more flexible organizational culture.

Employee Cheer-up Programs



KT&G Fun Restaurant aimed at employee convergence

Attraction of Talents and Capacity Building

Core Talent Attraction and Development Strategy

Talent Attraction and Development Philosophy

Directions and Strategy for Talent Attraction | KT&G has established an effective talent attraction and retention strategy according to the type and scale of talents required to secure talents who meet the ideal of right people represented by “I am C.E.O (Challenge, Execute, Optimize)”, and accordingly screens applicants for each job position and field based on this strategy. In the past, we mainly focused on regular open recruitment but have changed the method to include occasional recruitment and career-based recruitment with the adoption of a job/competency-based recruitment strategy. In addition, KT&G recruits talents on a more objective and fair basis, having introduced an AI-oriented interview method based on each applicant’s competency and suitability for a given field. We also prevent unreasonable discrimination by operating a new method of blind recruitment that does not provide evaluators with information that may act as a bias factor during screening, such as the applicant’s gender, age, and region of origin, regardless of the job requirements. KT&G evaluates and selects people with talent based on each applicant’s suitability for the job. In addition, we are increasing the rationality and effectiveness of our recruitment system by gathering and reflecting the opinions of applicants and successful applicants about matters for improvement in the recruitment process.

In addition, KT&G has formed the HR Planning Team under the Strategy & Planning HQ as a part of its efforts to achieve the company’s mid-to-long term vision and grow core businesses. The Team is designed to contribute to advancing the company’s HR system and revamping KT&G as a global company, and it will play a key role in supporting KT&G employees in their efforts to secure the highest level of expertise and a global mindset by innovating HR system and organizational culture. Furthermore, we will take the lead in achieving balanced growth as a global company by transferring know-how and expertise between each of our overseas business sites and placing and operating people of talent systematically, by establishing a global HR standard that will enable global mobility in our business sites across the globe.

CDP-based Talent Cultivation and Evaluation | KT&G manages and nurtures human resources based on the CDP (Career Development Program) plans for its employees, and conducts performance and competency evaluations with a focus on jobs. We encourage our employees to create synergy by aligning their growth goals with the company’s HR nurturing plan in order to achieve the company vision. We also assist individual employee in setting and implementing goals for their own career development so that their growth and organizational value can be increased at the same time.

Employee Evaluation and Compensation System

Fair Performance Evaluation | To evaluate employee performance objectively and fairly, KT&G operates an absolute evaluation system that does not place restrictions on top scorers. KT&G is striving to improve the performance of the entire organization and to promote a cooperative work culture by encouraging mutual collaboration and employee growth based on the absolute evaluation system, rather than conducting a competitive assessment of each employee’s performance. KT&G also operates the Evaluation Committee to prevent biased evaluation by a small number of evaluators, and is making efforts to ensure that the evaluatees can fully understand and accommodate the evaluation results based on the formal objection system. We conduct performance and competency evaluations of all employees below grade 1 every year based on this system and completed the evaluations targeting all employees for three consecutive years in 2022. For the performance and competency evaluation, we encourage our employees to set goals on their own initiative and induce those in high positions to give feedback to evaluatees at least once per quarter by applying a flexible method of performance management and work consultation. We also evaluate the performance of each organization as well as that of individual employees, which is linked to the compensation system, so that fair evaluation and compensation can be conducted at both the organizational and the individual level.

Fair Compensation | KT&G runs a fair compensation system based on value of each job and performance. Job grade is classified by degree of complexity and competency level is match based on job skill level by grade to determine wage based on job function. Individual incentive rate is set based on work performance of the previous year, which is then used to calculate performance payment for an improvement in the compensation structure.

Profit Sharing System | KT&G has set in place a profit-sharing system in which a certain portion of the company’s profits are shared with its employees under labor-management agreements. The system is aimed at enabling our employees to have a sense of pride and helping them contributing to creating corporate performance with great work engagement towards a common direction.

 [Model People of KT&G](#)
 [KT&G Recruiting Guide](#)



Attraction of Talents and Capacity Building

Programs to Attract and Nurture Core Talents

Talent Nurturing Aligned with the Company Strategy KT&G is concentrating on fostering experts to implement its main strategy of the advancement of the overseas tobacco business to realize its vision of becoming a global top-tier player. In addition, we are reorganizing and strengthening the education system to allow its employees to strengthen their expertise and understand and develop insights into the global market at the same time. To this end, we endeavor to nurture human resources required for global business by planning and running education programs designed to strengthen the competencies required for each stage and area of global business.

Employee Education System KT&G's education system is divided into common training, leadership training, and job training. Common training, which includes KT&G Way training and common job competency training, allows executives and employees to learn more about organizational values and build basic competency needed to do his/her job.

Leadership training is based on R&R (Role and Responsibility) by hierarchy with the goal to bolster leadership competency and cultivate future leaders. Job training offers customized courses by area and diverse learning contents with the goal to strengthen job expertise. KT&G also develops and operates separate training programs for expatriates and local employees of its overseas subsidiaries to customized HR cultivation for global business.

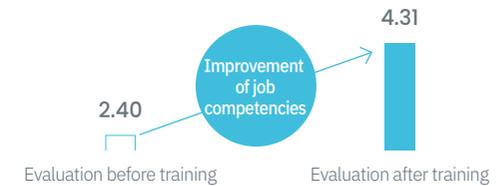
Business-linked Training KT&G is implementing training programs linked to business that are designed to produce business achievements and improve its employees' competencies. Various teaching methods are used during the training program, such as lectures, projects and e-learning, which are suitable for securing expertise for the global growth of the core businesses as declared under KT&G's New Vision.

<p>Common Training</p>	<ul style="list-style-type: none"> Core Value Training Training on KT&G Way, which is the corporate value structure, and core values are provided by grade. KT&G runs value internalization and practical courses for new employees and a core value refresher course for all its employees. Business Management Training KT&G develops and operates its training system that links strategic thinking and business communication to improve the strategic planning ability of group employees. This training program is subdivided into beginner, intermediate, and advanced courses, each of which is linked to help trainees understand the Group's strategy and strengthen their strategic way of thinking.
<p>Leadership Training</p>	<p>KT&G is building a global leadership model based on its position to flexibly respond to different organizational cultures in other regions and countries and to train people who can actively respond to changes in the global business environment in KT&G's unique corporate culture. In addition, we are building a two-way leadership model that enables the communication between leaders and employees and a business-oriented leadership system. We share organization's vision and business strategies to new hires including experienced employees to help them settle into a new working environment and improve understanding of the new role and work upon promotion. All these represent our efforts to grow together with executives and employees. In 2022, 2,484 people attended a cumulative total of 35,997 hours of training.</p>
<p>Job Training</p>	<p>KT&G provides job competency development guide to each HQ in order to clearly define competency required for job based on which to set and execute job training in an organized manner. Human Resources Development Institute develops and provides advanced training programs in collaboration with HQs, which serves as the basics for each HQ to implement training in their organization. In particular, we operated the global marketing master's course and the audit expert course in 2022 to increase expertise, which 6,808 people attended for a cumulative total of 96,304 hours.</p>
<p>Global Training</p>	<ul style="list-style-type: none"> Expatriate training KT&G broadly separates expatriates into candidate groups and dispatch groups, classifies the necessary training for each group, and provides training designed to help them prepare for their work in advance. The training program for candidate groups is composed of language study, understanding global business, and strengthening global job competencies so that they can develop the necessary skills as persons who will lead global business for 6-24 months. For dispatch groups whose dispatch to overseas subsidiaries has been confirmed, the training program is linked to practical business training to help them adapt quickly to their work once they are dispatched. Training for local employees of overseas subsidiaries As its global business is expanding, KT&G strives to support the local employees of each overseas subsidiary by organizing training programs with a focus on core values and common competencies so that they can understand KT&G and acquire the basic competencies required to perform their jobs. KT&G also invites key employees at overseas subsidiaries to Korea and gives them an opportunity to increase their loyalty to the organization and establish a vision.

Case of Business-linked Training

Global Marketing Master's Course | To nurture global marketers, KT&G is operating the Global Marketing Master's Course, which is composed of theoretical education and practical courses linked to the specialty of the industry and the company's marketing strategies. The course equips trainees with experience in establishing global marketing strategies and enhances the specialties of key talents in the marketing field. Participants in this course are recommended and selected for each business division. In 2022, 17 people participated in and completed the course. KT&G defines the necessary competencies for global marketers to measure and verify the effectiveness of the training program, and comparatively measures their competencies before and after the course, based on such a definition.

Effectiveness of the Global Marketing Master's Course (Unit: Points)



* Based on a 5-point scale; and based on task performance before/after training

BM Essential Course | KT&G operates the BM Essential Course to help the trainees understand the company value chain, such as the brand, R&D, manufacturing, and raw materials, and to enhance BM (Brand Manager) competency and global brand competitiveness by improving their specialty in marketing. The BM Essential Course is designed for employees with fewer than five years of experiences in the tobacco marketing field. It is composed of a program designed to strengthen the trainees' ability to establish consumer strategies based on a sound understanding of the consumer survey system, and a program that teaches trainees about the need to check key matters to be considered, based on an understanding of the company's value chain. The goal of the course is to strengthen the trainees' competence in understanding and performing BM tasks (brand management competency, PLM systems and processes), foster brand managers systematically, and lay solid foundations for management. A total of 27 people including five employees working in the Marketing HQ for less than five years and voluntary applicants took and completed the course in 2022.

Attraction of Talents and Capacity Building

Self-directed Competency Development KT&G flexibly employs diverse teaching methods to provide customized learning for its employees, such as face-to-face/non-face-to-face, outsourced education, regular e-learning, and micro-learning, etc., depending on the purpose and characteristics of the education. We also provide tools for diagnosing employees' competency for each job in order to strengthen their self-directed competency, and designs and implements a competency development roadmap and learning process according to the results of the diagnosis. Our regular e-learning program consists of about 1,200 courses, such as reading communication and telephone English, to help individual employees develop their competencies, and employees are allowed to apply for and study up to two courses every month. KT&G also supports employees in their efforts to improve their competencies by continuously identifying their needs and providing the necessary training, as a way to organize customized training programs based on the company's management policies and its employees' needs.



Understanding ESG Management KT&G aims to increase its sustainability by providing education on the concept and trends of ESG to help employees understand the essence of ESG management, and by realizing a society centered on "people," "future" and "happiness" so as to keep pace with the company-wide policy of promoting and enhancing ESG management. KT&G also plans ESG training for local employees at its overseas subsidiaries.

Employees' Satisfaction with Training KT&G conducts a survey of its employees' satisfaction with education and training every year, and continuously supplements and improves the training programs based on the results.

Training to Improve the Competencies of Employees of the Group Subsidiaries KT&G has been running the "Group Business Competency Reinforcement Course" for the employees of the Group subsidiaries since April 2023 in a bid to enhance the Group's business synergy and to manage and nurture core talents at the group level. This training course aims to help key talents to identify and establish action strategies necessary for securing future growth engines for the Group, by understanding the current status of each group business and the comprehensive mid-to-long-term strategic direction. KT&G provides a three-step learning course (common education, specialized education, and task execution) to effectively operate the program, and enhances trainees' participation and immersion in their learning activities by organizing training contents centered on internal/external professional instructors.

Employee Benefits Program

Flexible Work System | KT&G implements various flexible work systems according to the job characteristics, convenience, and preferences of individual employees, such as selective working-hours system, staggered-hours system, compensatory leave system, and time off substitution. All employees are free to choose their type of work. We have been supporting the establishment and internalization of each work system through continuous monitoring, promotion and guidance activities since the introduction of the flexible work system, while also switching to more efficient ways of working to achieve its business and performance goals.

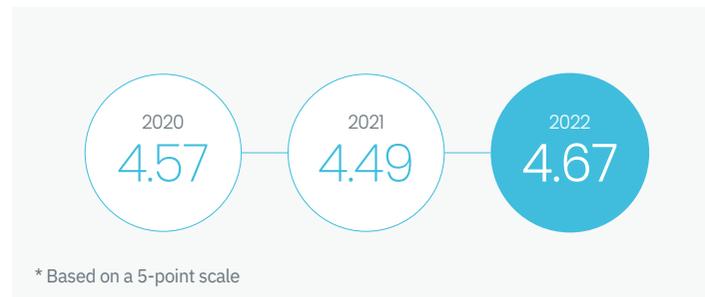
Reduced Working Hours System | KT&G's employees can use the reduced working-hours system during pregnancy and parenting, or for other reasons. Female employees within 12 weeks or after 36 weeks of pregnancy can reduce their working hours without any reduction in wages, while employees eligible for parental leave can apply for reduced work hours instead of parental leave. In addition, since employees can apply for short-time work for such reasons as medical treatment, family care, preparation for retirement, and study, KT&G is making efforts to improve employees' work-life balance based on a more flexible working environment.

Remote Work System | KT&G has changed both the place and the way of working by introducing the remote work system. All employees can apply to work from home for personal circumstances or other reasons, in addition to preventing infectious diseases such as COVID-19. To this end, we are making concerted efforts, such as completely replacing existing desktop PCs with laptops, creating a virtual desktop infrastructure, and preparing work manuals for those who are working from home, so that employees can perform their work seamlessly regardless of the time and place.

Maternity Protection and Childcare Support | KT&G operates a maternity protection system customized for the life cycle to protect workers who are pregnant or about to give birth. During pregnancy, KT&G provides maternity leave (from the confirmation date of pregnancy to childbirth), a maternity leave subsidy, infertility treatment leave, and support for in vitro fertilization procedures for infertile couples. During the maternity period, KT&G supports pre/post maternity leave, spouse maternity leave, postpartum care center expenses, and congratulatory gifts for childbirth. Since the introduction of the automatic parental leave system in 2015, maternity leave automatically changes to parental leave without a separate application process, and the parental leave subsidy is provided for up to the second year of leave. In addition, we provide a monthly childcare subsidy for employees with children under the age of 6 (duplicate and additional payments for multi-child families) in order to reduce the economic burden of raising children. We also have established a company daycare center at the Shintanjin Plant (Daejeon) and the Seoul Office Building (Gangnam-gu) to help employees achieve a healthy and balanced work-family life.

Employee Survey on Training Satisfaction

(Unit: Points)



Workplace Safety and Health

Workplace Safety and Health Management System Safety & Health Management Policy

Safety & Health Management Principles and Goals KT&G establishes an incident rate target and strives to achieve it in order to ensure the safety of all employees and stakeholders and reduce incident occurrence. To this end, we manage the average incident rate including minor incidents; this is more stringent than the government's incident rate index, which is calculated based on the approval of industrial incidents. We are also making continuous efforts to reduce disasters and prevent business risks by aiming for no serious disaster occurrence to respond to the issues raised by the enactment of the Serious Disaster Punishment Act.

Safety and Health Organization and Roles KT&G reorganized the safety and health management system for each organization (HQs in head office, plants, regional sales offices, etc.) under the management executive (Overall Control Division) and newly established the Safety & Health Management Office as a company-wide exclusive organization in 2021.

KT&G Safety & Health Management Principles

KT&G Corporation pledges and acts as follows in order to preserve health and happiness of all executives and employees and maximize values of the Company and every member of the Company by deeply recognizing that safety and health is the basic element of business management, rooting down business management system around safety and health and engaging in continuous improvement and preventive activities, thereby rise into the leading global company.

1. KT&G strives to prevent incident and health hazards by providing safe and pleasant environment to all executives, employees and stakeholders.
2. KT&G establishes and implements internal regulations that satisfy laws related to safety and health and other requirements in good faith.
3. KT&G provides appropriate resources to improve safety and health and nurtures safety mindset of executives and employees and their capabilities in acting in safe behavior through training, thereby encourage their proactive engagement.
4. KT&G continuously engages in activities to reduce hazards and risks by evaluating impact on safety and health in advance, establishing goals and implementing action plans.

As a measure to reinforce safety management, we also hired 16 expertise for high-risk workplaces such as plants from 2022 to May 2023. As a result, there are 35 safety and health experts and 29 safety managers. KT&G also fully prepares for disaster prevention activities, such as establishing a new industrial safety and health team for each factory and entrusting safety and health management to specialized companies in each regional headquarters.

We have operated the Supplier Safety and Health Consultative Body participated by the Industrial Safety and Health Commission under the Occupational Safety & Health Organization and supplier workers, to listen to workers' opinions and deliberate and decide on major safety and health issues. The Industrial Safety and Health Commission is operated at the business sites with more than 100 full-time workers on a quarterly basis, and same number of committee members from the labor and management to mainly discuss worker's suggestions, etc. Furthermore, KT&G actively communicates with various stakeholders such as workers and suppliers, and incorporates their opinions in the company policy. To this end, we open a bulletin board for safety and health communication on the company website to listen to the opinions of the general public.

In addition, to operate the safety and health management system continuously, KT&G identifies harmful risk factors and carries out improvement activities to protect the safety and health of workers and our stakeholders, and is making efforts for stable management activities by complying with safety and health-related laws such as the Serious Disaster Punishment Act. We also have devised safety and health plans throughout the company and reports to and obtains approval from the board of directors.

KT&G Incident Rate Target

Reducing incident rate from 2022

by **22%**

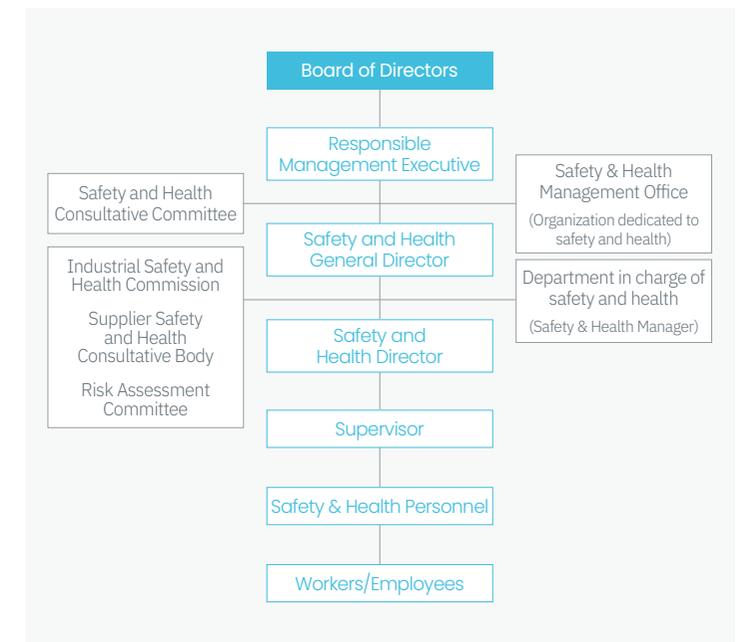


Based on the Korean Standard Industrial Classification, achieving the lowest incident rate in the same industry

0.30% by 2026

Safety & Health Organization Chart

Category	HQs and Groups in Head Office	Manufacturing/Raw Materials Plants	Regional Business Headquarters
Responsible Management Executive	Chief Operating Officer (COO)		
Safety and Health (General) Director	Head of HQ / Head of Group, Director of Department	Head of Plant	HQ Head
Safety and Health Director	Director of Department	-	-
Supervisor	Director/ Team Leader of Department, Head of a Research Institute	Head/Director/ Team Leader of Department	Director of Sales, Branch/Shop Manager, SangSang Team Leader, DPS Center Director
Safety & Health Manager	Safety & Health Management Office	Occupational Safety and Health Team	Entrusting to specialized companies
Safety & Health Personnel	Safety Work Personnel	-	Safety Work Personnel



Workplace Safety and Health

Safety & Health Risk Management Based on the safety and health management system, KT&G has established the operating standards by enacting/revising company regulations in accordance with the law. Five plants (Sintanjin, Yeongju, Gwangju, Cheonan, and Gimcheon) have maintained the ISO 45001 (Safety and Health Management System) international standard certification since 2021 to advance safety and health management. We also have conducted a company-wide internal audit on safety and health management systems and compliance with safety and health-related laws once every half-year since 2022 and incorporated the result in management evaluation for each organization (HQs in head office, plants, regional sales offices, etc.). When an issue arises in industrial disaster prevention and safety & health, we check compliance with laws and safety and health management systems.

Safety & Health Management System

 <p>Plan (4 items)</p>	<ul style="list-style-type: none"> Establishing safety & health goals and management policies Forming an organization and experts dedicated to safety & health Establishing procedures for improving harmful risk factors Compiling safety and health budgets
 <p>Do (6 items)</p>	<ul style="list-style-type: none"> Establishing and implementing measures to prevent recurrence Developing manuals and providing training to respond to urgent risks Evaluating legal manager's performance Securing safety & health when contracting with a third-party Listening to workers' opinions Implementing safety & health training
 <p>Check (2 items)</p>	<ul style="list-style-type: none"> Fulfilling the obligations stipulated in safety & health-related laws and regulations Checking the implementation of the safety & health management system
 <p>Action (1 item)</p>	<ul style="list-style-type: none"> Implementing improvement and corrective measures instructed by the administrative agency

In addition, we make continuous efforts to provide a safe and healthy work environment for employees, by securing facility and work safety, introducing advanced safety and health systems, establishing internal/external cooperation systems, improving risk factors for health hazards, and conducting fire prevention activities. As of 2022, we maintain the incident rate at a lower level than the industry average by adopting the management policy focusing on safety and health first and by establishing a safety and health management system based on P-D-C-A to prevent disasters and control legal risks.

Establishment/Revision Status and Plan of Company Regulation in 2022

Category	Regional Sales Offices
Established in 2022	<ul style="list-style-type: none"> [Regulations] Safety & health management regulations [Guidelines] Guidelines for managing disaster reporting and recurrence prevention measures, Guidelines for identifying, improving, and controlling hazard risk factors, Guidelines for complying with safety and health-related laws, Guidelines for safety and health (general) manager and management supervisor work, Guidelines for prior safety/regulation evaluation, Guidelines for machinery/facility safety protection, and Overseas resident's manual for infectious disease prevention and management
Revised in 2022	<ul style="list-style-type: none"> [Regulations] Budget management regulations [Guidelines] Guidelines for arbitrary decision by delegation, Guidelines for integrating construction contracts
To be established in 2023	<ul style="list-style-type: none"> [Guidelines] Guidelines for safety work permit, Guidelines for managing materials for Material Safety Data Sheet, Guidelines for managing confined space, Guidelines for fire management, etc.

Inspection on Implementation of Safety & Health Management System and Compliance with Safety & Health-related Laws in 2022

Category	Target	Period	Inspection items
First half	Entire organization (HQs in head office, plants, regional sales offices, etc.)	May 10-24	<ul style="list-style-type: none"> Safety and health management system and compliance with related laws
Second half		Oct. 24-Nov. 22	<ul style="list-style-type: none"> On-site safety and health management

Safety & Health Activities and Performance

Securing Facility and Work Safety

Measures to Ensure Facility and Work Safety | KT&G has established guidelines for the preliminary safety regulation evaluation consisting of 20 areas, including safety, health, and firefighting, and is operating inspection procedures, when changes in the business environment are expected due to the installation of hazardous facilities such as equipment and buildings, in order to ensure safety in advance and to prevent the omission of legal licenses. We are also operating measures to protect workers from the hazards of the facility, by enacting machine/facility safety protection guidelines as the standard for safety measures such as protective devices required after installation.

Safe Work Permit System | KT&G operates a permit system for safety measures that must be checked during harmful and dangerous work to remove risks. For example, if no permission for safety is ensured for fires, confined spaces of work, power outages, excavations, radiation, high places of work, and heavy equipment work, work is prohibited to prevent possible exposure to hazardous work. In 2023, we plan to establish management procedures such as the guidelines for safety work permit that include subcontractors and suppliers.

Workplace Safety and Health

Risk Assessment and Other Risk Management Activities | KT&G conducts risk assessment once every six months to identify harmful risk factors in its business sites while also evaluating and measuring the risks of those factors before making improvements. For the risk assessment, all employees participate in identifying and improving harmful risk factors. The risk assessment is conducted in eight stages. We check whether the risk factors have been improved to eliminate the risk and carefully reviews the risk level before and after the improvement. If additional improvement is needed, we implement management measures that are reflected in the next risk assessment again. KT&G also identifies laws related to safety and health, which are applied to the workplace, to prevent legal risks, in addition to the risk assessment to protect workers from disasters, in order to improve insufficient matters through self-inspection once every six months.

Implementing Measures to Prevent Disaster Recurrence | When work-related incidents or disease occur, KT&G thoroughly investigates the cause of the incident, reports the result to the management execute, and takes measures to prevent a recurrence. In accordance with the guidelines for disaster reporting and recurrence prevention measure management established in 2022, we identify the cause by analyzing the disaster and carries out activities to prevent the incident fundamentally, such as informing the disaster case and spreading it throughout the company horizontally.

Strengthening PSM (Process Safety Management) | KT&G strives to take measures for preventing fires and explosions and complying with PSM legal standards at its business sites subject to PSM due to the use of inflammable materials, such as Sintanjin Plant, Sintanjin Plant 2, and Cheonan Plant. As a result, they were recognized for excellence by acquiring an S grade (previous M+ grade), which was upgraded compared to the previous evaluation, in the PSM workplace evaluation conducted by the Ministry of Employment and Labor in 2022. KT&G plans to implement fire and explosion prevention measures for non-applicable factories also, based on PSM management standards.

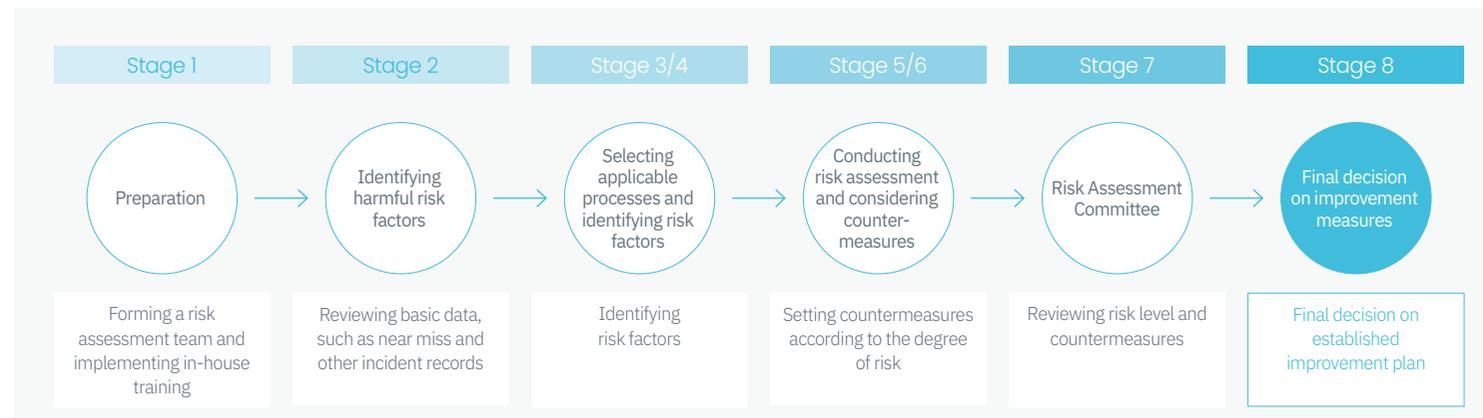
Adopting Advanced Safety & Health IT System | KT&G establishes an integrated management system based on the safety and health IT system, improves and simplifies safety and health management work, and checks the company-wide status, in order to respond to related risks more systematically.

Status of Health & Safety IT System Management

System category	Main content by field
Safety management	Safety work permit, risk assessment, incident management, emergency training, etc.
Health management	Material Safety Data Sheet registration, personal health management data, etc.
Chemical substance management	Status of chemical substances, review of laws when introducing chemical substances, etc.
Common field	Training plan and result management, data room operation, etc.

Safety & Health Education and Training | KT&G runs safety and health training on a regular basis and conducts additional safety and health training when hiring or changing work detail, to improve workers' safety and health capabilities. Furthermore, we implement separate training for legally appointed persons and those who are subject to special training, to provide differentiated training for trainees. Training subjects are sub-divided, such as Material Safety Data Sheet (MSDS), firefighting training, and emergency response drill, and customized training is provided for the industry type, such as manufacturing and sales. In 2023, we plan to introduce a procedure of the tool box meeting before work, which conducts safety training first before starting work, to internalize training and implement incident prevention activities.

Risk Assessment Implementation Stage



Workplace Safety and Health

Emergency Response System

KT&G is fully committed to the safety of its workplaces and employees by operating an emergency response system, including the establishment of emergency action plans and scenarios to cope with operational emergencies such as fires, power outages, and natural disasters such as floods and typhoons. We are improving our emergency response capabilities by conducting evacuation and emergency drill to minimize the loss of life and property and by preparing and utilizing damage recovery manuals for each situation in every business site so that damage can be ameliorated quickly in the event of a disaster.

Composition of Emergency Response System

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

Fire Prevention Activities

Conducting Special Firefighting Inspections | KT&G conducts a special firefighting inspection to prevent fires once a year in addition to legal inspections. In 2022, we identified room for improvement by checking plants and multi-use facilities visited by outsiders and are now implementing improvement activities by devising an investment plan for firefighting facility supplementation to eliminate the shortcomings by 2027. To keep firefighting facilities normal at all times, we plan to expand the organization subject to inspection to the regional sales offices and R&D HQ in 2023.

Establishing Fire Safety Management System | KT&G has established and is operating a company-wide fire safety management system to promote the improvement of company-wide fire prevention capabilities by establishing a unified the voluntary firefighting management system of each organization and presenting the standard for fire safety facility management. In 2023, we plan to establish a guideline for fire management and implement activities for guideline application.

Firefighting Consulting for High-Risk Business Sites | In 2023, KT&G plans to improve fire safety management to minimize the scale of damage in the event of a fire by identifying and analyzing various risk factors that exist in high-risk business sites such as plants as a way to respond in advance. We will also receive firefighting consulting, including fire and evacuation simulations, by diagnosing firefighting facilities and buildings, thereby strengthening firefighting safety management system.



Emergency drill (firefighting)



Safety and Health Advisory Committee

Establishment of Internal/External Cooperation System

Management of Supplier Safety and Health | KT&G operates a safety and health evaluation system for qualified suppliers in which disaster occurrence frequency, risk assessment, education/emergency management plan, plan for operating safety management, etc. to incorporate the supplier's safety management ability in the contract when a subcontractor/service contract is required with a supplier. We strive to prevent incidents involving supplier workers by improving suppliers' own safety management capabilities. To this end, we check the safety and health management capabilities of the supplier through safety and health evaluation and provides guidance and advice on shortcomings. In addition, we are doing our utmost to ensure that contractors fulfill their safety and health obligations by conducting joint inspections and operating a consultative group with suppliers for their safety management. In 2023, KT&G plans to establish a mutual prosperity cooperation program to prepare a system for integrated management of industrial incidents of main contractors and subcontractors.

Safety and Health Advisory Committee | KT&G operates an advisory committee to identify potential risks and consult on our safety and health policies every quarter. KT&G improves shortcomings using the consultation results and improves workplace capabilities by providing consultation on vulnerable areas.

Liability Insurance on Severe Corporate Incidents | KT&G purchased liability insurance on severe corporate incidents to minimize management risks in the event of a suspected severe incident and prepare a compensation plan for liability of reparation. We will endeavor to minimize related risks by providing prompt legal support using insurance, such as actively conducting innocence-proving activities and securing commutation factors for the Supreme Court, based on insurance.

Workplace Safety and Health

Employee Health Management

Health Promotion Programs

Healthcare Room KT&G operates a health management office within the company, which includes health managers (nurses) who work to maintain the health of employees by conducting health examinations, health consultations, first aid, health education, and work environment improvement. The health management office is equipped with essential facilities and equipment to ensure the proper safety and health management of employees and improve the convenience of visiting employees by preparing emergency medicines that can be provided without a prescription.

Health Check-up Support KT&G strives to maintain the safety and health of our employees by supporting annual health check-ups according to the company's welfare guidelines, in addition to the mandatory health check-up in accordance with the Occupational Safety and Health Act. We also conduct special health examinations for workers exposed to harmful factors (noise, night work, harmful substances, etc.). After the checkup is completed, we focus on the follow-up management of employees with suspected symptoms by analyzing the individual checkup results and providing education on occupational disease prevention, diet, and exercise.

Improving Health Hazard Factors

Chemical Substances Control | KT&G linked the pre-purchase safety assessment system with the SHE IT system before purchasing chemical substances to prevent workers' occupational incidents due to exposure to hazardous chemicals. In 2023, we plan to establish the administrative guidelines for materials subject to Material Safety Data Sheet to improve safety measures for handling. We will also implement activities to prevent industrial incidents due to chemicals by applying safety standards before purchase and during handling.

Prevention of Cerebrovascular Disease and Control of Occupational Stress

In 2023, KT&G will focus more on preventing occupational disease for high-risk groups by assessing pathogenesis risks to prevent cerebrovascular and cardiovascular diseases once a year and by running occupational stress tests at the same time.

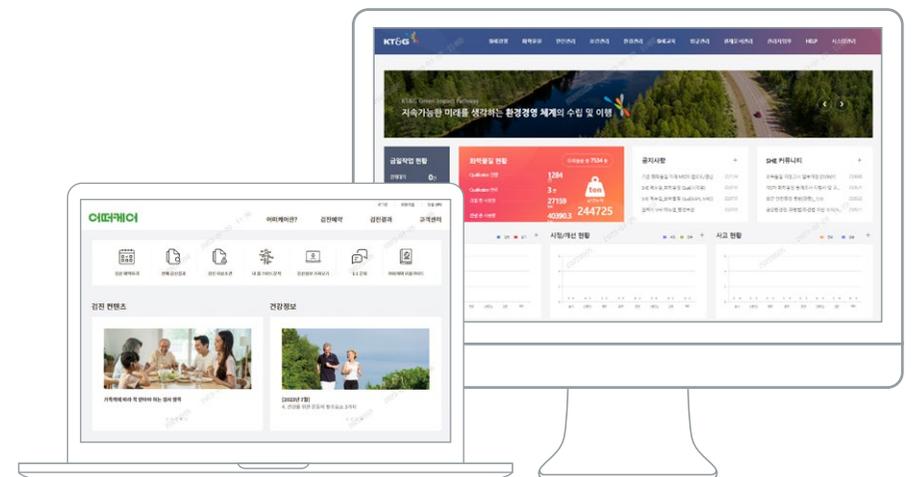
Fine Dust Control at Business Site | KT&G checked the current situation in 2022 to prevent respiratory diseases caused by exposure to fine dust, such as measuring the amount of fine dust quantity and checking the performance of the local ventilation system. In 2023, we are determined to work out a control plan and implement an improvement plan.

Health Check-up IT & Mobile System

KT&G introduced a health check-up IT & mobile system to improve follow-up management according to health check-up results and increase convenience for employees. They can make an appointment and manage the check-up progress in real-time using the IT & mobile system and check the follow-up management results after the check-up. In this way, we are actively promoting activities designed to prevent occupational diseases and promote the health of our employees.



Measuring fine dust at business sites



Health check-up IT system

SHE IT system (connected to health check-up IT system)

Social Contributions

Social Contribution Policy

KT&G is implementing diverse initiatives aimed at fostering enduring and positive transformations within society. This commitment is rooted in the belief that corporate management, grounded in symbiotic relations with society, fosters sustainable growth and longevity. KT&G assumes a proactive role in consistently generating societal benefits. This is achieved through the operation of tailor-made programs for communities, facilitated by a sustainable system of social contribution. We also acknowledge and fulfill our responsibilities as a member of local community, demonstrating active support and engagement in various sectors such as culture, art, welfare, scholarships, youth initiatives, and environment.

Mid-to Long-term Social Contribution Strategies and Goals

Recognizing the importance of corporate sustainability management, KT&G establishes and implements systematic strategies for community contribution with a focus on the department in charge of social contribution to realize the management philosophy of an “inclusive company”. Aligned with the “P-C-P (People-Community-Planet)” value framework, our social contribution strategy, we encourage personal development to facilitate social change and innovation (People); discover and resolve the issues of local community and seek win-win growth (Community); and are concerned with global issues and seek novel solutions (Planet). Based on these values, we will actively promote social problem-solving activities encompassing all social stratification.

KT& Social Contribution Strategy



Areas of Social Contribution Projects



Social Contributions

Mid-to Long-term Goals of Value Chain-linked CSR Activities

Achieving
KRW 10 billion
for social contribution
projects in value chain
contributions by 2025
(cumulative from
2022 to 2025)

2023 → 2024 → 2025



2023	2024	2025
<p> Installation of smoking room 591 (cumulative)</p>	<p> Installation of smoking room 676 (cumulative)</p>	<p> Installation of smoking room 766 (cumulative)</p>
<p> Installation of cigarette butt collection box 3,736 (cumulative)</p>	<p> Installation of cigarette butt collection box 4,736 (cumulative)</p>	<p> Installation of cigarette butt collection box 5,736 (cumulative)</p>
<p> Distribution of portable ashtray 222,000 (cumulative)</p>	<p> Distribution of portable ashtray 362,000 (cumulative)</p>	<p> Distribution of portable ashtray 512,000 (cumulative)</p>



<ul style="list-style-type: none"> • Marine environment protection project <ul style="list-style-type: none"> - Expand the scope of the "Adopt-A-Beach" Program (4 → 6) • Forestation at home and abroad <ul style="list-style-type: none"> - Wildfire recovery in Bonghwa-gun, Korea - Forestation to prevent desertification in Mongolia • CSR activities to preserve biodiversity in collaboration with the National Institute of Ecology <ul style="list-style-type: none"> - Implementing the 1st year project (Janggu catfish wetland protection) 	<ul style="list-style-type: none"> • Marine environment protection project <ul style="list-style-type: none"> - Expand the scope of the "Adopt-A-Beach" Program nationwide (6 → 7) • Continued forestation at home and abroad <ul style="list-style-type: none"> - At least one domestic and one overseas case, each • CSR activities to preserve biodiversity in collaboration with the National Institute of Ecology <ul style="list-style-type: none"> - Study on measuring 1st year project effectiveness - Implementing the 2nd year project 	<ul style="list-style-type: none"> • Marine environment protection project <ul style="list-style-type: none"> - Continue the operation of the "Adopt-A-Beach" Program nationwide • Continued forestation at home and abroad <ul style="list-style-type: none"> - At least one domestic and one overseas case, each • CSR activities to preserve biodiversity in collaboration with the National Institute of Ecology <ul style="list-style-type: none"> - Study on measuring 2nd year project effectiveness - Implementing the 3rd year project
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Social Contributions

Social Contribution Value Chain

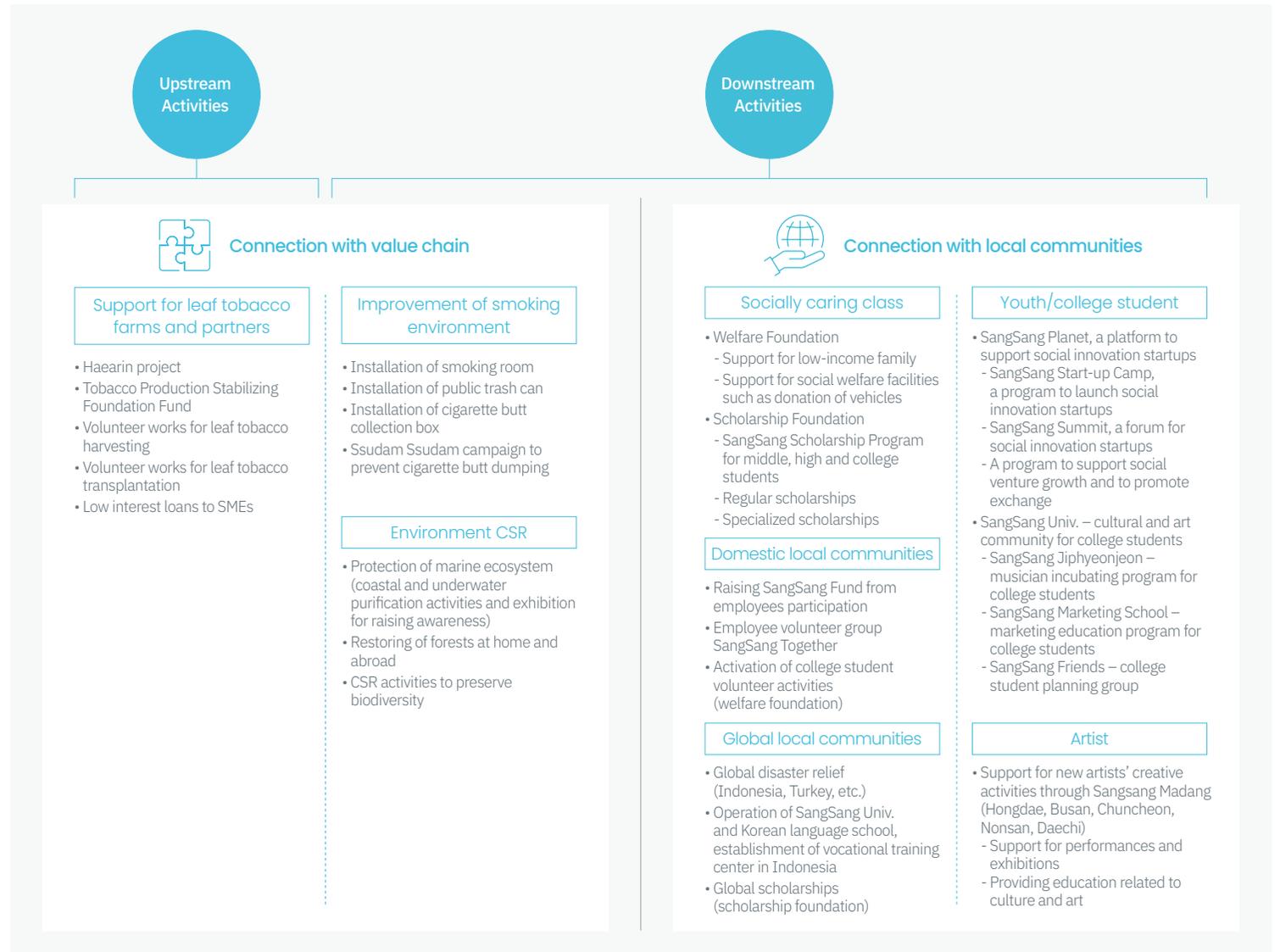
With the aim of fostering sustainable business and societal progress, as well as generating mutual value, KT&G has meticulously devised and implemented an array of community-centric initiatives. These programs leverage our distinctive platform, which aligns with the value chain, and actively contribute to the community. These efforts are overseen by the Social Contribution Office, a dedicated body for collaborative mutual prosperity, and are carried out in coordination with relevant departments. 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.

Major Social Contribution Activities Linked with Value Chain

KT&G uses various communication channels such as materiality assessment, stakeholder surveys, and focus group interviews to periodically identify business-related issues and levels of interest, based on which, we analyze negative impacts by determining whether such issues can directly or indirectly affect the overall value chain. We are actively seeking a method of alleviating negative impacts and risks that may have on local communities while faithfully carrying out social responsibilities as a corporate citizen. Through collaboration with external partners such as social ventures, we make continuous efforts to develop social contribution business models, discover and implement community participation-based social contribution activities. KT&G will do its best to prosper with local communities while preemptively identifying negative impacts that may have on communities and value chain and continuously conduct monitoring of them.

Examples of potential risk factors and activities collected from stakeholder communication channels

- Increased waste inflow to local communities and marine ecosystem due to illegal dumping of consumer products
- Need for creating a smoking environment that considers non-smokers and disadvantaged social groups
- Corporate efforts to reduce plastic when producing products



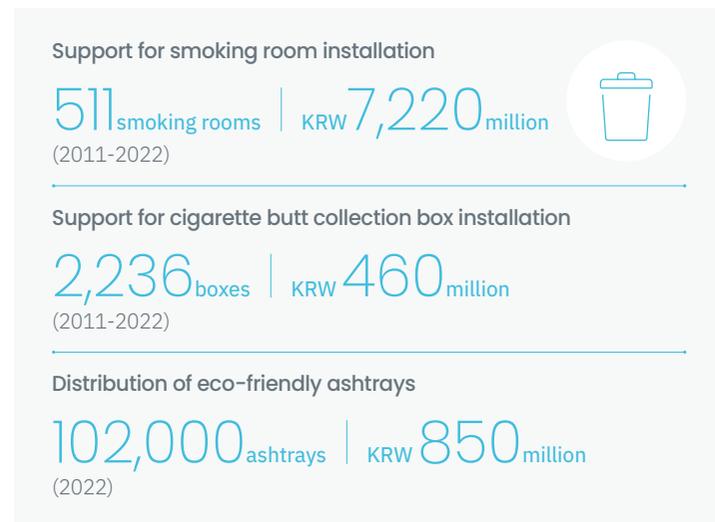
Social Contributions

Improving Smoking Environment

KT&G has been continuing the smoking environment improvement project for more than 10 years to actively fulfill its social responsibility in areas related to its business area, such as support for related infrastructure (smoking room, cigarette butt collection box, eco-friendly ashtray) to prevent illegal dumping of cigarette butts by consumers, and to create a clean street environment and improve environmental problems.

KT&G continues to install smoking rooms for major multi-use facilities such as airports, train stations, and large-scale public facilities. We have been installing a cumulative total of 511 smoking rooms across the country, including 86 smoking rooms installed in 2022. We also support the installation of cigarette butt collection boxes in a place where the smoking room cannot be installed such as narrow alleys, in order to prevent illegal dumping of cigarette butts more effectively. Starting with the pilot project in 2021, we have installed a cumulative total of 2,236 cigarette butt collection boxes in major cities across the country, including Seoul and Busan, by the end of 2022. Additionally, KT&G manufactured and distributed ashtrays made of eco-friendly materials that can be carried by consumers. Since 2022, KT&G have been distributing about 100,000 ashtrays in cooperation with local governments and environmental NGOs with the expectation of improved consumer awareness and smoking habits.

Performance of Smoking Environment Improvement Projects



Ssudam Ssudam Campaign | KT&G is implementing smoking environment improvement projects to build an infrastructure to prevent illegal dumping of cigarette butts and other waste. KT&G has been implementing the “Ssudam Ssudam Campaign” (Throw away your cigarette butts in the trash can) to improve consumer awareness since 2020, based on the suggestion of the SangSang Realization Committee (currently Junior Board), an organizational culture improvement organization. KT&G has been applying Ssudam Ssudam pictograms encouraging practice of good smoking manners to all products (some 70 types) sold in Korea since May 2021, and posted information on the Ssudam Ssudam Campaign at approximately 46,000 convenience stores nationwide and attached campaign slogans on nearly 1,200 commercial vehicles.

Eco-friendly CSR

Tanzania Drinking Water Project | From October 2021 to July 2022, KT&G provided 1,300 sets of eco-friendly water purifiers worth KRW 240 million to elementary schools in Tanzania where KT&G imports leaf tobacco raw materials. This water purifier uses a gravity filter that does not require additional energy in order to solve the problem of drinking water shortage and water-borne disease in Tanzania, and to replace water purification methods of heating water by burning fuel with high carbon emissions, such as fossil fuel and trees. With these water purifiers, about 260,000 students can drink up to 340 million liters of clean purified water every year, which is likely to reduce carbon emissions of up to 13,000 tCO₂e¹⁾ annually.

Marine Ecosystem Protection | To improve marine pollution issues caused by marine debris, KT&G has been carrying out marine ecosystem protection projects since 2021 with the Korea Marine Environment Management Corporation and Ocean Platform Corporation. In 2022, KT&G cleaned up underwater garbage with the help of professional divers, and our employee volunteer group cleaned up beaches as part of the “Adopt-a-Beach” Program, led by Korea Marine Environment Management Corporation, which requires companies to adopt a beach and clean it up on a regular basis. KT&G expanded its activity area from Busan and Gyeongnam regions to include Incheon and Chungnam regions and adopted four beaches.

¹⁾ Estimation by the collaborating agency Water and Life



Please refer to the KT&G S-Report to find more information about KT&G’s social contribution activities.

In 2022, a total of 1,232 people, including employees and civic groups, participated in the marine environment protection project. KT&G contributed to marine protection by collecting 15 tons of waste while conducting beach cleanup activities on the beach we adopted and 2,200kg of underwater waste while conducting nationwide underwater cleanup activities with the participation of professional divers. We also held exhibitions showcasing junk art made of garbage to raise general public’s awareness of marine environment destruction, in addition to improving environmental issues by collecting marine debris. Approximately 2,000 people visited the junk art exhibition held at Busan Exhibition & Convention Center (BEXCO) and SangSang Madang Daechi Gallery and shared their concerns about marine environmental issues.

SangSang Univ’s “SangSang Upcycling Art Workshop” – Art Wall Design Program Using Marine Garbage

The SangSang Upcycling Art Workshop is a program that college students create art walls using marine garbage collected from the beach in Jeju Island through plogging and plastics collected from the campus. The art wall was created by approximately 300 college students who participated in the program. They painted murals on the inner wall of the Jeju National University Stadium by drawing silhouettes of participants, and processing and attaching waste resources that were collected in advance. We will further develop SangSang Upcycling Art Workshop operating model to launch “SangSang Blue Pavilion”, a marine garbage utilization architecture and design program, to inform the seriousness of marine environmental pollution and deliver the message of environmental preservation.

Performance of Marine Ecosystem Protection Projects in 2022



Consumer-centered Management

Management System for Consumer Rights Protection

Consumer Rights Protection Policy To realize the core value “Customer First,” KT&G actively listens to the voices of customers and attempts to strengthen external competitiveness by improving the quality of products and services from the consumer’s point of view based on collected voices of the customer. KT&G continuously strives to aim for settling down a company-wide management culture that empathizes with consumer issues, and for promoting the rights and interests of consumers and improve their convenience. KT&G discloses the KT&G Group Business Ethics Charter and Responsible Marketing Policy so that consumers can understand KT&G policies for the protection of the rights and interests of consumers, which are intended to guarantee consumers’ reasonable choices, and provide product information and listening to consumer opinions through various channels.

In particular, we are seeking various strategic implementation methods for mutual prosperity with consumers, deviating from the passive point of view of protecting consumers, and is preparing to acquire CCM (Consumer Centered Management) certification to secure CS competitiveness at a global level.

KT&G plans to actively communicate with consumers and further push forward consumer-centered management based on our unique response strategy of making efforts to promote consumer rights and interests.

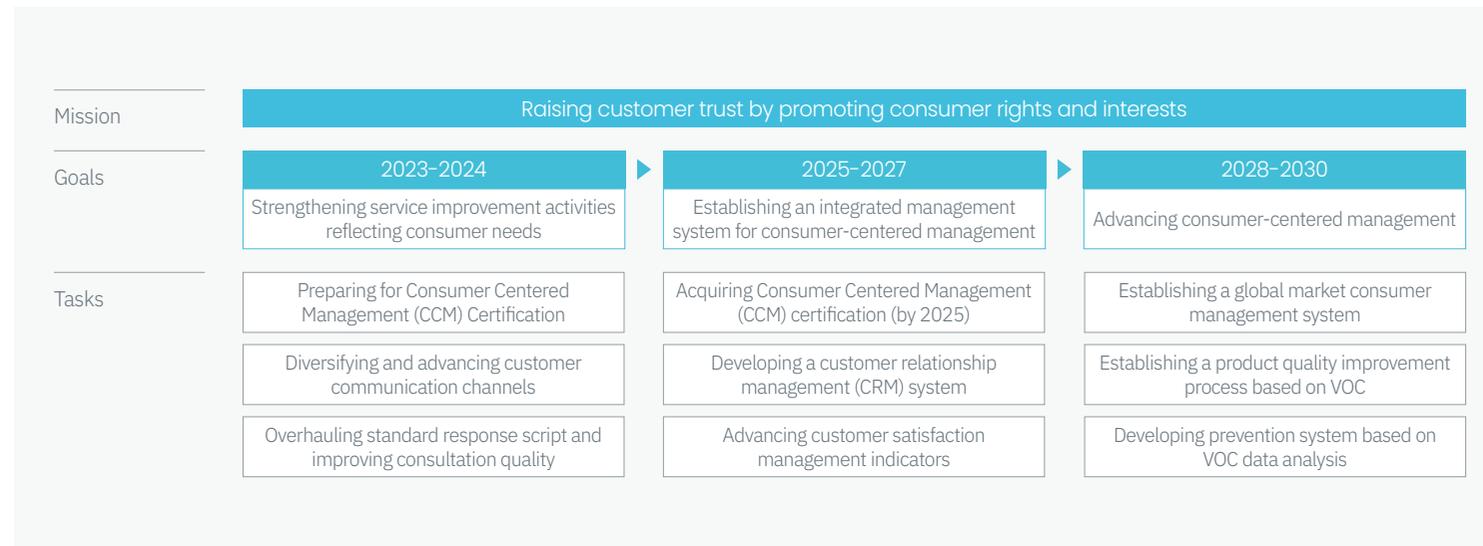
KT&G is focused on developing products and services in a way that consumer value can be maximized and aims to be a company that fulfills its responsibilities and obligations to consumers. We will therefore faithfully abide by the following principles to promote rights and interests of consumers.

- KT&G will give priority to customer satisfaction and act from the customer's point of view.
- KT&G will establish and implement processes that can quickly respond to valuable customer feedback.
- KT&G will make efforts to monitor customer complaints in advance.
- KT&G will actively respond to the requirements of strengthening rights and interests of consumers when consumers use our products and services.

Consumer Rights Risk Management KT&G has established a risk management process to protect rights and interests of consumers, ranging from collecting risk factors through VOC collection and regular satisfaction survey on consultation to mitigation measures against those risk factors, monitoring, and effectiveness analysis. Risk factors collected from each channel are classified by type/department in charge and utilized to continuously carry out product and service quality improvement planning activities through collaboration with relevant departments.

We improved lil HYBRID 2.0 Smart On function through the risk management process, and became the only manufacturer to introduce a paid repair system as our preemptive measures when we released a new product “lil AIBLE Premium” in November 2022. The new product is similar to a mobile phone, and if a device is broken due to customer’s careless handling and/or mistake, it can be partially repaired.

Consumer-centered Management Strategy System



Risk Management Process for Consumer Rights

Item	Description
1. Define risk factors	Define customer inquiry and claim types
2. Collect and analyze risk factors	Receive CS and AS, collect VOC collection, conduct satisfaction survey
3. Establish mitigation plans and take action	Devise improvement plans for each risk factor
4. Monitoring and effectiveness analysis	Monitoring satisfaction with CS, AS, VOC

Major Cases of Protecting Consumer Rights and Interests

Category	Description
Improved lil HYBRID 2.0 Smart On	Developed a software to mitigate the strong magnetic reaction found through the risk management process, offered free upgrade, and incorporated in new product development
Increased the number of lil AS centers	Increased the number of AS centers dedicated to lil, introduced AS function for lil dedicated stores, newly introduced new AS reception desks

Consumer-centered Management

Consumer Value Enhancement Activities

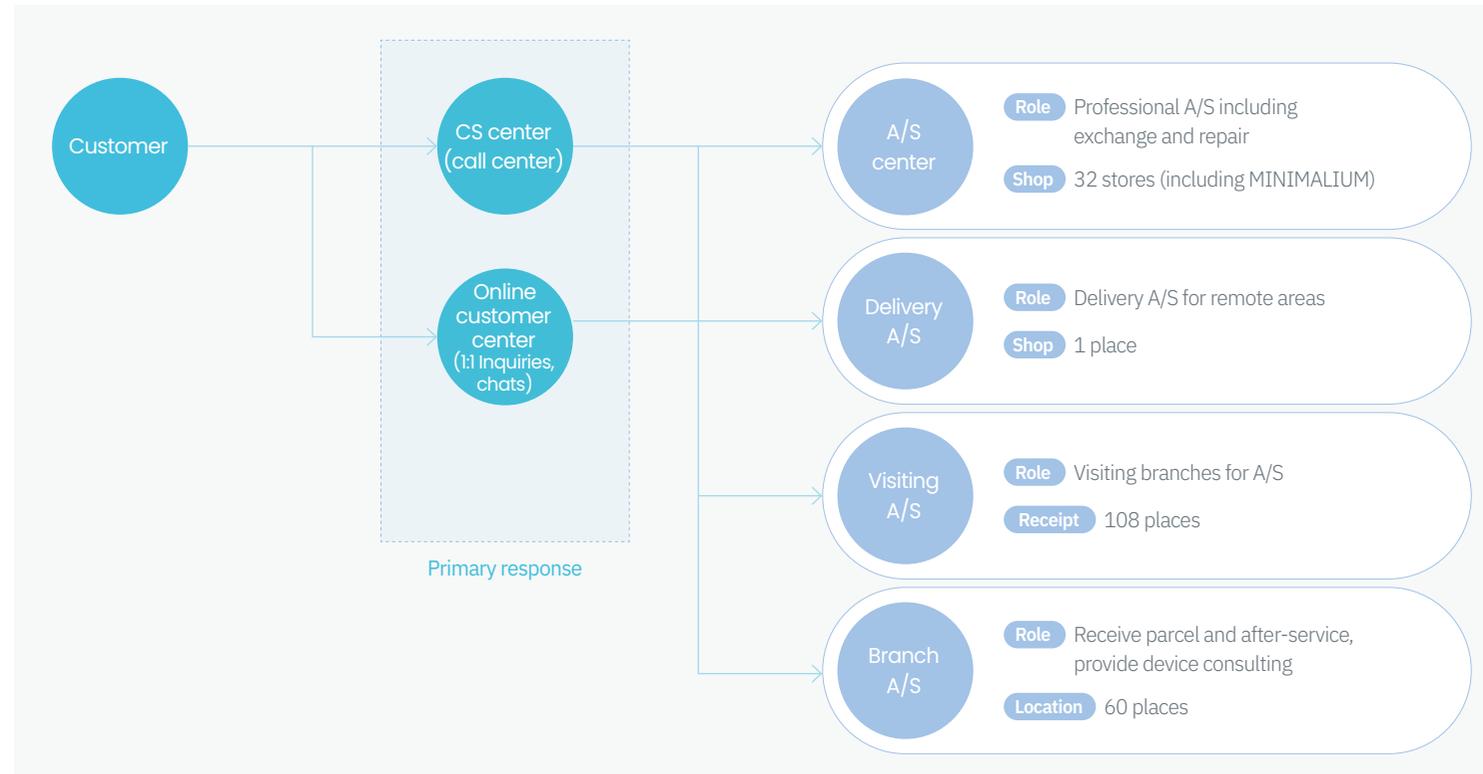
VOC Management

VOC Management Process | Our customer CS center (Call center) and online customer service center (1:1 inquiry, chat, etc.) primarily deal with general customer inquiries and consulting services. For repairs of lil products that are not solved with the primary response, we induce customers to visit A/S centers and the branch AS reception desks to solve the issue in person. We are also equipped with a convenience customer service system that enables customers to receive A/S without visiting the A/S center using parcel delivery or visiting A/S.

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

Improvement Activities based on Customer Satisfaction Survey Results | To improve the quality of counseling services, products, and other services, KT&G has been conducting a counselor satisfaction survey on CS center counseling customers and collect the VOC since July 2020. For the survey, a text message was sent to 10,000 customers every quarter. However, the survey method was changed to an Info-Push method in January 2023, which displays a pop-up message on customer's mobile devices immediately after the customer's consultation to check satisfaction with the consultation and listen to customers' opinions, which increased customers reply rate and accuracy. Additionally, major product and service improvement activities based on the results of customer satisfaction survey include the increased number of A/S centers, introduction of A/S function for lil MINIMALIUM (October 2021), and trade-in program (discount coupons in return for discarding devices).

VOC Management Process



Receiving VOCs by Channel

(Unit: %)

Category	2020		2021		2022	
	Receiving Ratio	Handling Ratio	Receiving Ratio	Handling Ratio	Receiving Ratio	Handling Ratio
Phone	82.9	100.0	69.3	100.0	67.6	100.0
ARS	11.9	100.0	18.7	100.0	18.5	100.0
1:1 counseling	4.6	100.0	9.2	100.0	10.4	100.0
Chatting counseling	0.5	100.0	2.7	100.0	3.6	100.0



(Unit: Cases)

1 Phone	125,610
2 ARS	34,353
3 1:1 counseling	19,276
4 Chatting counseling	6,606

Consumer-centered Management

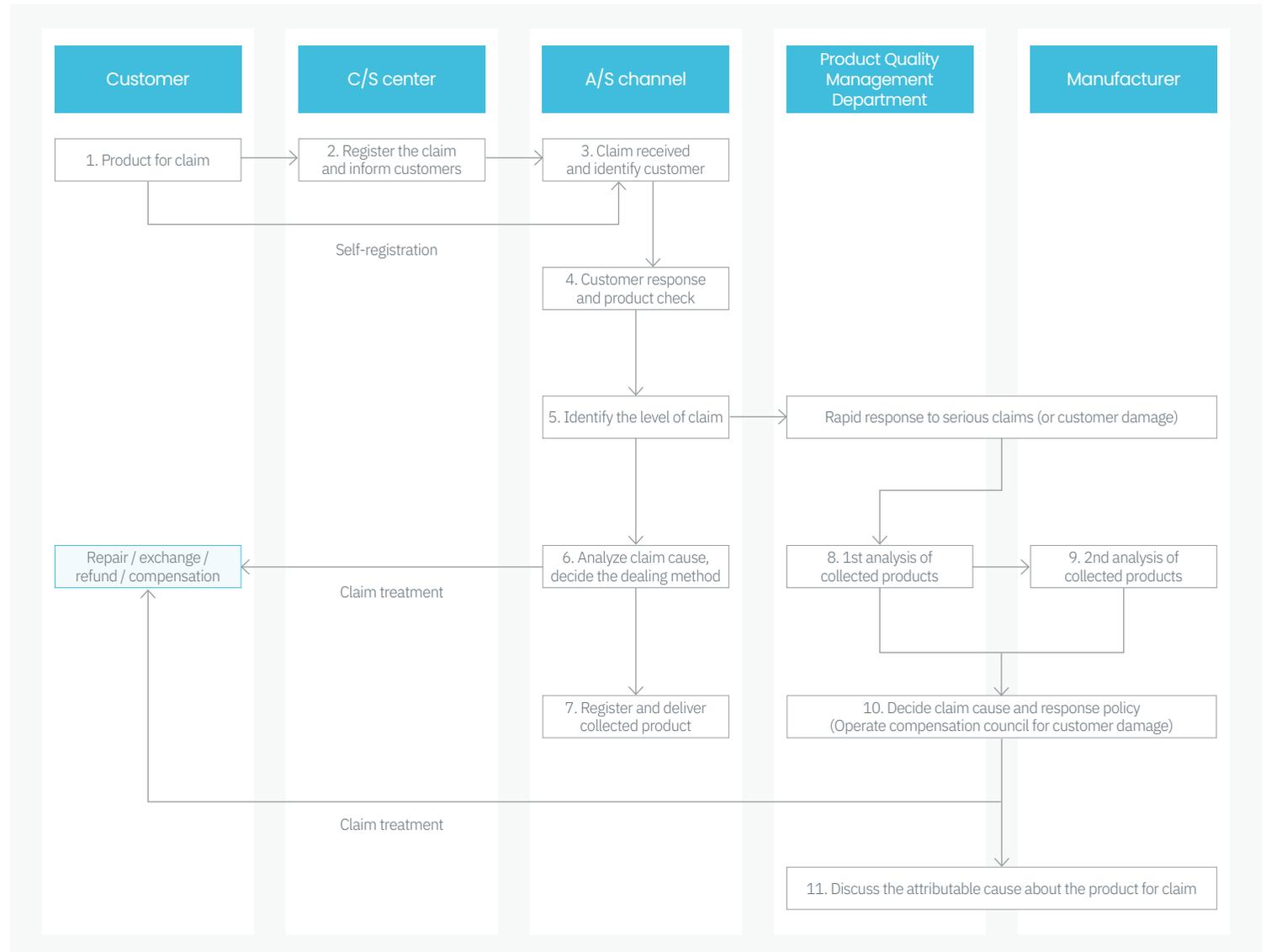
Compensation for Customer Damage Claims

Guidelines and Processes for Handling Consumer Claims | KT&G established the “Guidelines for Handling Consumer Claims” in the first half of 2022 to prevent the recurrence of similar type of claims and improve customer service by accurately identifying consumer claims related to sold products and managing claim processing promptly and efficiently. The Guideline applies to overall consumer claim handling regarding the products (conventional cigarettes, cigarette-type electronic cigarette sticks, electronic cigarette devices, and other consumables) sold by KT&G in Korea.

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

Customer Damage Compensation Council | When a customer complaint is reported, the response council is initiated, which is participated by related departments in the company, such as the brand office, Communication Office, Finance Office, Quality Management Department, and Legal Affairs Department. The response council then quickly establishes and implements a systematic response strategy such as cause analysis, compensation scale and method, legal response, and feedback. Moreover, we incorporate the issue in the product and service system to prevent the occurrence of similar issues in the future.

Processes for Handling Consumer Claims



Consumer-centered Management

Strengthening Consumer Communication To improve customer communication and service level, KT&G is operating both online and offline communication channels, including the lil website that introduces the lil brand and devices, lil MINIMALIUM (lil flag shop) and lil store (online mall) where customers can inquire and purchase products, and C/S center and A/S center to respond to customer inquiries and handle customer claims.

We have been operating Kakao channel with enhanced customer accessibility, chatting counseling for hearing-impaired customers and call avoiding customers, online customer center composed of the one-to-one inquiry bulletin board since 2020, thereby continuously expanding infrastructure for improving customer satisfaction. Customers can reduce service waiting time since the online customer center helps customers solve simple problems by themselves through self-diagnosis and FAQ for lil devices.

Trade-in Services KT&G has operated a trade-in program where customers can purchase new products at a discounted price when they return their old lil products since 2018. KT&G also provide various services such as device usage guide and device cleaning service to the customers who visit the lil flagship shop or A/S centers.

Operational Status of Customer Communication Channels

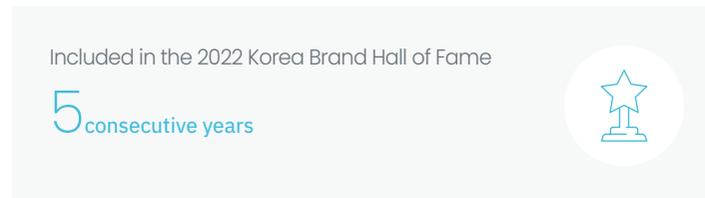
Category	Role	2022	2023
CS Center (Call Center)	General consultation, claim registration and information on processing channels	1	1
Online channel	Website	1	1
	Online customer service center	1	1
	Kakao Talk channel	1	1
	Online mall	10	10
Offline channel	lil MINIMALIUM	5	5
	A/S centers	28	28
	Visiting A/S	108	108
	BranchA/S	-	60
Total		155	215

Activities to Improve Consumer Satisfaction

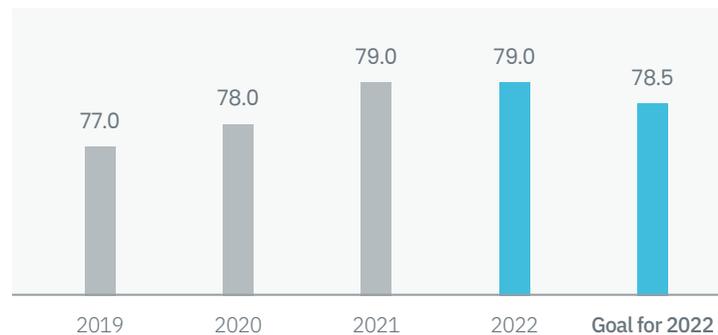
Customer Consultation Satisfaction Monitoring With the increased number of customer inquiries, we have strengthened our customer response capabilities by hiring more customer service representatives and adopting an ARS system. Accordingly, the response rate to incoming calls has been over 80%. Furthermore, we have been conducting surveys on customers who have experienced our products and services to increase the quality of customer services and their satisfaction. We endeavor to provide a better service experience to customers with improvement based on the answers of our customers.

Customer Satisfaction Management Performance KT&G is actively promoting collaboration among related departments such as NGP Business HQ, R&D HQ, and Manufacturing HQ to improve product quality and customer satisfaction. As a result, KT&G was awarded at the Korea Brand Hall of Fame hosted by the Institute for Industrial Policy Studies (IPS) for five consecutive years.

External Award performance of lil Brand



Customer Satisfaction Survey Results

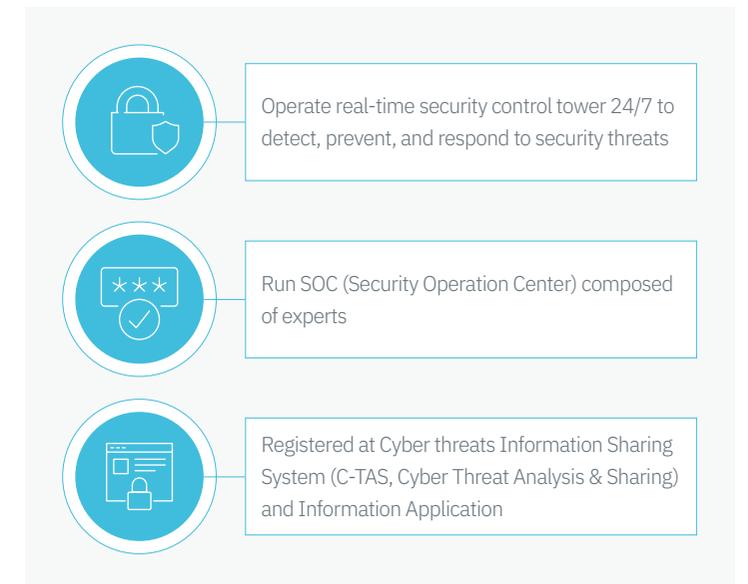


* Source: NCSI (National Customer Satisfaction Index)

Information Protection

Information Protection Management System KT&G has established the Corporate Secret Protection Committee as the highest body to govern data security and personal information protection. The committee has designated the Chief Security Officer (CSO) and the Chief Information Security Officer (CISO), who oversees data protection to strengthen the data protection system. The CISO manages overall major information security tasks, including personal information and issues related to information management, and submits agendas to the Corporate Secret Protection Committee. The Corporate Secret Protection Committee reviews, deliberates, and decides on action plans for information security, such as enactment and revision of company regulations related to information security, information security certification, and security system establishment. If a critical issue related to information security is found during deliberation, it is reported to the Chief Operation Officer (COO). In the event of a substantial matter, it is expected to be communicated to the ESG Committee within the board of directors, ensuring a systematic approach to addressing associated risks.

Data Security Control System



Consumer-centered Management

Information Security Division and Responsibilities

- **Chief Information Security Officer (CISO)**
 - Head of Information Security Office
- **Training**
 - Security vulnerability check and security level review (regularly)
 - Infringement incidents simulation training to prevent cyberattacks (annually)
 - Malicious e-mail response training and distribution of response guidelines (quarterly)
 - Information security compliance level check (annually)
- **Education**
 - Information security education for all employees (annually)
 - Secured coding education on commissioned developers (maintenance) (annually)
 - Specialized education on information security for commissioned agencies (regularly)
 - Information security education for newly hired (experienced) employees (regularly)
- **Monitoring**
 - Real-time security threat detection and response through 24/7 security control
 - Monitoring/analyzing abnormal behavior of employees, and explanation management
 - Monitoring of personal information access records (regularly)
- **Campaign**
 - Information security self-check (quarterly)
 - Publishing and distributing “Information Security Newsletter” to raise awareness of information security (quarterly)
 - Running “Information Security 3GO” campaign to raise awareness of corporate secret protection
- **Information Security and Security Policy of Subsidiaries**
 - Guidelines for subsidiaries’ security regulations
 - Examine the legal compliance level (annually)
 - Check subsidiary security vulnerability(annually)
- **Information Protection/Security Policy of Overseas Subsidiaries**
 - Preparing the security rule standard for overseas subsidiaries

Information Security Policy and Goal | KT&G enforces stringent measures to safeguard and preserve all corporate information. We refrain from illicitly obtaining or utilizing trade secrets and intellectual property belonging to third-parties, including competitors. In accordance with relevant laws and company rules, our employees are required to protect financial information, R&D information, intellectual property rights (patent rights, trademark rights, utility model rights, design rights, copyright, etc.), product information, business strategy, such marketing strategy as pricing policy, and company information with property value, such as M&A information. They are also required not to acquire trade secrets of a third-party, including competitors, by using unethical means such as eavesdropping, hacking, and offering bribery. They must comply with laws and regulations related to intellectual property rights and obtain the knowledge of a third-party only when legitimately authorized. We also thoroughly protect the personal information of customers and employees according to the strict principles. We collect and use personal information in accordance with the laws related to personal information protection in each country and company policies and do our utmost to protect personal information, thereby preventing illegal leakage. Moreover, when entrusting the collection or use of personal information to a third-party, we demand the third-party to comply with relevant laws and regulations.

Guidelines for Information Security and Handling | KT&G has established the Guidelines for Corporate Secrets Protection and Guidelines for Personal Information Internal Management and posted them on the KT&G Legal Information System so that any employees can view them. The privacy policy stipulates the collection, retention, use, and destruction of personal information acquired by KT&G so that the information subject can check the status of information management at any time.

Information Security Certification | KT&G has obtained the ISO 27001 (Information Security Management Systems) and ISMS-P (Personal Information & Information Security Management System) certifications in adherence to domestic information security regulations, including the Act on Promotion of Information and Communications Network Utilization and Information Protection, as well as the Personal Information Protection Act, aimed at increasing public trust and confidence. KT&G also reviews and manages the level of certification target and certification area every year in order to renew and maintain the certification system.

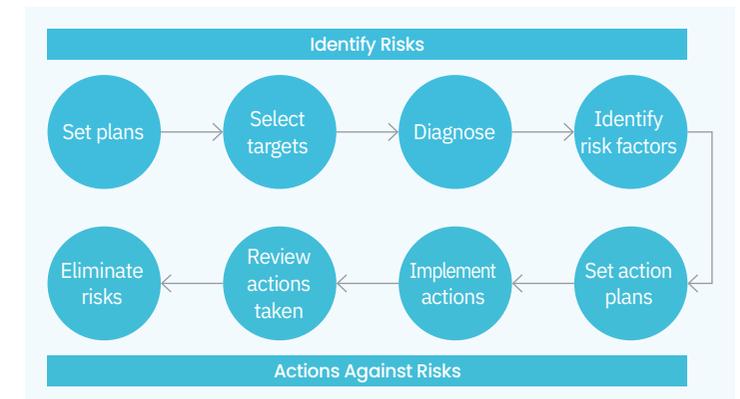
Information Security Disclosure | KT&G faithfully discloses the information security status to protect users and guarantee their right to know. As a result of these disclosure activities, KT&G was selected as an excellent disclosure company in 2022 (company with excellent investment in information security).

Diagnosing and Managing the Information Security Level | KT&G detects information security risk factors and takes actions in advance annually by establishing the inspection plans for risk factors and vulnerabilities, considering the introduction of new systems, system modification, and impacts on services. We aim to reduce risks and vulnerabilities identified during inspections by one third of the previous year and to completely eliminate security incidents. We also implement mid-to long-term activities to secure operational stability by establishing improvement plans for vulnerable areas in manufacturing facilities. KT&G took basic measures through pre-inspection in 2022 and plans to comply with 32 items in eight areas by applying the standard for inspecting security management in the manufacturing factory (Ministry of SMEs and Startups) through precision diagnosis from 2023 to 2024.

Information Security Risk Management

Process of Identifying and Information Security Risks and Taking Actions | KT&G is in the process of developing an information security and risk assessment procedure to manage potential threats to its information assets. This process consists of two main stages – an initial phase for identifying and evaluating risk factors, followed by an action phase aimed at mitigating the identified risks. We have established risk identification plans (vulnerabilities, compliance) based on information security risk factors and recent security issues, perform diagnostic activities, and verify risk factors. Based on these outcomes, we set plans and take actions on risk factors identified through this process, thereby making necessary improvement.

Process of Identifying Information Security Risks and Taking Actions



* KT&G's information security disclosure can be found on the Comprehensive Information Security Disclosure Portal managed by the Korea Internet & Security Agency (KISA).

Consumer-centered Management

Process of Identifying Information Security Risks | KT&G is operating a risk assessment process based on the information asset risk management manual and assesses risks of information assets at least once a year. We assess the risk level by applying the level of influence, which calculates possible impacts on the information security level of the information asset, and vulnerability of the information asset that can be exploited for threats. The general risk level is calculated by reflecting the importance of information assets, impacts on personal information, threat level based on threat analysis, and scores derived through diagnosis as vulnerabilities. The personal information risk level includes the legal importance level in the calculation of the general impact level, and the risk level is evaluated by reflecting the performance score of the evaluation item as vulnerability. KT&G controls threats to information security using this risk assessment process.

Activities to Mitigate Information Security Risk

Personal Information Protection System | KT&G operates a personal information access control and access management system so that personal information can be safely processed. We also manage the current condition of the personal information processing system, control unauthorized access to personal information in the system, and comprehensively manage the personal information handler and the processing status of personal information.

Checking Personal Information Compliance | KT&G establishes and conducts personal information compliance inspection plans for systems, entrusted companies, and affiliated companies annually. KT&G identifies and eliminates vulnerabilities in complying with laws and regulations related to information security and information protection guidelines through inspections. Based on these activities, we verify the level of information security and manage the safe handling of the personal information in accordance with the law.

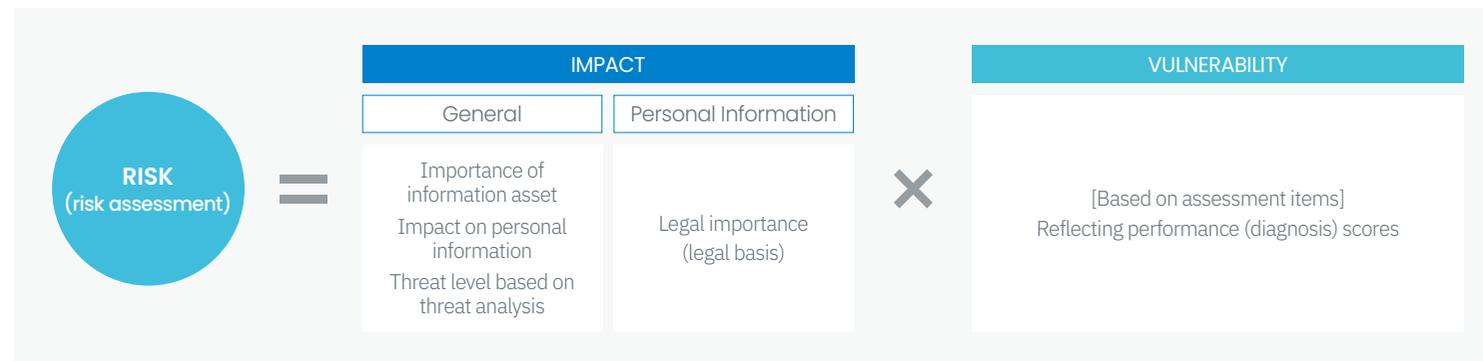
Training for Responding to Cyber Security Incident | KT&G conducts response training based on simulated scenarios for potential cyber security incidents, such as personal information leakage, denial of service attack (DDoS), and ransomware, in order to prevent security incidents and establish a quick response system in case of an incident. KT&G supplements and improves shortcomings found during training.

Vulnerability Diagnosis | To prepare for escalating internal and external threats, KT&G diagnoses security vulnerabilities and prepares security measures for the entire system. KT&G is engaged in simulated hacking exercises (such as system penetration tests and black box tests) and source code reviews to ensure the secure provision of web application services. This involves scrutinizing vulnerabilities within IT infrastructure assets and security apparatus, formulating security protocols for identified vulnerabilities, and implementing corresponding actions.

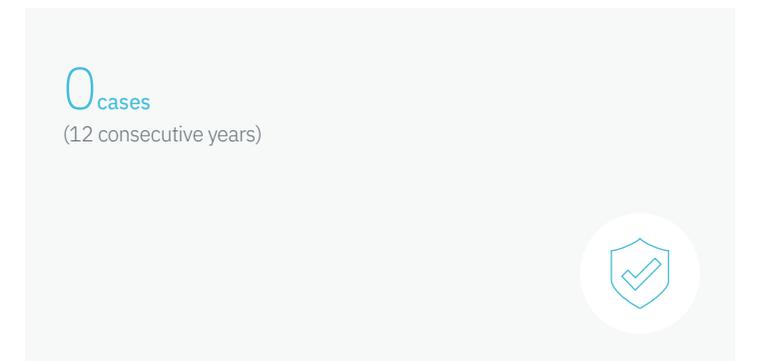
Strengthening Information Protection Capabilities | KT&G has identified cybercrime and personal information leakage as major risks and has established information security regulations and operating guidelines, and infringement cases response manuals. We have stipulated reporting systems and response procedures for each incident type to ensure the incident does not proceed to a more dangerous level. We are creating and distributing contents to increase awareness and practice of privacy related compliance levels, while increasing the privacy protection capabilities through regular employee trainings.

KT&G monitors abnormal behavior based on the company regulations related to information security, develops the information security system, and constantly operates the security control center to prevent cyber security incidents related to personal information. As a result of systematic response to privacy security in all company activities, there has been no incident related to customer information leakages for the past 12 years.

Risk Assessment Process According to the Information Asset Risk Management Manual



Leakage of Customer Information in 2022

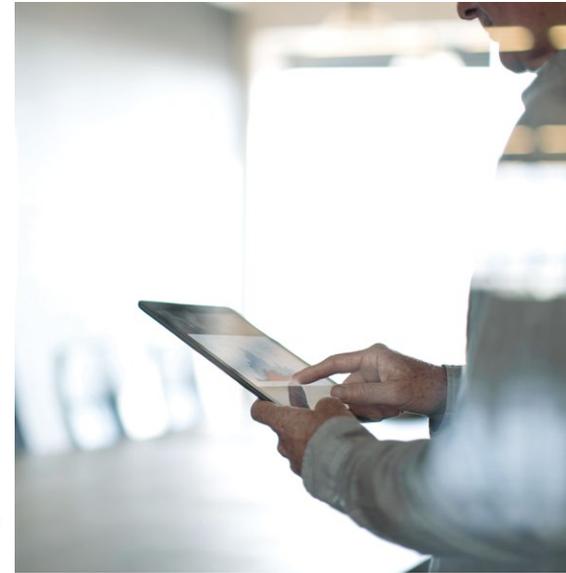


Advancing Governance and Strengthening Execution Capability

MANAGEMENT APPROACH

KT&G has established transparent and independent governance in order to improve its long-term sustainable growth and to increase the value and protect the rights and interests of its shareholders and stakeholders, and is making efforts to develop governance continuously to respond preemptively to changes in the business environment and market. KT&G has consolidated its responsible professional management system, which is mainly driven by the board of directors, which in turn is mainly controlled by independent non-executive directors in accordance with the KT&G Charter of Corporate Governance, which embodies the company's vision and a set of principles of governance that conform to global standards. Furthermore, we have introduced the "KT&G Board Skills Matrix," an indicator for evaluating the board of directors, in order to preemptively disclose the professional skills and capabilities of its members for the purpose of reinforcing the advanced governance system. The Board Skills Matrix is used to evaluate the business capability of director candidates from a multifaceted perspective in the form of a matrix designed to strengthen transparent management.

Under the corporate philosophy "Exemplary, Inclusive, and Progressive," KT&G has enacted the "KT&G Group Business Ethics Charter," which contains the criteria for desirable practices and value systems, to contribute to society and stakeholders. All our employees comply with the Charter and carry out various activities aimed at enhancing their ethical awareness and ability to put it into practice.



- Corporate Governance
- Business Ethics and Compliance
- Risk Management
- Enhancing Shareholder Value

Corporate Governance

Sound Corporate Governance



BOD Composition KT&G has established transparent and independent governance to improve its long-term sustainable growth, increase its value, protect the rights and interests of its stakeholders, including shareholders, and respond preemptively to changes in the business environment and market by continually developing its governance. As of April 2023, the Board of Directors (BOD) 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. As of April 2023, the average tenure of the eight board members¹⁾ is 4.8 years. Independent directors account for 75% of the BOD, thus allowing it to make independent decisions under a system of checks and balances and perform its management supervision function effectively.

¹⁾ Based on the appointed tenure

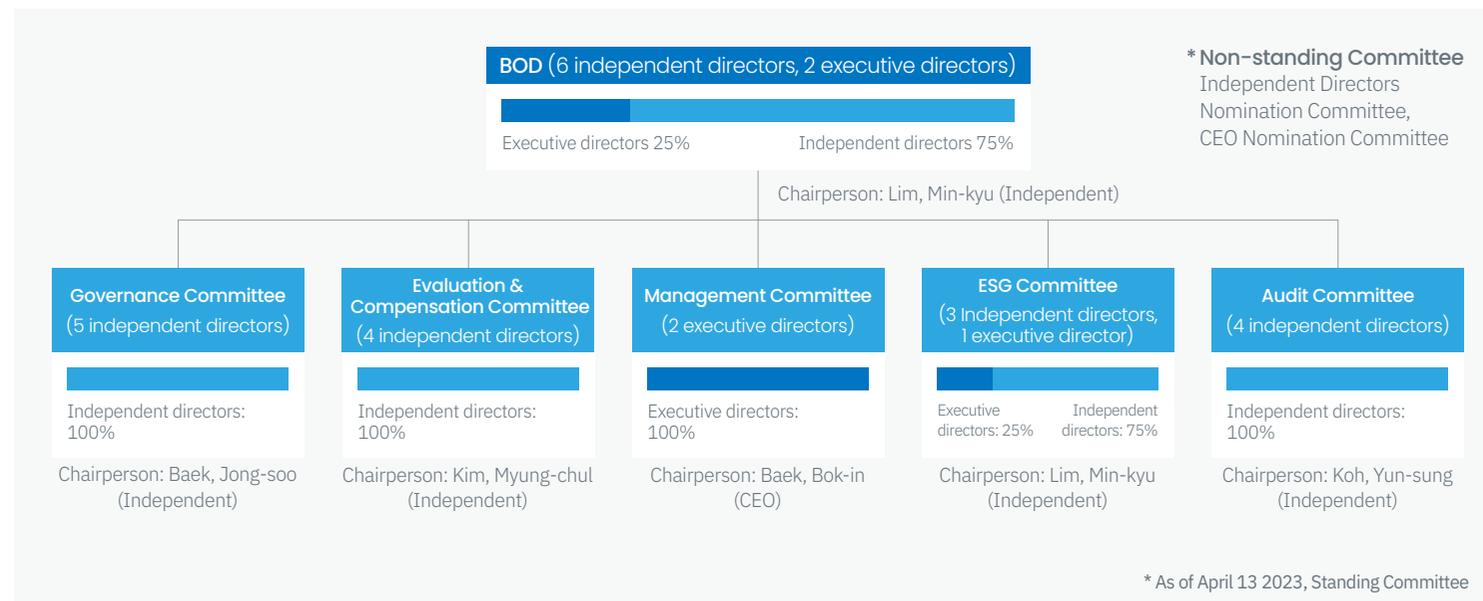
Operation of the BOD

Teams Dedicated to Assisting the BOD KT&G sets forth the authorities, responsibilities, and operational procedures of the BOD in Article 34 of the Articles of Incorporation and Articles 7 and 9 of Board of Directors Regulations, and operates it by dividing it into regular and ad hoc Board meetings. The BOD, the core decision-making body, deliberates and decides on pending issues, including significant management goals such as mid and long-term strategies and business plans, and basic management policies for the company and stakeholders. KT&G has advanced its BOD by reorganizing its roles and functions and those of the committees under it so that it can concentrate on committing itself to its duties, based on the “Governance Advancement Project” implemented in 2019 to improve the company’s governance. Each director has to attend at least 75% of all the Board meetings held during the year. In 2022, a total of 12 BOD meetings were held and the director attendance rate was 100%.



We share materials with directors regarding the agenda before BOD meetings and holds briefing sessions as necessary, ensuring that directors have in-depth and efficient discussions. Furthermore, we are operating the BOD Supporting Department to convene Board of Directors meetings and share the agenda and corporate information, thus operating the Board of Directors efficiently. In addition, we respond to work performance requests and provide support for related training, seminars, and compliance.

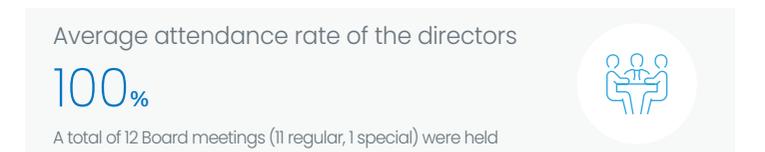
BOD Organization



Major Decision-making Matters of the BOD



BOD Operation in 2022



* Minimum attendance of directors: 75%

Corporate Governance

BOD Activities in 2022

No.	Date	Agenda Items
1	Feb. 10	Resolution 1. Approval of the 35th financial statement and the statement of appropriation of retained earnings (draft)
		Resolution 2. Approval of 35th Business Report
		Report 3. 2021 Internal Accounting Control System Operation Status Evaluation Report
		Resolution 4. Introduction of an electronic voting system (draft)
		Report 5. Results of compliance inspection and effectiveness assessment in 2021
2	Feb. 16	Report 1. 2021 assessment results of internal accounting control system operation status
		Resolution 2. Composition of the Independent Directors Nomination Committee
3	Feb. 24	Resolution 1. Amendment to the Articles of Incorporation (draft)
		Resolution 2. Revision of the Board of Directors' Regulations (draft)
		Resolution 3. Revision of the operating regulations of the CEO Candidate Recommendation Committee (draft)
		Resolution 4. Revision of the operating regulations of the Governance Committee (draft)
		Resolution 5. Revision of the KT&G Charter of Corporate Governance (draft)
		Resolution 6. Establishment of operating regulations of the ESG Committee (draft)
		Resolution 7. Revision of the regulations on remuneration for, and the payment of activity payment to, independent directors (draft)
4	Feb. 24	Resolution 1. Revision on executive director's compensation policy (draft)
5	Mar. 8	Resolution 1. Recommendation of the Audit Committee member candidate (draft)
6	Mar. 8	Resolution 1. Decision on remuneration limits for directors (draft)

No.	Date	Agenda Items
7	Mar. 10	Resolution 1. Holding of the 35th annual general meeting (draft)
		Resolution 1. Appointment of the BOD chairperson (draft)
8	Apr. 19	Resolution 2. Appointment of members and chairpersons of the committees under the BOD (draft)
		Resolution 3. 2022 safety and health management plan (draft)
		Resolution 1. Settlement of first quarter for the 36th fiscal year
9	May 12	Resolution 2. Revision of the KT&G Group Ethics Charter (draft)
		Resolution 3. Revision of the operating regulations of the Audit Committee (draft)
		Report 1. Semi-annual settlement of accounts for the 36th fiscal year
10	Aug. 4	Report 2. Plans for responding to mid-to-long term demand for the tobacco business
		Resolution 3. Mid-to-long term facility/infrastructure investment plan (draft)
		Report 4. Plan for merging the Indonesian sales/manufacturing subsidiary
		Report 1. Settlement of third quarter for the 36th fiscal year
11	Nov. 3	Resolution 2. Participation in paid-in capital increase of KT&G Turkey (draft)
		Resolution 3. Approval of a loan to the KT&G Indonesian manufacturing subsidiary (draft)
		Resolution 4. Participation in the paid-in capital increase of Sangsangstay Co., Ltd. (draft)
		Resolution 5. KT&G Mutual Growth and Partnership loan fund depository period extension (draft)
		Report 6. Receipt of shareholder letters
		Resolution 7. Acquisition of treasury stocks (draft)
		Resolution 1. Business plan for 2023 (draft)
12	Dec. 8	Resolution 2. Plans for 2023 budget (draft)
		Resolution 3. Evaluation plan for BOD activities in 2022 (draft)

Process of Appointing CEO and Independent Directors KT&G further systemized the CEO appointment process through the “Governance Advancement” project promoted in 2019. We enacted and amended the establishment and operation of the CEO succession plan and the CEO candidate nurturing program by the newly established Governance Committee. To this end, the decision-making authority related to the CEO succession policy was delegated to the Governance Committee, and the CEO candidate verification process was strengthened from 2 steps (CEO Nomination Committee and BOD) into 3 steps (Governance Committee, CEO Nomination Committee, and BOD). Furthermore, the new CEO should sign a “management contract” with the CEO Nomination Committee, and the Evaluation Committee, which is entirely composed of independent directors, conducts a management evaluation every year to support the CEO's efforts to manage the company in a responsible manner.

In addition, the Independent Directors Nomination Committee, established in accordance with Article 542-8 of the Commercial Act and composed entirely of independent directors, recommends independent candidates through fair procedures and reviews from various angles when appointing non-executive directors. The Committee searches for candidates for the position of independent directors either by asking external specialized organizations based on the criteria for the independent director candidate screening proposed by the Governance Committee, or by selecting the most suitable candidates through a strict review of the qualifications of the candidates proposed by the shareholders. Each recommended candidate is submitted to the annual general meeting (AGM) as a separate item of agenda for appointment. We specify the qualifications for independent directors as “independent individuals with professional knowledge and experiences on the economy, management, law, or relevant technology without disqualifications in relevant regulations”.

Independent Director Appointment Process



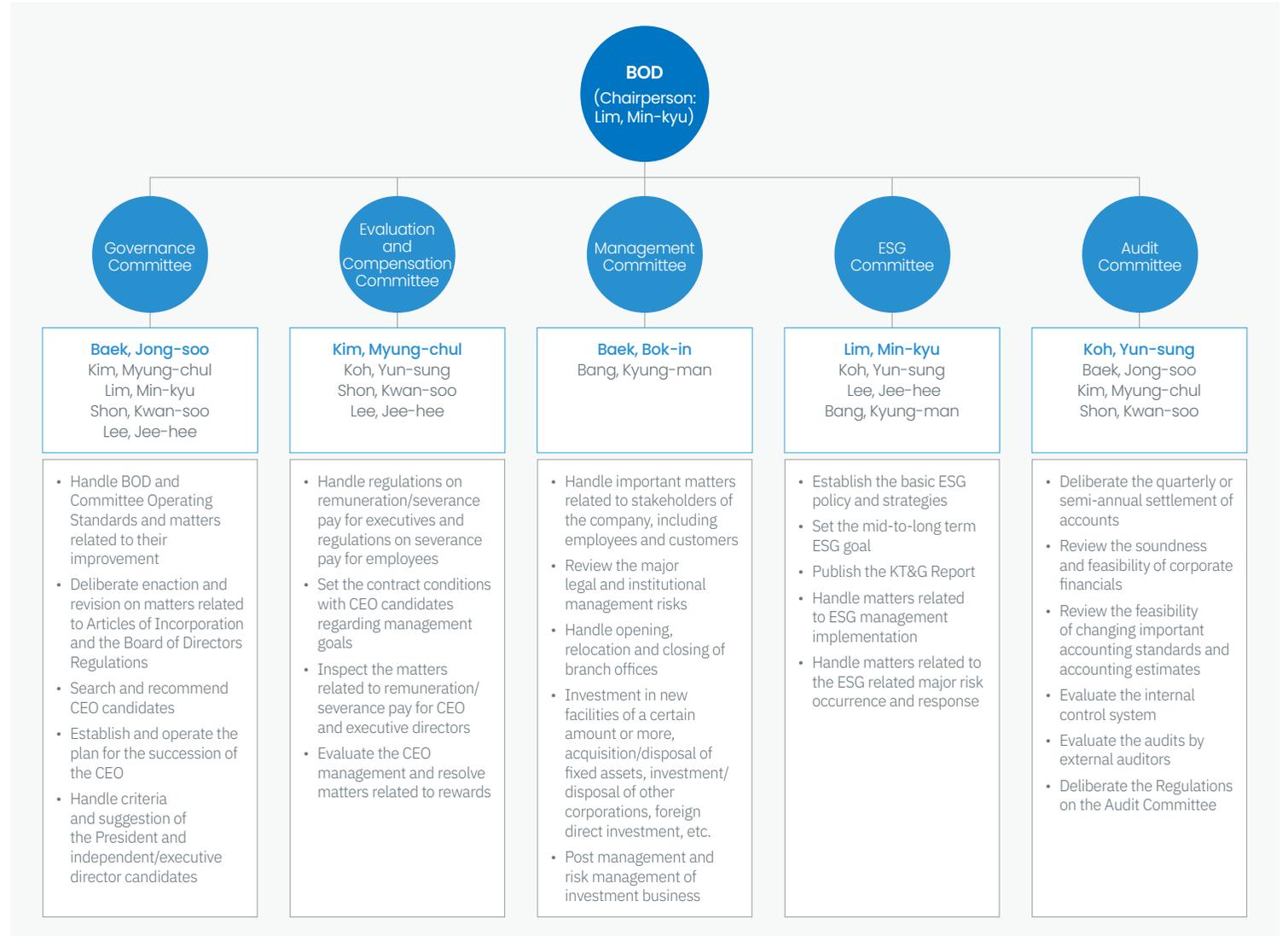
¹⁾ Shareholders who can exercise their rights in accordance with the commercial law requirements

Corporate Governance

Board Committees KT&G organizes and operates committees under the BOD to enhance its ability to perform its tasks with professionalism and efficiency. The BOD has five standing committees (Governance Committee, Evaluation Committee, Management Committee, ESG Committee, and Audit Committee) and two non-standing committees (Independent Directors Nomination Committee and CEO Nomination Committee). The ESG Committee was established in 2022 to increase sustainable corporate value by minimizing the environmental impact of ESG on the company’s overall operations and looking for ways to create value for stakeholders.

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, with an independent director appointed as a chairperson. Non-standing committees, such as Independent Directors Nomination Committee and CEO Nomination Committee, are operated when needed. In 2022, we introduced the “KT&G Board Skills Matrix” to evaluate the professional skills and competencies of the BOD in order to strengthen our governance system, and disclosed the Matrix on the website.

Organization of the Board Committees



* Non-standing Committees: Independent Directors Nomination Committee, CEO Nomination Committee
 * As of April 13 2023

Corporate Governance

BOD Composition

Category	Name	Gender (Age)	Position	Date of Appointment	Anticipated Completion Date	Transaction with companies, relationship with the largest shareholder or major shareholders	Sub-committee	Expertise	Career
Independent Director	Lim, Min-kyu	Male (68)	Chairperson of BOD Chairperson of ESG Committee	Mar. 2021	2024 AGM	Non applicable	<ul style="list-style-type: none"> Governance Committee ESG Committee 	Global/ESG	<ul style="list-style-type: none"> CEO (President), SK Materials CEO (President), OCI Materials Vice President, Samsung C&T Petrochemical Business Division
Independent Director	Baek, Jong-soo	Male (62)	Chairperson of Governance Committee	Mar. 2018	2024 AGM	Non applicable	<ul style="list-style-type: none"> Governance Committee Audit Committee 	Legal (Lawyer)	<ul style="list-style-type: none"> (Current) Partner Lawyer, DongIn Law Group Legal advisor, Korea Housing and Urban Guarantee Co., Ltd. Prosecutor, Busan Prosecutors' Office 1Tax Legal Advisor, Seoul Regional Tax Office
Independent Director	Kim, Myung-chul	Male (67)	Chairperson of Evaluation and Compensation Committee	Mar. 2020	2026 AGM	Non applicable	<ul style="list-style-type: none"> Governance Committee Evaluation and Compensation Committee Audit Committee 	Global/Finance	<ul style="list-style-type: none"> (Current) Advisor, SEE (Space Entertainment Enterprise) CFO (Vice President), u.Life Solutions President, Shinhan Bank of America CFO (Managing Director), Shinhan Financial Group
Independent Director	Koh, Yun-sung	Male (49)	Chairperson of Audit Committee	Mar. 2020	2026 AGM	Non applicable	<ul style="list-style-type: none"> Evaluation and Compensation Committee ESG Committee Audit Committee 	Finance/Accounting	<ul style="list-style-type: none"> (Current) Professor, Hankuk University of Foreign Studies Director, the Korean Accounting Association Director, the Korea Tax Association
Independent Director	Shon, Kwan-soo	Male (62)	-	Mar. 2022	2025 AGM	Non applicable	<ul style="list-style-type: none"> Governance Committee Governance Committee Audit Committee 	Logistics/M&A	<ul style="list-style-type: none"> (Current) President, Korea Automobile Racing Association Full-time Advisor, CJ Logistics Co-CEO, CJ Logistics Director, CJ Human Resources
Independent Director	Lee, Jee-hee	Female (61)	-	Mar. 2022	2025 AGM	Non applicable	<ul style="list-style-type: none"> Governance Committee Evaluation and Compensation Committee ESG Committee 	Advertising/Marketing	<ul style="list-style-type: none"> (Current) CEO of W Camp CEO, W Works Adjunct Professor, Department of Advertising, Chung-Ang University Co-CEO, Post Visual
Executive Director	Baek, Bok-in	Male (57)	CEO (President) of KT&G Chairperson of Management Committee	Oct. 2015	2024 AGM	Non applicable	<ul style="list-style-type: none"> Management Committee 	Management specialist	<ul style="list-style-type: none"> (Current) CEO (President), KT&G Chief of Production HQ / Chief of Strategy HQ (Vice President), Chief of Strategy HQ, Chief of Marketing HQ, KT&G
Executive Director	Bang, Kyung-man	Male (52)	COO (Senior Executive Vice President) of KT&G	Mar. 2021	2024 AGM	Non applicable	<ul style="list-style-type: none"> Management Committee ESG Committee 	Management specialist	<ul style="list-style-type: none"> (Current) COO (Senior Executive Vice President), KT&G CBO (Vice President), Chief of Strategy HQ/Chief of Global HQ, Chief of Global HQ, KT&G

Corporate Governance

Independence and Expertise of the BOD



Independence of the BOD KT&G has set “Independent Board of Directors” as the basis for its BOD operations, based on which we appoint independent directors who are qualified as a transparent and independent person to protect the interested parties as well as shareholders, keeping executives in check. In 2010, KT&G established an objective and independent governance system where representative director and chairman of Board of Directors are separated in terms of their roles through regulations on the Board of Directors, which stipulates that a chairman shall be appointed from the independent directors by a resolution of the Board of Directors.

With the exception of the Management Committee and ESG Committee, all other committees under the BOD have independent directors only to faithfully fulfil their roles of keeping the management in check. In addition, the Governance Committee, which proposes the criteria for appointing independent directors, and the Independent Directors Nomination Committee, which evaluates and recommends independent director candidates, are also composed of independent directors only to further strengthen the independence of the BOD.

In appointing independent directors, we select candidates through an independent professional institution, search firms, and double check the independence through company evaluation and outside professional institutions. In addition, while preparing the bill introduction at the AGM, the “independent director qualification certificate” is checked with the candidates themselves to appoint directors who are qualified with fairness and independence.

Principles of BOD Independence

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

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

Independence of Independent Directors and Prohibition on Concurrent Position

Category	Whether the independence level meets the qualification									Concurrent positions		
	①	②	③	④	⑤	⑥	⑧	⑧	⑨	Concurrent position	Organization/ Position	Transaction
Kim, Myung-chul	●	●	●	●	●	●	●	●	●	-	-	-
Baek, Jong-soo	●	●	●	●	●	●	●	●	●	-	-	-
Koh, Yun-sung	●	●	●	●	●	●	●	●	●	-	-	-
Lim, Min-kyu	●	●	●	●	●	●	●	●	●	Applicable	LMK Consulting/CEO	X
Shon, Kwan-soo	●	●	●	●	●	●	●	●	●	-	-	-
Lee, Jee-hee	●	●	●	●	●	●	●	●	●	Applicable	W Camp/CEO	X

Independence of the BOD

Rate of the independent directors

75% or more

Separation of the CEO and chairman of the board of directors

Corporate Governance

Expertise of the BOD To promote the company's sustainable development, KG&G is enhancing the expertise of the BOD by selecting and appointing candidates who have expert knowledge and practical experience in diverse fields, such as management, finance, accounting, manufacturing, supply chain, risk management, global, legal, and ESG strategy, based on the Board Skills Matrix. In addition, we operate our BOD in a balanced manner so that it is not biased against specific backgrounds and occupations so that BOD members can discuss agendas from multiple perspectives and make rational decisions. The department in charge of the BOD operations provides training opportunities to strengthen professionalism through acquiring knowledge and skills necessary for business performance and supports human and material resources so that the BOD can make the best decisions, such as holding seminars. For new directors, we provide data on the overall management status of the company and operate a site visit program for business sites.

BOD Expertise (BSM)

KT&G Board Skills Matrix

Experience and Expertise	Kim, Myung-chul	Baek, Jong-soo	Koh, Yun-sung	Lim, Min-kyu (Chairperson)	Shon, Kwan-soo	Lee, Jee-hee	Baek, Bok-in (Executive Director)	Bang, Kyung-man (Executive Director)
Leadership	●	●	●	●	●	●	●	●
CEO Experience	●			●	●	●	●	
CFO Experience	●						●	●
Business Operations	●			●	●	●	●	●
Manufacturing				●			●	●
Supply Chain					●			
Finance/Accounting	●		●					
Risk Management	●	●	●	●	●	●	●	●
Global Business	●			●	●		●	●
ESG Strategy				●	●		●	●
M&A	●				●		●	●
Marketing/PR/Consumer						●	●	●
Legal/Regulatory		●						

BOD Training in 2022

Date	Targets	Trainees	Content
Mar. 30	Newly appointed independent director	Lee, Jee-hee	Understanding of KT&G
Mar. 31	Newly appointed independent director	Shon, Kwan-soo	Understanding of KT&G
May 19	Newly appointed independent director	Shon, Kwan-soo; Lee, Jee-hee	Status of Shintanjin Plant (KT&G) and Korea Ginseng Plant (KGC)
Jun. 10	Independent director	Koh, Yun-sung; Lim, Min-kyu; Lee, Jee-hee	Job training for independent directors of the listed company
Sep. 14	Chairperson of ESG Committee	Lim, Min-kyu	Expert course for developing an ESG management system
Sep. 15	Newly appointed independent director	Lee, Jee-hee	Introductory course for operating the BOD and AGM

Corporate Governance

Evaluation and Compensation

Evaluation and Compensation System KT&G Evaluation and Compensation Committee comprises independent directors only for the fair management assessment and supports fair compensation by evaluating executive directors yearly. Specifically, the Committee reviews and decides on the regulations on the evaluation and compensation of the CEO's management results, the remuneration and severance pay for executives, and the severance pay for employees, determines the contractual conditions to be concluded with the CEO candidate, such as management goals, and inspects and adjusts the CEO's performance of quantitative and non-quantitative indicators. In 2022, the Evaluation and Compensation Committee was held twice, and resolutions were made on the short-term and long-term evaluations of the CEO's management results.

Evaluation and Compensation Committee Activities in 2022

No.	Date	Attendees /Total	Agenda		Whether approved
			Category	Content	
1	Feb. 17	4/4	Resolution	Setting the CEO's short-term management goals for 2022 (draft)	Approved
			Resolution	Short-term management evaluation of the CEO for 2021 (draft)	Approved
			Resolution	Long-term management evaluation of the CEO for 2021 (draft)	Approved
			Resolution	Revision of the regulations on remuneration for management executives (draft)	Approved
2	Nov. 3	4/4	Resolution	Revision of the corporate governance charter (draft)	Approved
			Resolution	Determination of the basic annual salary for management executives (draft)	Approved

Evaluation of the BOD Activities KT&G determines the matters related to the evaluation items and evaluation methods based on the board of directors' activity evaluation plan (draft), which is approved by a resolution of the board of directors at the end of each year so as to secure a fair evaluation. The evaluation items are divided into evaluation questions based on a grid by item, which is assessed on a scale of five points, and listening to opinions based on a description of the content. The Board's activities are evaluated to improve corporate management performance, and the results are shared with the BOD and incorporate in the operation of the next BOD. In addition, the result of the evaluation of the BOD and its committees as well as the overall activities of independent directors, such as the attendance rate and comments during the BOD and/or committee meetings are considered and utilized as reference information when re-appointing directors. Meanwhile, the BOD and each committee conduct self-assessment every year and thus use the evaluation results to improve BOD operations of the coming year.

2022 BOD Activities Evaluation Results

Evaluation Item	Points (5-point scale)
Fair and faithful performance of duties for the benefit of the company and all shareholders	4.88
	5.00
	4.63
	4.63
Role and responsibility of the BOD (4.83 points)	5.00
	4.88
	4.88
	4.75
Efficiency of the BOD operation (4.88 points)	5.00
	4.88
	4.88
	4.75
Committees under the BOD (4.83 points)	5.00
	5.00
	4.50

Evaluation and Compensation of Independent Directors KT&G conducts evaluation on its independent directors at the end of each year in accordance with Article 34, Paragraph 6 of the Articles of Incorporation and Article 17 of the Board of Directors Regulations to operate the BOD efficiently and promote reasonable improvements of its corporate governance. The evaluation items are composed mainly of the role and responsibility of the BOD, operation efficiency of the BOD, committees under the BOD, and mutual evaluation of independent directors. Questions are divided into the evaluation questions on a 5-point scale for each item and listening to opinions through content technology. The remuneration of independent directors is determined in consideration of the level of remuneration in the same industry or competitors within the limit of the remuneration approved at the AGM, and the specific amount and method of payment of remuneration are determined by the BOD.

* Mutual evaluation result of independent directors (out of 5) is not disclosed due to the issue of hindering objectivity.

Corporate Governance

Performance Evaluation and Compensation of the CEO At KT&G, the CEO management evaluation indicators are divided into short-term management evaluation indicators (annual evaluation) and long-term management evaluation indicators (evaluated every three years). The major KPI items used to evaluate management performance include an indicator that evaluates financial performance based on quantified figures, a strategic performance indicator that directly or indirectly affect financial performance as non-quantitative indicators, and a market performance indicator that evaluates any increase of shareholders' value in the capital market.

In particular, items for establishing and internalizing ESG management were incorporated in the CEO evaluation indicator to encourage the top management to pursue activities that will create value for the company in the long term. KT&G has taken the lead in promoting ESG management that considers the sustainable future and long-term corporate value by evaluating differentiated competitiveness specialized for the industry, the implementation rate of ESG targets, and efforts to communicate the ESG vision, and by reflecting the results of the evaluation of major ESG evaluation organizations in the CEO evaluation score.

In May 2021, the BOD decided to pay part of the CEO's long-term incentives in stock by introducing a stock compensation system linked with performance to induce top management's responsible management and to ensure that the interests of the shareholders are aligned with those of the top management, in order to maximize shareholder value. In this way, the top management is encouraged to implement more shareholder-friendly management policies, since the value of their long-term incentives changes according to the stock price at the time of stock payment. We also implement a policy of redeeming or reducing incentives when management's intentional or gross negligence, violation of non-disclosure agreement, or matters related to payment errors are found by stipulating the redemption policy in the CEO's management contract.

CEO (President) Performance Evaluation Indicators

Financial Performance Indicators	Strategic Performance Indicators	Market Performance Indicators
Evaluating the company's profitability, growth potential, and stability with quantified financial performance	Evaluating the growth and development of mid-to-long term businesses, and the achievement of major strategic implementation targets	Evaluating an increase of shareholder' value in the capital market
<ul style="list-style-type: none"> • Revenues • Operating profit • Sales quantity • Market share • Return on equity (ROE) 	<ul style="list-style-type: none"> • Advancement of the overseas cigarette business • Globalization of the NGP business • Establishment of the infrastructure for global organizations • Improvement of the risk management function • Reinforcement of the ESG management system 	<ul style="list-style-type: none"> • Relative stock price increase rate (KT&G stock price increase rate compared to peer groups)

Compensation Paid to Directors in 2022

Category	No. of persons	Total amount paid (KRW million)	Average pay per person (KRW million)
Registered directors ¹⁾	2	2,136	1,068
Independent directors ²⁾	2	192	96
Member of Audit Committee	4	381	95
BOD	8	2,709	339

¹⁾ Excluding independent directors and members of the Audit Committee

²⁾ Excluding members of the Audit Committee

* Total amount paid to all directors who worked from January 1, 2022 to December 31, 2022, including payment to two non-executive directors who resigned at the end of their tenure on March 29, 2022.

CEO-to-Employee Pay Ratio (2022)

CEO's Compensation (KRW million)	Pay of the Median Employee (KRW million)	Ratio ¹⁾
1,548	90	17.2

¹⁾ Calculated by dividing the CEO's compensation by the pay of the median employee

Corporate Governance

Audit Committee

KT&G has been enhancing the independence, fairness, and objectivity of its Audit Committee by composing the Committee of independent directors only, exceeding the audit committee composition standards stipulated in both the Commercial Law and the internal regulations. (The Committee shall have at least three members with at least two thirds of independent directors and one accounting expert.) We also appoint two finance and accounting experts among the four members of the Audit Committee to enhance expertise. The Audit Committee holds a regular committee meeting once a quarter in accordance with Article 8 of the Audit Committee Operation Regulations. However, the chairperson may convene additional committee meetings as and when necessary. In 2022, the Audit Committee held six meetings to discuss agenda items of AGM, internal accounting management system, business plan of the Audit Team, settlement of accounts, results of the internal audit, and matters related to the external auditors.

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

Composition of the Audit Committee

Composition	Independent Director	Name	Career and Qualification	Expertise in Accounting and Finance	
				Applicable or not	Expert type
Chairperson	○	Koh, Yun-sung	<ul style="list-style-type: none"> Professor in Business Administration (Accounting), Hankuk University of Foreign Studies (Mar. 2010-present) Ph. D Business Administration (Accounting), Yonsei University (Feb. 2007) Director, Korean Accounting Society and Korea Tax Association (Jan. 2010-present) 	○	Academic degrees in accounting and finance
Member	○	Baek, Jong-soo	<ul style="list-style-type: none"> Lawyer, Dongin Law Firm (Mar. 2015-present) Tax Legal Advisor, Seoul Regional Tax Office (Nov. 2015-Oct. 2016) Inspector, Busan District Prosecutor's Office (Dec. 2013-Feb. 2015) 	-	-
Member	○	Kim, Myung-chul	<ul style="list-style-type: none"> CFO, Shinhan Financial Group (Jul. 2007-Sep. 2008) Finance Director, Shinhan Bank (Mar. 2005- Mar. 2006) Foreign Currency Team Head, Shinhan Bank (Jul. 1993-Feb. 1998) 	○	Professional experiences in financial institutions
Member	○	Shon, Kwan-soo	<ul style="list-style-type: none"> Co-CEO, CJ Logistics (Dec. 2014-Jan. 2019) CEO, CJ GLS (Jan. 2012-Oct. 2013) Vice President, CJ GLS (Jan. 2010-Jan. 2012) 	-	-

* As of April 13, 2023

Audit Committee Training in 2022

Date	Conducted by	Trainees	Content
Apr. 28	KT&G	Shon, Kwan-soo	Policies and current status of the Audit Committee's operating regulations
May 17	Samjung KPMG	Shon, Kwan-soo	Advanced auditor program
Jun. 23	Samil PWC Accountings	Koh, Yun-sung	Future strategy for the internal financial management system
Jul. 14	Audit Committee Forum	Kim, Myung-chul	Importance of corporate risk management and internal control
Sep. 14	Audit Committee Forum	Kim, Myung-chul	ESG response status and suggestions of the Audit Committee
Sep. 22	Samjung KPMG	Kim, Myung-chul	Subsidiary supervision and evaluation of the consolidated internal accounting management system by the Audit Committee

Attendance Rate of Audit Committee in 2022

100%



Business Ethics and Compliance

Ethical Management



Establishment of KT&G Group Business Ethics Charter

Recognizing the importance of promoting ESG management and complying with international ethical standards as our business has been expanding global presence, in June 2022 we established the “KT&G Group Business Ethics Charter” which reflects the ethical value of global standards. The Charter stipulates the common principles and standards that KT&G employees must observe, particularly with regard to work and research ethics, information protection, fair trade, responsible sales and marketing activities, environmental protection and social contribution, and human rights protection. As the Charter is applied to all employees of KT&G Group, including KT&G and its subsidiaries at home and abroad, its contents are written in such a way that anyone can understand them, unlike the existing legal text. The Charter also provides specific examples intended to help employees to make prompt decisions in the right direction when circumstances require it.

Moreover, the Charter has been translated and distributed in eight languages, including Indonesian, of the countries in which our subsidiaries are located, and educational materials have been produced and distributed for each language, so that all members of the Group can firmly establish ethical awareness by referring to the KT&G Group Business Ethics Charter in the appropriate language. Based on the Charter, we plan to present ethical values suitable for the market environment and improve related risk management capabilities through training programs and inspections.

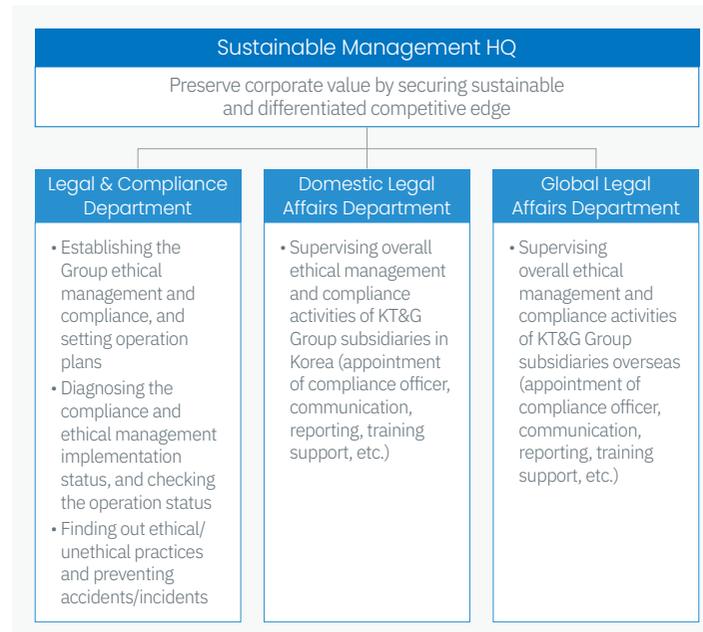
Ethical Management System and Activities

Ethical Management Promotion Organization | As the management method is switching to CoE (Center of Excellence), KT&G went through organizational restructuring in the first half of 2023 in order to establish an integrated and systematic compliance and ethical management operation system across all Group subsidiaries and to manage the system effectively. The compliance and ethical management organization is composed of the Legal & Compliance Department, Domestic Legal Affairs Department, and Global Legal Affairs Department, and aims to devise, implement, verify, and improve compliance plans based on the PDCA cycle. The organization also helps employees establish an active sense of ethics and strives to preserve sustainable corporate values by playing the role of a bridgehead for establishing a culture of ethics and compliance and making company-wide achievements.

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. As the KT&G Group Business Ethics Charter was established in 2022, we have developed educational materials in each language and distributed them to all group subsidiary companies, so that all group employees can take the related courses to enhance their ethical awareness. Furthermore, we encourage our employees to join ethical management by promoting various ethical management activities. Leading examples include conducting self-diagnoses to identify the actual status of ethical management and compliance (once a year), signing the ethical practice pledge (once a year), and participating in the ethical management campaign “Think Twice”.

KT&G also takes the lead in diffusing the ethical management culture throughout KT&G's value chain by signing the “Special Terms of Business Ethics” when signing contracts with other companies and continuously monitoring unfair trade and unethical behaviors of the employees by conducting surveys of stakeholders.

Ethical Management Organization



Major Ethical Management Activities



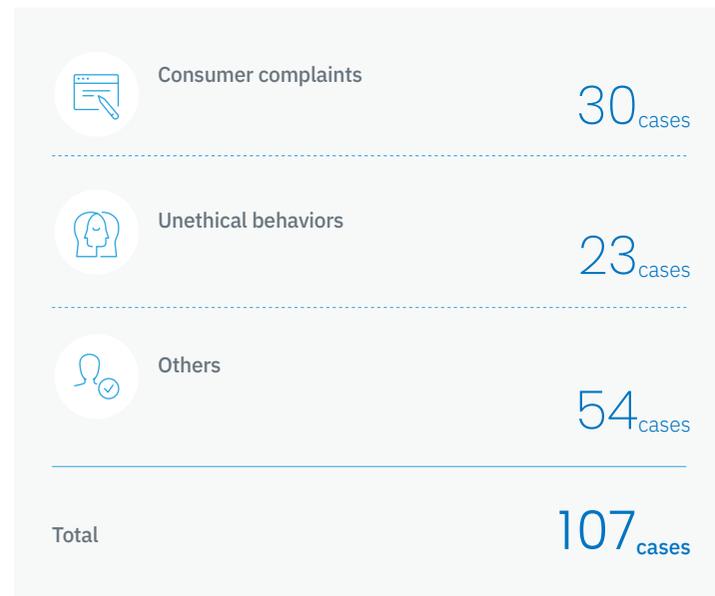
Business Ethics and Compliance

Unethical Behavior Reporting System

KT&G set in place an “unethical behavior reporting system” that enables its stakeholders, including employees and partners, to report unethical behaviors under their real names or anonymously. They can report such unethical behaviors as bribery, requests for special consideration for a job position, misbehavior, sexual harassment and bullying in the workplace, abuses of power, and collusion without restrictions on time or location. As our global business continues to expand, we plan to strengthen ethical management across the Group by operating various unethical behavior reporting channels in various languages. KT&G has established the “Guideline on the Protection of Persons Reporting Unethical Conduct” in order to protect the identity of reporters according to the provisions related to the prohibition of retaliation and the prohibition of unfavorable disposition, and has increased the transparency and reliability of the reporting system by publishing the “Manual on the Reception and Handling of Unethical Behavior Report”.

- [Guidelines on the Protection Persons Reporting Unethical Conduct](#)
- [Channels to Report Unethical Behaviors](#)

Cases of Unethical Behaviors Reported in 2021



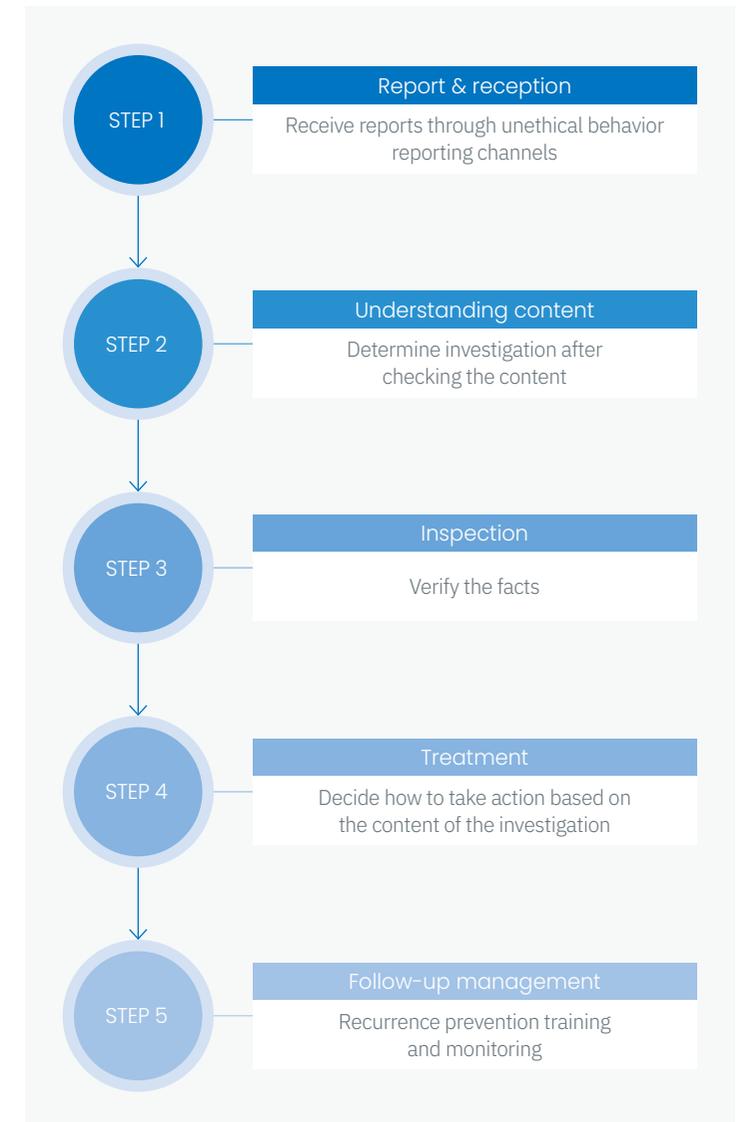
Operation and Handling of Unethical Behavior Report | In 2022, a total of 107 cases were received through the “Channels to Report Unethical Behaviors”. According to the report, we carried out follow-up management by taking improvement measures through the transfer of business institutions and preparing measures to prevent recurrence if necessary. KT&G will continue to raise its employees’ awareness of the importance of compliance and practice transparent ethical management by promoting the reporting system.

Upon receiving a report of unethical behavior via the unethical behavior reporting channel on the website, the company checks the details and decides whether to proceed with an investigation. If the reported behavior is found to be true, KT&G takes immediate legal or corrective action against the perpetrator through the relevant judicial agency and pays compensation to the reporter after review in accordance with the relevant regulations. The results of incidents and accidents are disclosed in the ESG Factbook section of this report, and additional training and monitoring are conducted for all employees to prevent the recurrence of such incidents.

How to Report Unethical Behavior

Reporting using real name	The reporter is requested to consent to and enter his or her personal information. The identity of the reporter is protected in accordance with the Guidelines on the Protection Persons Reporting Unethical Conduct.
Anonymous reporting	Those who are concerned about the disclosure of their identity may report anonymously. However, if the content of the report is ambiguous, the report may not be investigated.
Others	<ul style="list-style-type: none"> Postal mail Legal & Compliance Department, 19F KT&G Tower, 416 Yeongdong-daero, Gangnam-gu, Seoul, Korea E-mail ethics@ktng.com

Unethical Behavior Handling Process



Business Ethics and Compliance

Compliance Management

Compliance Management System  [KT&G Anti-Corruption & Bribery Policy](#)

Domestic Compliance Management System

As the regulations on corporate social responsibility, fair competition and anti-corruption are becoming increasingly strict, KT&G strives to build customer trust and achieve sound corporate development by establishing compliance control standards, strengthening the compliance management system, presenting activity directions, and pursuing a fair and transparent way of doing business. In addition, we set in place the Legal & Compliance Department, an organization dedicated to compliance management, to monitor the compliance status of employees on a regular basis and to report the results to the board of directors. KG&G also provides compliance education designed to spread the compliance culture throughout the company (headquarters in the main office, factories, regional sales offices, etc.) and improves the risk management capabilities of individual employees based on compliance and ethical management evaluation indicators.

Anti-Corruption & Bribery Policy KT&G has established the “Anti-Corruption & Bribery Policy” to eradicate misbehavior such as corruption and bribery and promote transparent business practices. Based on this policy, we intend to express our detailed and bold determination to eradicate bribery and corruption as announced in the Ethics Charter and to comply with the global standards.

Monitoring of Law/Policy Trends and Preemptive Response KT&G assesses legal risks by analyzing potential risks related to the business and continues monitoring the enactment and revision of business-related laws and trends in government policies in order to respond to such risks in advance. These have enabled us to check the influence of laws and policy trends on the business and quickly inform the relevant departments of important matters so that they can comply with the related laws, regulations, and policies. Going forward, we will continue conduct monitoring and operate response system to ensure effective compliance control activities.

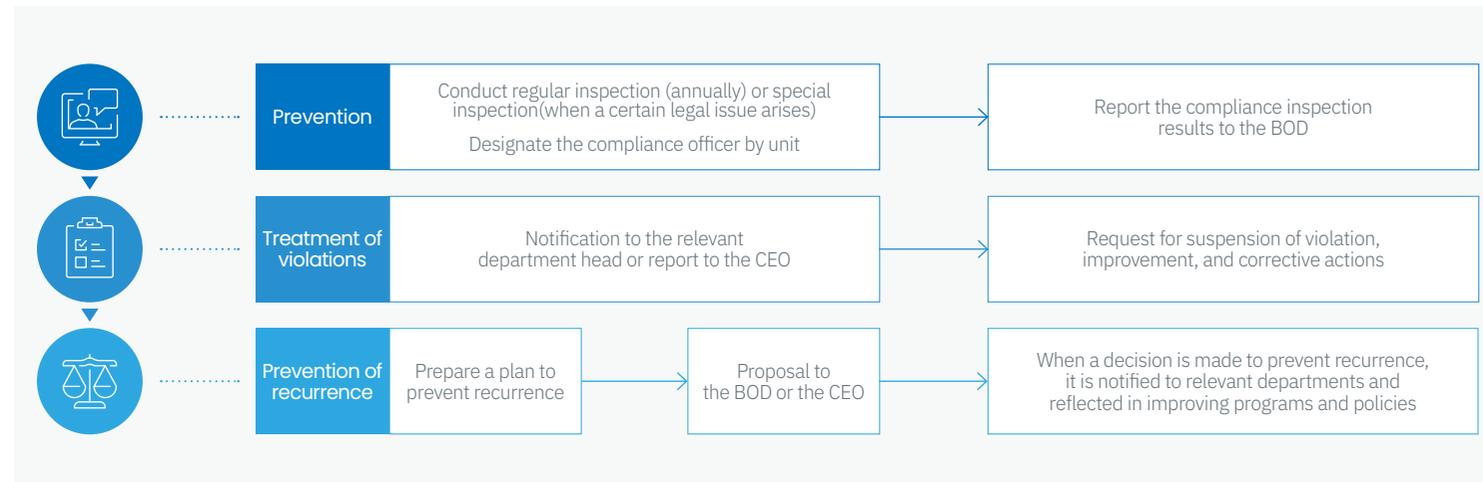
Global Compliance System

In line with the gradual expansion of its global business, KT&G is strengthening its compliance management activities by complying with the local laws of the countries in which it operates, and predicting and preventing possible legal risks in advance. Each overseas subsidiary company is making efforts to abide by the laws of the country by conducting business and managing employees based on company regulations.

To this end, we have established the GIP (Global Information Portal), a platform for sharing legal information, and appoint a compliance officer at each subsidiary to serve as a bridge between the main office and the overseas subsidiaries in order to prevent any blind spots in compliance management.

The GIP is designed to prevent legal risks by sharing legal information between the main office and the overseas subsidiaries and by providing legal affairs handling service, including the provision of legal advice and contract reviews. It also serves as a communication control tower for compliance issues between the main office and the overseas subsidiaries. The compliance officer of each overseas subsidiary monitors the company’s compliance status using the Compliance Monthly Report, which is uploaded to the GIP every month, and KT&G constantly supports each subsidiary so that they can check and improve any issues on their own.

Compliance Control Process



Major Global Compliance Performance in 2022

Performance	Content
Responding to global legal issues	<ul style="list-style-type: none"> Risk management by monitoring and responding to global sanctions Responding to legal issues by complying with local laws and regulations, regarding the establishment, merger, and liquidation procedure of overseas organizations
Stabilizing global business environment through localized legal consultation	<ul style="list-style-type: none"> Managing initial market entry risks by reviewing price/non-price regulations by country Reviewing the legal environment to determine the appropriateness of entering a new country
Advancing global contract management	<ul style="list-style-type: none"> Developing standard templates for major global contracts and providing guidelines Training on major legal issues and precautions for each contract case
Internalizing global compliance	<ul style="list-style-type: none"> Compliance officer seminars for all overseas subsidiaries “Understanding global compliance” seminar for prospective expatriates

Business Ethics and Compliance

Compliance Inspection

KT&G carries out compliance inspections of all its domestic business sites (head office, factories, regional sales offices, etc.) and overseas subsidiaries with respect to employees’ ethical awareness, matters to be observed by managers, responsible marketing, subcontracting, and spending processes, in order to check the current status of employees’ level of compliance with the laws and to identify matters that need to be improved. We are also striving to induce voluntary compliance control within the organization, such as the introduction of employees’ voluntary compliance inspection on the use of undisclosed important information. The results of the compliance inspections and improvement plans are reported to the BOD in our efforts to improve the overall level of compliance management.

Domestic Compliance Inspection | KT&G conducts the compliance inspection targeting all employees in accordance with the Commercial Act and the Compliance Control Standard. According to the domestic compliance inspection

Results of the Compliance Inspection in 2022

Employees of all domestic business sites and overseas subsidiaries of KT&G

4,226 persons



Domestic Compliance Inspections in 2022

Inspection item	Target	No. of persons	Remarks
Employees’ ethical awareness	All employees	4,084	Including dispatched employees, while excluding those on leave
Matters to be observed by managers	Employees below the position of office manager	318	Excluding (P) and (F) team leaders
Subcontracting	Departmental managers and employees in charge of business	23	SCM Office and other subcontracting-related organizations
Spending process	Departmental managers and employees in charge of business	16	Finance Office
Responsible marketing	Departmental managers and employees in charge of business	27	Marketing HQ, NGP HQ

conducted in 2022, KT&G employees showed a satisfactory level of compliance awareness and compliance practice. We took follow-up measures to correct certain unsatisfactory outcomes, such as conducting a company-wide education and distributing guidance materials on the laws and regulations.

Global Compliance Inspection | There has been growing need for compliance management of overseas subsidiaries due to the expansion of global business and changes in the CoE system. Accordingly, KT&G conducted on-site diagnoses of its overseas subsidiaries and identified areas for improvement, and shared the contents of its compliance activities at the head office and its future compliance strategy.

In 2022, we conducted compliance inspection targeting a total of 142 local managers and expatriates in five overseas subsidiaries (manufacturing and sales subsidiaries in Indonesia, Russia, Taiwan, and Turkey) concerning their implementation of and compliance with each code of conduct based on the management philosophy set forth in the KT&G Group Business Ethics Charter. Results showed that the managers of overseas subsidiaries generally appear to understand and practice the KT&G Group Business Ethics Charter well. Depending on the level of awareness, some managers were educated separately or inspected further to ensure that all employees of the Group internalized the code of conduct in the Charter. In our efforts to promote the implementation of compliance system operation, we visited the sales subsidiary and manufacturing subsidiary in Indonesia in 2022, and thus shared compliance activities and compliance strategy of the head office. We also strived to diagnose the compliance status of local subsidiaries and identify areas for improvement.

Going forward, we will make continuous efforts to ensure that each overseas subsidiary establishes a compliance system which meets global standards through on-site diagnoses.

Overseas Subsidiary Compliance Inspections in 2022

Inspection item	Target	No. of persons	Remarks
Implementation of and compliance with the code of conduct in the KT&G Group Business Ethics Charter	All expatriates and managers of overseas subsidiaries	142	Checking the implementation of the code of conduct in the Ethics Charter, such as unethical behavior reporting, business ethics, responsible marketing, asset and information protection, etc.

Spreading a Culture of Compliance through Education

Activities Aimed at Spreading a Compliance Culture in Korea
Assignment and Operation of Compliance Officers In 2021, KT&G established a company-wide compliance system by appointing compliance officers to each organization (HQ at the head office, factories, regional sales offices, etc.) in order to prepare a response system that can discuss and handle potential and actual legal risks with the compliance management department. In 2022, we also assigned compliance officers to our overseas and domestic subsidiaries to promote the establishment of a compliance system throughout the Group. The compliance officers ensure that compliance activities can be continued in daily work, such as distributing information on legal policy trends related to the organization’s business to its employees. Going forward, we will expand voluntary compliance activities by helping compliance officers to acquire competencies comparable to those of the department in charge.

Operating Compliance and Ethical Management Evaluation Indicators In 2021, KT&G incorporated the compliance and ethical management practice items in the organization evaluation indicators in order to emphasize the importance of compliance activities, and strived to establish an effective compliance control system by applying evaluation score weighted value differently to each organization in 2022. Such evaluation indicators contribute to raising employee awareness on compliance and ethics when they perform their tasks, inducing them to manage compliance risks on their own, as well as improving their execution capabilities. Based on this, we will focus on diffusing a culture of compliance across the entire organization.

Establishing Compliance Guidelines KT&G has established the “Compliance Guidelines” which list the legal risks that may arise while performing a task, enabling its employees to check and comply with the relevant laws and regulations voluntarily, and also to inform employees of any revisions of the laws. In 2022, we established and/or revised the Guidelines on Outsourcing Services at the NGP Development Stage for legal outsourcing of NGP development, the Guidelines on Compliance with Matters Submitted to the BOD which specifies whether a given issue requires resolution by the board of directors, and the Guidelines for the Sales Organization when Disposing of Waste Advertising Materials, and then distributed them to the relevant organizations. Going forward, we will make continuous efforts to supplement the guidelines for voluntary compliance system operation of the member, which is a part of the compliance activities, and will identify new topics that require management so as to increase employees’ use of the compliance guidelines and the effectiveness of business application.

Business Ethics and Compliance

Compliance Training KT&G strives to enhance the employee awareness on compliance by planning and operating compliance training sessions according to jobs and positions. In 2022, we ran 31 training programs, including regular compliance training according to the compliance control standards, compliance training for recruitment, and special compliance training. We also ran compliance training that is suitable for trainees and business, ranging from the prevention of workplace harassment to the Act on Fair Labeling and Advertising.

Operation of the Legal Information System KT&G prevents legal risks that may affect its business by operating Legal Information System, an online portal site. Employees can access the System with ease from the in-house portal and utilize business-related services related to legal advice and contract reviews, as well as legal information related to the company regulations, trends in laws and policies, etc. In 2021, a total of 5,111 business related contracts and a total of 310 consultations were legally reviewed and employees utilize a total of 37 standard contracts with the regulation and amendment of nine standard contracts.

Activities Aimed at Spreading a Culture of Global Compliance

Global Compliance Training The Global Legal Affairs Department specifies the contents of education required to help employees better understand the importance of global compliance for sustainable business and to reduce any legal risks that may occur in the process of developing overseas businesses. The Department also provides training on “understanding global compliance” to new and transferred employees and to expatriates in charge of compliance tasks. In addition, we push forward the training regarding principals on English contract management and matters related to negotiation with overseas partner companies to enhance the capabilities of employees.

Holding Compliance Officer Seminars To establish a company-wide compliance system, KT&G held a compliance seminar for compliance officers at all its overseas subsidiaries in 2022 in order to share the compliance vision, goals, and direction of the group and to inform compliance officers of their responsibilities and duties. Furthermore, to advance compliance management, we have specified the compliance and ethics management evaluation indicators more concretely than before, and held a seminar related to the compliance and ethics management KPIs for the compliance officers of all overseas subsidiaries in order to raise awareness on the indicators. From 2023, we plan to assign dedicated personnel to each overseas subsidiary so that they can communicate regularly with the compliance officers of overseas subsidiaries and continue providing support for the prompt implementation of KT&G Group’s compliance policy at the overseas subsidiaries.

Compliance Training in 2022

Category	Trainees/Course	Content	
Regular Compliance training	All employees	Prevention on sexual harassment	
		Prohibition of harassment in the workplace	
		Awareness improvement on the disabled	
		Protection of personal information	
Compliance training during the recruitment	Level 6 new employee orientation in 2022	Ethics management and prevention on sexual harassment	
		Understanding of tobacco business law	
		Occupational health and safety education	
	Level 10 new employee orientation in 2022	Legal industrial safety education	
		Understanding of tobacco business law	
		Ethics management and prevention on sexual harassment	
	Level 9 (production) new employee orientation in 2022	Occupational safety and health education	
		Understanding of tobacco business law	
		Occupational health and safety education	
	Military veteran refresher course	Military veteran refresher course	Protection of personal information
			Ethics management
			Concept of the compliance control standard and the code of conduct

Category	Trainees/Course	Content
Special Compliance training	New executive directors	Ethics management
		Ethics management
	New manager course	Desirable employee ethical awareness
		KT&G Group Business Ethics Charter
	All employees	KT&G M/S
		Compliance
	Indonesia/Russia expatriate (position candidates) training	Internal accounting control system
		KT&G M/S
	Dispatching the CEO of the Indonesian subsidiary	Compliance
		Internal accounting control system
	Russia/Turkey expatriate training	KT&G M/S
		Compliance
Compliance inspection follow-up training	Intensive education on sexual harassment/ bullying prevention in the workplace	
	Understanding compliance work	
Compliance officer training	Compliance training related to brand review	
Training on responsible marketing		

Overseas Subsidiary Training in 2022

Category	Trainee and course	Content
Regular Compliance training	All employees of 5 overseas subsidiaries (Russia, Taiwan, Turkey, manufacturing in Indonesia, sales in Indonesia)	Understanding of the KT&G Group Business Ethics Charter
Special Compliance Training	Compliance officers of 5 overseas subsidiaries (Russia, Taiwan, Turkey, manufacturing in Indonesia, sales in Indonesia)	Understanding of KT&G Group’s compliance (including guidance to KPI indicators)

Business Ethics and Compliance

Fair Trade and Competition KT&G has been implementing the Fair Trade Compliance Program (CP) based on the “Operation Guidelines for KT&G Fair Trade Compliance Program” established in 2002, and compliance officers appointed by the board of directors are responsible for the self-compliance manager, who oversees the CP operation. In 2020, we revised the “Operation Guidelines of KT&G Fair Trade Compliance Program to activate CP, reflecting the revised matters relevant to the regulations of the Fair Trade Commission and the Korea Fair Trade Mediation Agency.” Furthermore, we reflected amendments to the Fair Trade Act and the Subcontracting Act in the Voluntary Compliance Manual of Fair Trade and published E-books to enhance the accessibility and utilization of employees.

In 2022, we revised the Guidelines on Compliance for Sales Offices to allow employees to fully understand the relevant laws and regulations, and the company regulations on fair trade and fair competition. We also established and distributed the Guidelines on Outsourcing Services at the NGP Development Stage” to prevent violations of the Act on the Promotion of Mutually Beneficial Cooperation between Large Enterprises and Small and Medium Enterprises. In addition, KT&G is making consistent efforts to ensure that fair trade and fair competition are not violated by providing a checklist to the employees in charge of new product development and strategic planning so that they can voluntarily check compliance with regard to the prohibition of the use of undisclosed important information. We also provide training and information suitable for their work so that they can practically improve business capabilities.

KT&G puts customer satisfaction as a top priority in its management activities and strives to provide accurate and transparent information that customers need to select their products reasonably. Also, we will listen to the customer’s opinions through various channels and reflect on them. Our fair trade principles and standards of conduct for customers are disclosed so that they can be checked through the KT&G Group Business Ethics Charter and Responsible Marketing Policy.

Transparent Disclosure



Tax Policy KT&G abides by domestic and overseas tax-related laws and pays tax in accordance with its corporate philosophy of “Exemplary Company”, and we do not transfer income to low-tax countries with the purpose of tax evasion. Domestic and overseas subsidiaries abide by laws of each country where businesses are carried out according to parent company’s policies and faithfully fulfill their tax obligations. The employees in charge of tax affairs at all of the Group subsidiary companies comply with the tax laws in accordance with KT&G’s tax policy and submit evidentiary documents actively and faithfully when requested by the tax authorities based on a transparent relationship with them.

All internal and external transactions are dealt with based on the Korea International Financial Reporting Standards (K-IFRS) whereas transactions with overseas subsidiaries are carried out within the normal price range according to the transfer pricing policy. KT&G calculates and pays income tax based on the above principles and tax laws, and calculates other taxes based on the established accounting standards and related tax laws.

Tax Risk Management Activities KT&G clearly interprets the tax laws and calculates and pays the due taxes based on a spirit of compliance, and manages tax risks at the company level by sharing the principles with subsidiary companies within the group for their compliance. In addition, it is stipulated that when each department of the company makes a new or large-scale transaction, they are required to consult with the finance department in advance to review compliance with the accounting standards and tax laws, in order to control tax risks during business operations. KT&G reports and pays corporate tax after tax adjustment of income and expenses as specified in the K-IFRS in accordance with the corporate tax regulations, and secures the reliability of data, which is the basis for corporate tax calculation, by storing it in the company’s computer system. We also transparently record and manage temporary differences that occur during tax adjustment. In addition, we manage taxes other than corporate tax, such as value-added tax and tobacco consumption tax, in a similar way to corporate tax, and calculates, reports, and pays all such taxes in accordance with the tax laws.

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

Business Ethics and Compliance

Conscientious Tax Payment In addition to income tax, KT&G is contributing to the development of local communities by creating tax revenues such as individual consumption tax, value-added tax, withholding tax, tobacco consumption tax, local education tax, and acquisition tax. In 2022, the consolidated profit before tax was KRW 1,420.9 billion, and the reported tax amount was KRW 399.8 billion, recording a reported tax rate of 28.13%. On the other hand, the effective tax amount was KRW 415.6 billion, and the effective tax rate was 29.25%. Over the past three years, the reported tax rate has an average of 26.83%, and the effective tax rate has an average of 28.77%, which is 1.94%p higher than the effective tax rate, mainly attributable to the effect of non-taxable income and non-deductible expenses, changes in deferred tax amount, tax deductions, and reductions.

Tax Payment in 2022

(Unit: Persons, KRW billion)

Region	Company Name	Number of Employees	Revenue ¹⁾	Profit before tax	Income tax accrued current year	Income tax paid ³⁾
Korea	KT&G Corp.	7,714	5,193.0	1,350.4	207.1	385.2
Indonesia	PT KT&G Indonesia	4,568	356.3	64.5	9.5	27.0
Global ²⁾	KT&G Rus L.L.C. /KT&G Tutun Mamulleri Sanayi Ve Ticaret A.S.	811	302.1	6.0	2.1	3.4
Total		13,093	5,851.4	1,420.9	218.7	415.6

¹⁾ KT&G's revenue are generated from 88.7% in Korea, 6.1% in Indonesia, and 5.2% in Russia and Turkey.

²⁾ The major overseas subsidiaries are engaged in manufacturing and sales of cigarettes.

Tax Amount and Tax Rate on a Consolidated Basis

Category	Unit	2020	2021	2022	Average
Profit before tax	KRW billion	1,612.1	1,387.6	1,420.9	1.473.5
Reported tax amount ⁴⁾	KRW billion	426.7	359.6	399.8	395.4
Reported tax rate	%	26.47	25.92	28.14	26.83
Effective tax amount ⁵⁾	KRW billion	440.5	415.8	415.6	424.0
Effective tax Rate	%	27.32	29.97	29.25	28.77

⁴⁾ Income tax when the tax rate under the Corporate Tax Act is applied.

⁵⁾ Income tax that is actually paid, which reflects changes in deferred income tax due to temporary differences, non-taxable income, non-deductible expenses, tax credit, etc.

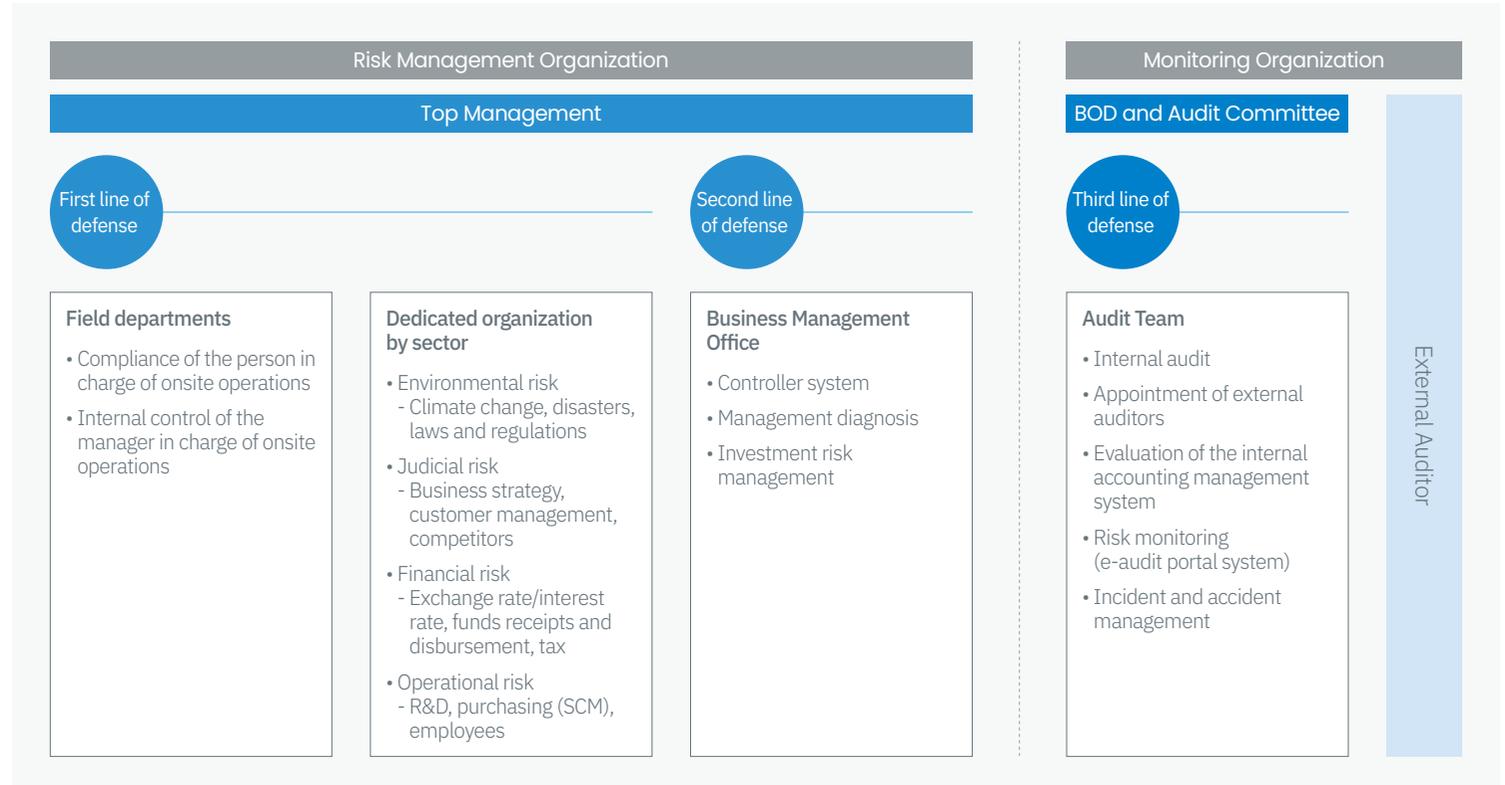
Risk Management

Risk Management System

Company-wide Risk Management System KT&G has established a company-wide risk management system designed to take preventive actions and devise preventive response plans after identifying potential risks in all business areas in advance, thereby minimizing the impact due to risks. Based on the results of the diagnosis of existing risk management conducted in 2021, we established a master plan in 2022 and established the KT&G Management System as the official Group management principle. We also laid the foundation for establishing a company-wide risk management by developing a risk management system for new business and real estate investment.

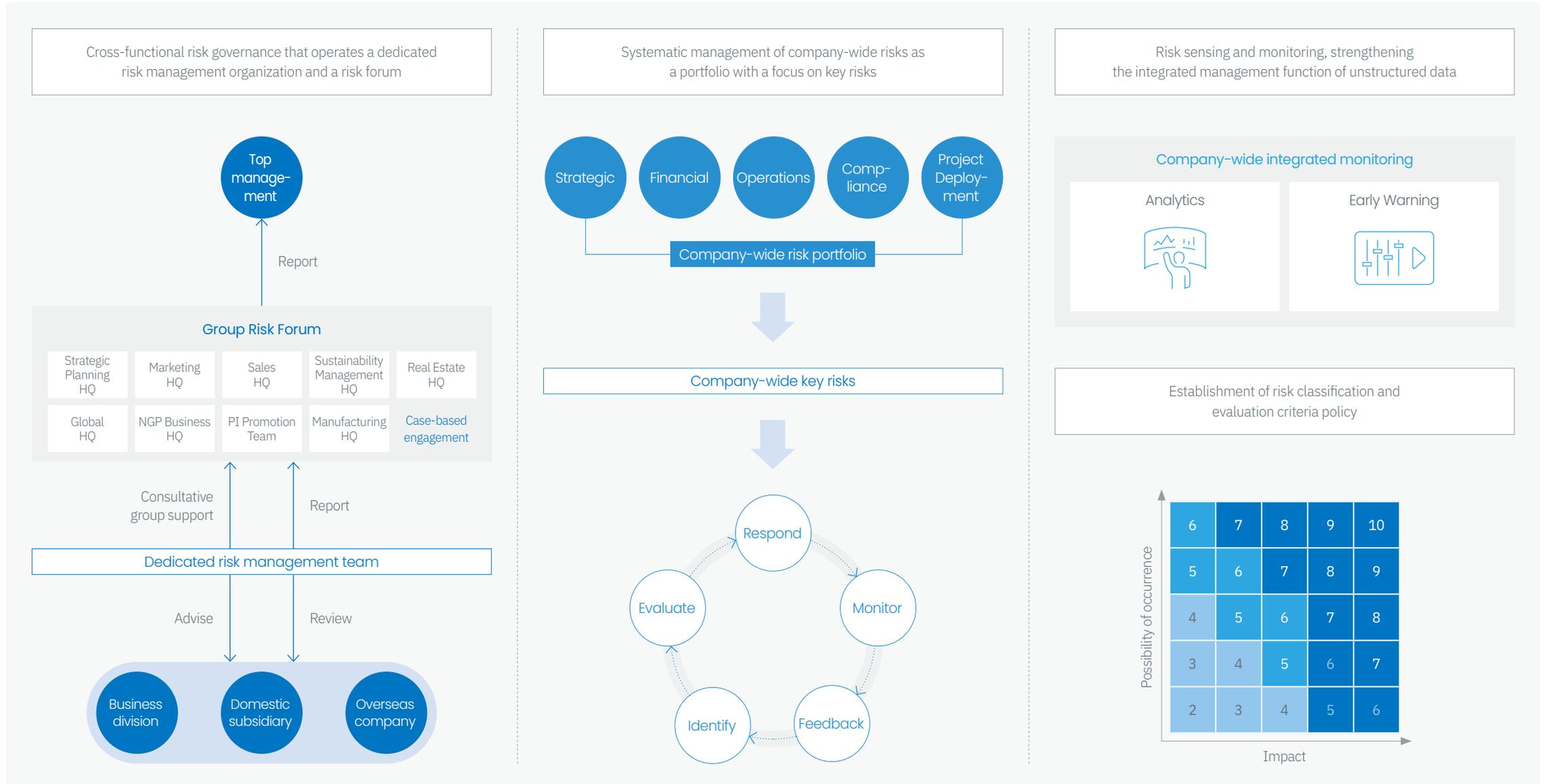
The Business Management Office is dedicated to risk management and operates a controller system, management diagnosis, and reporting packs, and continues to improve risk management for business divisions and domestic and overseas subsidiaries at the Group level. Going forward, KT&G will complete the development of an integrated risk management system that conforms to global standards by reinforcing our risk management system and spreading the risk management culture.

Risk Management Organization



Risk Management

Company-wide Risk Management System



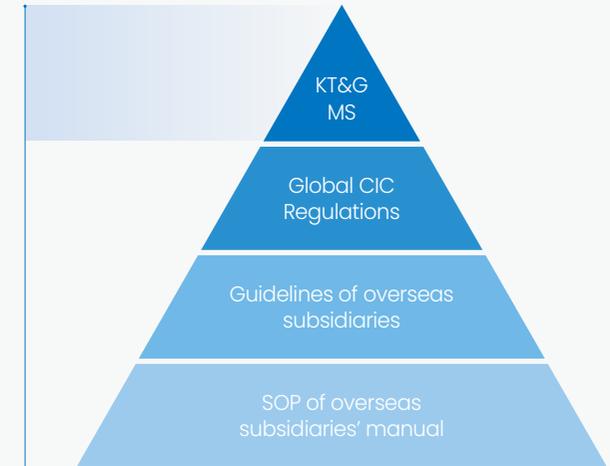
Risk Management

Controller System The Business Management Office operates a controller system to preemptively analyze and respond to risk factors in all business divisions, domestic subsidiaries, overseas subsidiaries and branches from an objective perspective. The controller of each organization continues to analyze risk and opportunity factors, strengthen its preemptive response capability, and improve the management system for the effective development and operation of the company-wide risk management system. As the scope of the Group's business areas continues to expand, the scope of control is also expanding. The risk management system will therefore be applied to all divisions at the global and manufacturing levels in 2023.

KT&G Management System The KT&G Management System defines the management principles, processes, and work R&R for overall management such as finance, human resources, legal affairs, IT, and compliance. It is both a policy and a framework at the group level, presenting the basic directions and methodologies for the core management area of overseas subsidiaries, and is also the highest standard and basis for the company's system of rules and regulations for overseas subsidiaries. After its enactment as an official company rule in the first half of 2022, MS was officially introduced through a resolution of the board of directors, and the scope of application was expanded to all overseas subsidiaries in the second half. In 2023, we will make continuous efforts to improve the quality of the Group management and strengthen our management system by applying the KT&G Management System to newly established subsidiaries and overseas subsidiaries of KGC.

KT&G will accelerate global management, improve the quality of management of its overseas subsidiaries, and strengthen risk management throughout business management by introducing these policies at the group level. We hold regular exchange meetings of the related departments and provide training for the managers of the KT&G Management System at overseas subsidiaries. In 2023, we will implement the Management System as an e-learning content to increase understanding of the Group's business management policies and continuously improve its risk management capabilities.

The Group-level KT&G Management System (MS)



Risk Management Targets based on Controller System



- Composition of KT&G MS**
- Group Principles
 - Marketing & Profiling
 - Customer Management
 - Financial and Commercial Management
 - Treasury, Accounting and Reporting, Control and Audit
 - Human Resource and Organization
 - IT and Information Management
 - Legal and Tax
 - Quality
 - Health, Safety and Environment
 - Compliance
 - Purchasing and Sourcing

Risk Management

Response Plan by Risk Factor

KT&G reviews risk factors and identifies potential risks to better understand the kinds of financial and non-financial risk factors that could arise throughout management in order to prevent and respond to them in advance. In addition, we conduct effective management risk tasks, while also establishing an integrated risk management system to which non-financial risks, such as climate change, are incorporate to company-wide risk management system.

Financial & Non-financial Risk Factors and Countermeasures

Category	Financial report	Cause	Countermeasures
Financial	Financial report	<ul style="list-style-type: none"> • Transparency and reliability of financial reporting 	<ul style="list-style-type: none"> • 24/7 monitoring of accounting and regulatory trends • Quarterly evaluation of internal accounting control system and improvement actions • Introduction and opening of Group ERP (SAP)
	Tax	<ul style="list-style-type: none"> • Corporate tax and regional tax management 	<ul style="list-style-type: none"> • Analyzing target business through tax review and advice, and optimizing tax return • Prior review through operation of tax advisory service
	Foreign currency	<ul style="list-style-type: none"> • Compliance with Foreign Exchange Transactions Act 	<ul style="list-style-type: none"> • Improvement of foreign exchange risk management system • Invitation training on the Foreign Exchange Transactions Act • Weekly and monthly foreign exchange market trend analysis
Non-financial	Strategy & reputation	<ul style="list-style-type: none"> • Corporate and brand trust and credibility 	<ul style="list-style-type: none"> • Business management risk analysis and management to be considered in decision making
	Corruption	<ul style="list-style-type: none"> • Tangible and intangible losses due to unethical behavior of employees 	<ul style="list-style-type: none"> • Training on anti-corruption for employees, self-check on ethics, and stakeholder survey • Whistleblower protection and compensation • Risk monitoring through e-Audit Portal System, regular inspection on accidents and sharing results
	Law and regulation	<ul style="list-style-type: none"> • Compliance with laws related to tobacco business, environment, and safety • Filing major businessrelated lawsuits 	<ul style="list-style-type: none"> • Monitoring of major business-related legislative and government policy trends • Publication of compliance guidelines on legal risks • Compliance with relevant laws for the implementation of the FCTC Convention
	Information protection	<ul style="list-style-type: none"> • Hacking, leaking of private information, etc. 	<ul style="list-style-type: none"> • Information protection system operation, security, and monitoring
	Operation	<ul style="list-style-type: none"> • Employees, business processes, or system errors 	<ul style="list-style-type: none"> • Deriving and implementing improvement tasks through management diagnosis
	Climate change	<ul style="list-style-type: none"> • Climate Change Transitions, PhysicalRisk Occurrence 	<ul style="list-style-type: none"> • Identifying risks in advance and prepare countermeasures by analyzing climate change scenarios • Monitoring the risk and response activities performance • Analyzing climate change trends and update risk factors

Management Diagnosis KT&G has established a management diagnosis/consulting system within the Group and operates it under the supervision of the Business Management Office, an organization specializing in risk management. The system diagnoses the management of KT&G's business divisions, overseas subsidiaries, and domestic affiliated companies to improve business soundness and prevent risks to those organizations. The identified points for improvement are continuously managed through follow-up measures and regular inspections. In 2022, we conducted diagnoses on our Indonesia subsidiary and Yungjin Pharm, and in 2023 the scope of Group risk management will be expanded to include global and manufacturing, Raw Material HQ, and the Turki subsidiary.

Audit Activities KT&G operates an Audit Team composed of members with diverse experiences, such as certified public accounting, sales, marketing, and manufacturing, and we conduct regular training and seminars to enhance the expertise of the Audit Team. We have developed an audit pool for each area of the company's major business, and systematically conduct internal audits by dividing them into the preventive audit, theme audit, financial audit, and occasional audit depending on the purpose of the internal audits. The results of internal audits are reported to the Audit Committee on a regular basis, and the effectiveness of control activity design and operation is evaluated by evaluating the operation of the internal accounting control system. Any issues identified during the evaluation process are resolved through discussions with the external auditors and the dedicated department. We also have established an e-audit portal system to monitor business-related risks and corruption risks using 48 items, and when abnormal data are detected, an explanation is requested immediately.

Key Audit Activities

Category	Themes
Preventive audit	<ul style="list-style-type: none"> • Inspecting the implementation status of obligations required by the Serious Accident Punishment Act
Theme-based audit	<ul style="list-style-type: none"> • Inspecting the implementation condition of ESG management • Inspecting internal control over the ERP system • Inspecting the real condition of DPS basic business management • Inspecting the real condition of real estate business management
Financial audit	<ul style="list-style-type: none"> • Inspecting the sales/purchasing process • Inspecting consolidated internal accounting in advance • Inspecting income tax • Inspecting cost of goods sold • Inspecting the process of setting allowances for bad debts • Inspecting the settlement process of subsidiaries
Frequent audit	<ul style="list-style-type: none"> • Reporting of unethical behaviors, etc.

Risk Management

Emerging Risk

Risk	Risk due to external environment	Potential impact on KT&G	KT&G's response activities
<p>Increased raw material risk caused by product portfolio conversion</p>	<ul style="list-style-type: none"> Corporate has been increasingly required to purchase raw materials responsibly, in addition to product safety. In particular, funds created from conflict minerals (gold, tin, tungsten, tantalum), which are illegally or unethically mined in conflict-affected and high-risk areas, especially in 10 African countries (the Democratic Republic of the Congo and neighboring countries) directly or indirectly support human rights violations, or child and forced labor and abuse of women that may occur during the mining process are causing very serious ethical problems in those countries. Especially, as these conflict minerals are essential raw materials used in various electronic products, the international community defines four minerals as conflict minerals, strictly applying international regulations and making continuous efforts to suppress their use. Currently, US corporations are required to announce the use of conflict minerals in accordance with the Dodd-Frank Act, and many global corporations such as Apple, Microsoft, Tesla, Intel, and Samsung control the risk of conflict minerals through the Responsible Minerals Initiative, which manages a list of smelters and refineries that are independently audited, in order to ensure responsible sourcing of raw materials. 	<ul style="list-style-type: none"> KT&G is making efforts to transition from the current portfolio centering on conventional cigarettes (CC) to the next-generation product (NGP) portfolio from a mid-to long-term perspective. Sales of NGPs are showing an upward trend every year, recording KRW 876.3 billion in 2022, and the share of NGPs in KT&G's tobacco business sales is at around 25% and continues to grow. KT&G is using new raw materials and parts such as device batteries, which are not used in existing cigarette products, when producing next-generation devices classified as electronic products. In particular, the minerals are essential raw materials for making electronic products. As the NGP is expected to gradually increase in the future, the consumption of raw materials such as minerals appears to be on a continuous rise. If we fail to systematically monitor the use of conflict minerals when manufacturing products or while receiving raw materials and parts from partners, risks arising from the use of conflict minerals could be fatal to business operations. 	<ul style="list-style-type: none"> KT&G recognizes the human rights violations and environmental destruction that may occur while mining, producing, and distributing minerals as significant risks that negatively affect the environment and society as a whole. To prevent the use of conflict minerals mined unethically, we have established a system to monitor whether the delivered raw materials contain conflict minerals. We monitor the ESG risk of the supply chain through ESG assessment of partner companies on a regular basis, which includes monitoring whether the received raw and subsidiary materials are being produced in a responsible manner. KT&G is collaborating with four partners to manufacture NGP devices and has asked all of them to submit CMRT (Conflict Minerals Reporting Template), checking how they are managing conflict minerals with the submitted documents. We plan to expand this management system to other responsible minerals also. Going forward, we will continue expanding the scope of management to check the location of all smelters and refineries in the supply chain and the use of conflict minerals. We will also advance our monitoring system as a responsible global company to minimize the number of sustainability risks that can occur in the value chain by managing the supply chain systematically and encouraging partners to join the system.
<p>Declining conventional cigarette consumption and fierce market competition</p>	<ul style="list-style-type: none"> The size of the global tobacco market remains in decline due to rising product prices caused by persistent inflation, increasing consumer goods due to regulatory changes, and decreasing social acceptance of smoking. (Demand for CCs in the global market is estimated to decline about 2% every year)¹⁾ On the other hand, consumer needs for less smell & modified risk products are rising, and major players in the global market are competing to develop new products that can replace existing traditional cigarettes such as e-cigarettes, giving cigarette consumers greater options to choose from. Global tobacco companies are actively promoting the market expansion and entry of smoke-free products and fiercely competing based on strategic brand portfolio, product quality improvement and innovation, and brand awareness. 	<ul style="list-style-type: none"> As consumer needs for less smell & modified risk products increase, demand for diversified next-generation products is also likely to increase. With regard to the next-generation products in the HNB (Heat Not Burn) category, the global demand is expected to grow at an average annual rate of more than 9%¹⁾. The share of the HNB product in the domestic market is also growing rapidly, reaching about 19% as of the first quarter of 2023²⁾. It is vital to increase the market share through strategic market preoccupation or the development of innovative products, and added value creation and profit improvement can be expected by selling more next-generation products than existing cigarettes. However, it is essential to devise a strategy to pre-emptively assume an advantageous position in increasing tobacco market competition, since any failure to diversify the portfolio centered on future innovation platforms that meet market demand and consumer needs in a timely manner can result in loss of potential customers or sluggish sales. To provide consumers with better choices and lead the future market, it is crucial to make efforts to advance the next-generation platform based on scientific R&D capabilities and to conduct active investments and execution for diversifying product portfolios. 	<ul style="list-style-type: none"> In order to transform the Group business portfolio, KT&G has established a new vision and growth strategy aiming to achieve more than 60% of sales in the non-CC business by 2027. KT&G plans to preemptively respond to potential risks that may occur in business operations by enhancing R&D/manufacturing capabilities as well as core capabilities in next-generation products and the health/functional food business by transforming the business structure centering on traditional cigarette and tobacco. Based on this, we will grow into a global company. In particular, our NGP business is maintaining a steady growth pace with a 47.5% market share of stick products in the domestic market, starting with the release of the first generation of lil SOLID in 2017. With the number of countries in which K&G has entered the market having increased to 31, our business expansion strategy is fully underway. We will therefore invest in R&D on NGPs and aim to develop a proprietary platform and achieve a differentiated market advantage by acquiring the patent rights for R&D achievement. We are also preparing for the MRT (Modified Risk Tobacco Product) by advancing the product evaluation system based on our scientific capabilities defined as "K-Science" along with continuous platform innovation.

¹⁾ Source: Euromonitor (for years from 2014 to 2024)

²⁾ Source: Based on CVS POS Data

Enhancing Shareholder Value

Active Shareholder Return Policy

Mid-to Long-term Shareholder Return Plan KT&G has been paying dividends every year to enhance shareholder value since IPO, with the dividend per share showing a steady upward trend. We establish dividend policy by comprehensively considering investment for sustainable future growth, management performance, cash flow, and dividend stability. Our cumulative dividends over the past three years (2020-2022) amounted to KRW 1,752.9 billion, and the three-year average dividend payout ratio stood at 55.6%.

To implement a more transparent and extensive shareholder return policy, KT&G announced the “mid-to-long term shareholder return policy for 2021 to 2023” worth of KRW 2,750 billion, through which we made decisions that we will repurchase KRW 1 trillion worth of treasury stocks and implement KRW 1.75 trillion in cash dividends over the next three years. To faithfully implement this policy, we purchased 4.1 million treasury stocks worth about KRW 348.3 billion and paid a total dividend of KRW 575.9 billion, equivalent to KRW 4,800 per share (dividend ratio: 58.9%) in 2021; and purchased 3.7 million treasury stocks worth about KRW 356.8 billion and paid a total dividend of KRW 581.4 billion, equivalent to KRW 5,000 per share (dividend ratio 57.2%) in 2022. In 2023, the final year of the 3-year mid-to long-term shareholder return policy, KT&G plans to repurchase KRW 294.9 billion of treasury stocks and pay dividends of KRW 592.7 billion by using the remaining financial resources.

Going forward, KT&G will make continuous efforts to promote diverse and active shareholder return policies that can enhance corporate value and shareholder value simultaneously, by taking into consideration the management performance, financial situation, and mid-to-long term investment plans. KT&G will also communicate actively with the market in order to increase the visibility and strengthen the transparency of the shareholder return policy.

Implementation of Semi-annual Dividend and Introduction of Online Dividend Inquiry Service KT&G announced the introduction of semi-annual dividend in 2023 through the KT&G Investors Day, held on January 26, 2023, and related fair disclosure. Accordingly, we plan to implement semi-annual dividend with June 30, 2023 as the reference date. We communicated with the market by making an announcement on the same day after the BOD’s decision on the related details. We also provide sufficient information to shareholders by specifying the matters related to dividends in our Business Report and Corporate Governance Report and by disclosing the details of dividends over the past five years in Korean and English on the company website.

Furthermore, KT&G has adopted an online dividend inquiry service since the 2022 settlement dividend paid in April 2023, having informed the shareholders of this service through the KT&G website and press releases. We have improved shareholder convenience by replacing the dividend notice by mail with an online inquiry service that allows interested parties to view dividend notices in real time on their PCs and mobile devices. This has also enabled us to practice resource saving and ESG management by reducing paper consumption for mailing and carbon emissions produced in the delivery process.

Protecting Shareholder Rights

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. In our efforts to induce more shareholders to attend the annual general meeting (AGM) and express their opinions, we have been participating in the distributed voluntary compliance program of the AGM and held the AGM on days other than the concentration day of many other companies’ AGM for the past three years. KT&G also discloses the letter of attorney form and posts it on the company website for active proxy voting. In addition, KT&G implemented the electronic proxy system in 2020 and 2021, and introduced the electronic voting system in 2022. As a result of making various efforts to improve shareholder convenience in exercising their voting rights, the attendance rate exceeded 80% at the 36th AGM held on March 28, 2023. KT&G also discloses related information to shareholders transparently by disclosing the results of AGM, including the number of shares for and against each item at the AGM, through the Corporate Governance Report and the company website.

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 Act. It is guided through Corporate Governance Report and Business Report, and the department in charge of the procedures explains in detail if there is an inquiry. When a general meeting is called in order to select two or more directors, shareholders who hold 1/100 or more of the total issued shares with voting rights can file a request (in writing or as an electronic document) to the company to appoint directors through the cumulative voting method six weeks before the date of the shareholders’ meeting (in the case of an AGM, it is held on the same date as the previous year’s AGM). In fact, the appointment of independent directors was voted through the cumulative voting system upon the requests of shareholders at the 36th AGM held on March 28, 2023.

Amount of Mid-to Long-term Shareholder Return 2021-2023

Approximately KRW **2,750** billion

Resources that can be returned to shareholders are used, excluding for the investment funds set aside for internal and external growth



Enhancing Shareholder Value

KT&G also guarantees the right of shareholders to make inquiries and request explanations on the agenda at the AGM by specifying it in the KT&G Charter of Corporate Governance. We also explain each agenda item sufficiently and give shareholders an opportunity to speak to ensure that all matters to be introduced at AGM are given due and fair consideration. In the case of an agenda item proposed by shareholders, an opportunity to speak is given to the proposer so that the agenda can be explained and proposed smoothly. KT&G emphasizes that the BOD should consider the protection of shareholders' rights and interests to be important to corporate management, by stipulating that "Directors shall comply with the director's code of ethics established by the board of directors and strive to make the best decisions and execute their duties by fulfilling their fiduciary duty for the company and the shareholders". (Article 4 of the Board of Directors Regulations)

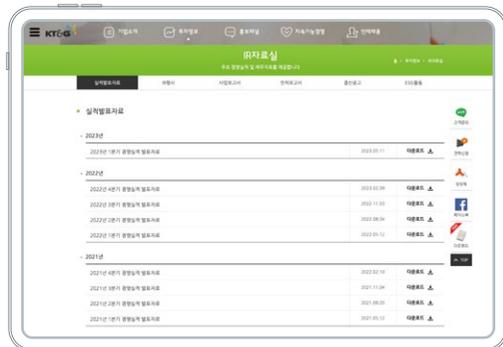
Providing Fair Shareholder Information

KT&G holds a company briefing session to announce the business performance every quarter and to ensure that all shareholders receive company-related information fairly. We announce estimated profit and loss information for the following year and disclose the information on the company website at the company briefing session in the fourth quarter of each year. Starting with the performance presentation given in Q1 2023, we have reorganized our IR data so that investors can understand the performance of each business sector more easily. We also have introduced a webcasting service that can be accessed by anyone so as to improve shareholder's access to IR information, and post a recording of the event on the company website. In addition, we transparently communicate with all shareholders by posting matters of high interest to them, such as mid-to long-term business plans and shareholder return policies, on the official disclosure channels and company website in both Korean and English. Moreover, KT&G immediately discloses matters requiring fair disclosure as and when they occur in order to provide relevant ample information to shareholders fairly and in time, in accordance with Article 15 of the Securities Market Disclosure Regulations. In 2022, we underwent five fair disclosures and 17 disclosures in English, including dividend plans.

Furthermore, KT&G held the "KT&G Investors Day" on January 26, 2023 to enhance investors' understanding of KT&G's management strategy. This event was held as an integrated online video conference in Korean and English so that all shareholders could attend it, and the method of participation was announced in Korean and English on the company website and through public disclosure. At the event, we strived to increase investors' understanding by transparently disclosing our business goals and investment plans with a focus on the three core businesses (NGP, KGC, global conventional cigarettes) and the direction of the shareholder return policy, together with the direction of the mid-to long-term growth strategy.

In addition, KT&G does its utmost to respond faithfully to the regular inquiries and expressed opinions of various shareholders through its IR-dedicated department. We also strive to protect shareholder rights by reporting all relevant facts to the management and the BOD, if necessary, and sending out reply mails in time.

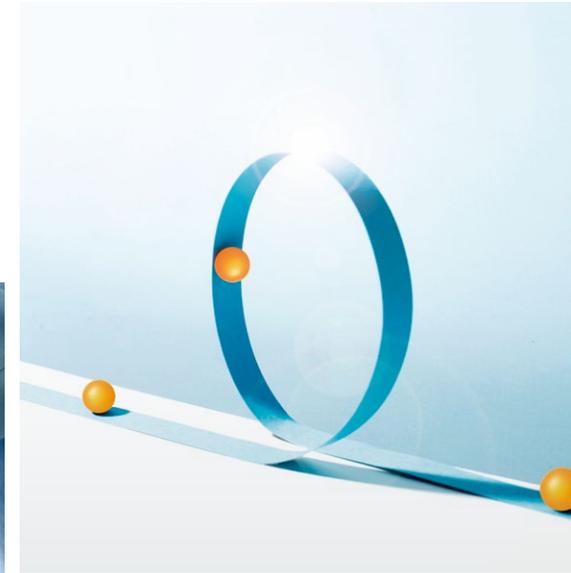
KT&G holds the NDR (Non-Deal Roadshow) at home and abroad and participates in various conferences hosted by securities companies to explain matters of interest to investors in person and listen to their requests. We also hold company visit IR meetings and conference calls for domestic and foreign institutional investors and analysts, and had five overseas NDRs in 2022, in order to smoothly communicate with foreign institutional investors. In addition, the top management and independent directors participate in meetings, if necessary, to listen to the opinions of the capital market and communicate KT&G's goals.



KGC ESG PERFORMANCE

MANAGEMENT APPROACH

Korea Ginseng Corporation (KGC) is recognized as the “World’s No.1 Ginseng Brand” in the global market and is leading the globalization of red ginseng. Furthermore, we are advancing as a “global comprehensive health and beauty company” by promoting the diversification of health food components beyond red ginseng, venturing into the domain of beauty for well-being, reinforcing e-commerce to align with trends, and extending its global market presence. In addition, in promoting such change and innovation, we consider ESG value creation as a top priority and deliver the sustainable value of “health and happiness” by listening to the voices of various stakeholders, including customers.



- Sustainability Management Strategy of KGC
- 2022 Sustainability Management Performance of KGC
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 - [Product] Strengthening Product Competitiveness through R&D
 - [Manufacturing] Reducing Environmental Impact of Business Sites
 - [Consumption] Enhancing Product Eco-friendliness
 - Food Safety
 - Human Rights Management
 - Occupational Safety and Health
 - Ethical Management

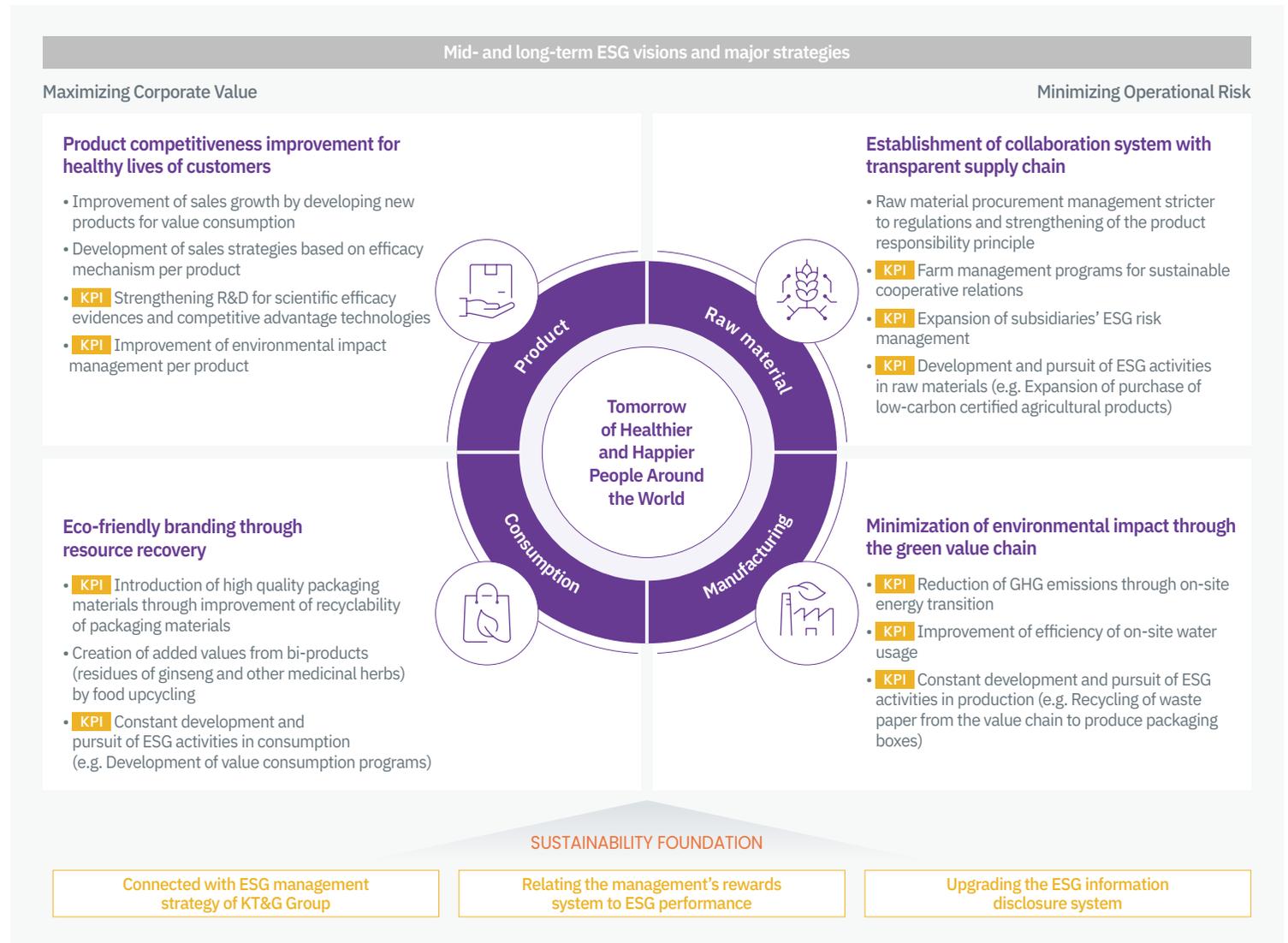


Sustainability Management Strategy of KGC

Establishment of ESG Implementation System

KGC is preemptively practicing ESG management to achieve the ESG vision of KT&G Group and the sustainable development of the company. To achieve the mid-to long-term vision of a “healthier and happier tomorrow for the people of the world”, we established an ESG implementation system consisting of four principal objectives – Establishment of collaboration system with transparent supply chain, Minimization of environmental impact through the green value chain, Product competitiveness improvement for healthy lives of customers, Eco-friendly branding through resource recovery – and 14 strategic tasks. Based on this, we systematically implement our own differentiated ESG management that considers the characteristics of the business and the level of social demand throughout the value chain, contributes to the achievement of the ESG vision at the group level, and do our best to become a company that meets the expectations of customers and society.

Mid-to Long-term ESG Visions and Major Strategies



Sustainability Management Strategy of KGC

2025 ESG Implementation Goals by Key Task

KGC plans to set goals for 2025 for each key task to improve ESG risk and opportunity management capabilities and promote internal execution performance, and continuously monitor the implementation status centered on a dedicated department. In 2023, we will strengthen our sustainable competitiveness by fully implementing ESG management by assigning missions to each value chain.

2025 ESG Goals

● KGC-specific tasks ○ Group-wide tasks

Enhancing internal execution capability through continuous discovery of ESG activities in each phase of the value chain

Key area	2025 ESG goals (Plan)	Progress and Future Plans	Page	
 Raw materials	<ul style="list-style-type: none"> ● Adoption of farm management program 	<ul style="list-style-type: none"> • Farm management program (SGP) based on sustainable cooperative relations 	<ul style="list-style-type: none"> • Introduced SGP program, Established guidelines and evaluation checklist • Plan to run pilot operation in 2023 	Adopting a sustainable farm management program
	<ul style="list-style-type: none"> ● Partner company ESG risk management 	<ul style="list-style-type: none"> • 100% ESG evaluation on major raw material suppliers and OEM companies 	<ul style="list-style-type: none"> • Conducted partner ESG evaluation; Advanced indicators • Plan to run pilot operation in 2023, targeting major material suppliers 	Supply chain ESG evaluation and advancement of indicators
 Product	<ul style="list-style-type: none"> ● R&D for product competitiveness 	<ul style="list-style-type: none"> • R&D investment for product innovation and marketing capabilities development 	<ul style="list-style-type: none"> • Efficacy-oriented product design based on consumer needs, efficiency of product development process, eco-friendly technology and product certification 	Strengthening product competitiveness through R&D
	<ul style="list-style-type: none"> ○ Management of products' environmental impact 	<ul style="list-style-type: none"> • Evaluation of all processes of major products (e.g. Korean Red Ginseng, etc.) (From 2023) • Value chain emissions (Scope 3) inventory management 	<ul style="list-style-type: none"> • Scheduled to conduct LCA for Korean red ginseng extract and Korean red ginseng root in 2023 	Product environmental management
 Manufacturing	<ul style="list-style-type: none"> ○ GHG emissions reduction 	<ul style="list-style-type: none"> • Carbon neutrality at all business sites in 2050 - GHG emissions reduction by 25% compared to 2020 by 2030 - Expansion of the use of renewable energy at business sites 	<ul style="list-style-type: none"> • Continuous GHG reduction activities such as factory facility improvement, energy use efficiency, and construction of solar power generation facility 	Reducing environmental impact of business sites
	<ul style="list-style-type: none"> ○ Water usage efficiency improvement 	<ul style="list-style-type: none"> • 20% reduction of water withdrawal intensity compared to 2020 by 2030 	<ul style="list-style-type: none"> • Continuous efforts to improve water efficiency, such as minimization of generation of water and sewage by expanding the use of reprocessed water for washing fresh ginseng, and reviewing plans for recycling wastewater generated from manufacturing processes such as concentration 	Water use and recycling
 Consumption	<ul style="list-style-type: none"> ● Improvement of packaging material recyclability 	<ul style="list-style-type: none"> • Step-by-step activities to reduce environmental impact of packaging materials and introduction of eco-friendly high-quality packaging materials - Establishment and application of packaging material R&D guidelines - Phased introduction of eco-friendly shopping bags (2023-)¹⁾ - R&D to use paper without lamination and develop alternatives to plastic pouches in the mid- and long-term 	<ul style="list-style-type: none"> • Simplifying packaging materials and improving recyclability by phase, such as applying eco-friendly packaging design and signing a MOU on resource circulation to apply sustainable packaging materials • Plan to adopt one type of (standard size) eco-friendly shopping bag in 2023, followed by expansion after reviewing consumer and market reaction 	Enhancing product eco-friendliness

¹⁾ Plan to gradually convert through additional analysis of consumer preference according to the detailed review of the direction of conversion of eco-friendly materials in the future

Sustainability Management Strategy of KGC

ESG Management Goals for 2023



KPI for CEO Sustainability

KGC has introduced and expanded ESG KPI to identify issues that fit the characteristics by value chain and strengthen risk and opportunity management to enhance ESG management capabilities and internalize them throughout the company. In addition, we plan to align ESG indicators with management evaluation and compensation and expand related indicators so that ESG task execution can be internalized in each organization's performance evaluation. Going forward, we will continue to discover business opportunities by enhancing ESG management execution and will strive to effectively respond to external demands for growing importance of ESG information disclosure.

Raw Materials Sustainable Raw Material Supply Chain

Responsible Raw Material Procurement

Responsible Raw Material Procurement System

Management by Raw Material Procurement Phase | KGC employs ginseng as its primary raw ingredient and supplements it with herbal medicines such as deer antler, angelica, and peony. We source all domestic herbal medicines and agricultural products as government-certified items, ensuring the acquisition of premium-quality, secure, and environmentally friendly raw materials. For red ginseng, we purchase 6-year-old domestically-grown fresh ginseng. We seek mutual growth with farms by managing the cultivation process and supporting the farms to produce high-quality raw ingredients through contract-based production.

For crude medicines, KGC procures raw ingredients from excellent production areas abroad if they cannot be produced domestically or has poor quality. In addition, we have set in place systematic and thorough verifications on the entire process from pre-cultivating to purchasing stages in order to secure product safety against physical, chemical, and biological hazards and genetically modified organisms (GMOs).

Stable Raw Ingredients Procurement Management | To respond to uncertainties in supply due to agricultural production variability and long lead times (1 to 3 years for crude medicines, 7 years for ginseng), KGC regularly predicts mid-to-long-term ingredient demand and controls supply and demand to secure adequate inventory. Also, we are making efforts for stable procurement by establishing various procurement processes while supporting contract farms at the top of the value chain for their regular operation. KGC provides interest-free support for cultivation management fees, purchases the entire production volume, and provides cultivation technology training to improve farmers' competitiveness, actively realizing win-win management. Moreover, we thoroughly manage raw fresh ginseng in each stage of land selection, contract signing, cultivation process, and purchase to ensure stable procurement.

Hazardous Factor Control by Stage

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

Raw Fresh Ginseng Management Process



Raw Materials

Sustainable Raw Material Supply Chain

KGC achieves record-high ginseng production in 2022



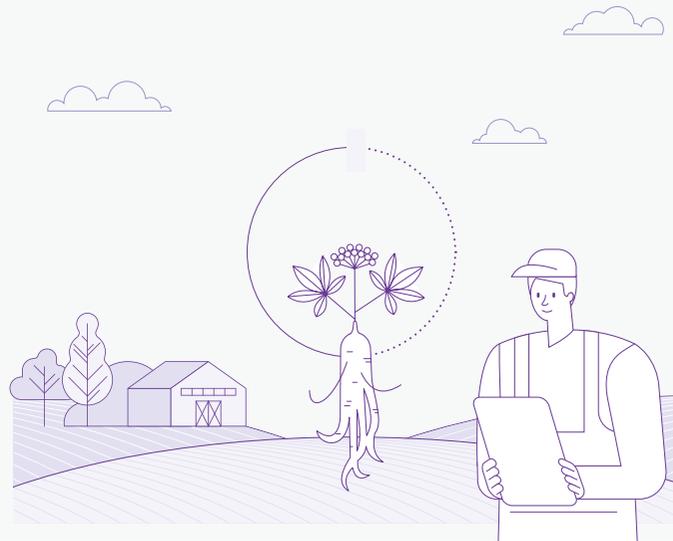
Harvesting new ginseng contracted to grow
1,100 times larger than a soccer field



Ginseng production per 10a has increased by
37% over the past 10 years



Applications for excellent varieties have increased by
28% over the past 10 years



As a result of purchasing 6-year-old ginseng from contract farmers for Jung Kwan Jang brand nationwide in 2022, it was found that 780kg of ginseng was harvested per unit area of 10a (ar), recording the largest production ever, even in abnormal climates such as global heat waves. This achievement is mainly attributable to the quality improvement through constant R&D, and KGC has released various varieties according to the characteristics of the cultivation environment and quality, such as “Cheonpung” with excellent shape, “Yeonpung” with high yield, and “Chungjin” with high pathogen resistance. Moreover, as abnormal climate accelerated due to global warming in the 2000s, we developed “Sunmyeong” which is resistant to high temperatures, after 20 years of research. Ginseng cultivation facilities have been developed over years.

KGC has developed a “small tunnel sunshade facility” with tunnel-like openings at the front and back with a small width to respond to abnormal weather, blocking leaks and facilitating ventilation so that ginseng can be grown even in typhoons or heat waves.

KGC harvests only ginseng that has passed the safety inspection standards for 430 ingredients from the stage of planting site selection and uses it as a raw material for high-quality red ginseng. We purchase raw materials through contract cultivation for a 774ha (hectare) of ginseng field that is approximately 1,100 times the size of an official FIFA soccer field (0.7ha). Contract cultivation for Jung Kwan Jang is an excellent production method with advantages for companies, producers, and consumers, as farmers can focus on ginseng cultivation without worrying about sales channels, and companies can receive raw materials produced with high quality standards. Going forward, KGC will make continuous efforts to strengthen partnerships with contract farmers to directly purchase high-quality ginseng to provide consumers with products that guarantee the highest quality.

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

Purchasing Certified Raw Materials

Purchasing all certified agricultural products and herbal medicines

Category	Purchasing	Certified Products
Agricultural products	7 kinds / 93 tons	7 kinds / 93 tons (GAP certified)
Herbal medicine raw material	21 kinds / 1,153 tons	21 kinds / 1,153 tons (GAP, eco-friendly, geographical indication)

Comparison of Ginseng-related GAP and KGC Quality Control Standards

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

Raw Materials

Sustainable Raw Material Supply Chain

Adopting a Sustainable Farm Management Program

Establishment of Sustainable Ginseng Production Program To strengthen the foundation for sustainable production of ginseng farms, KGC is promoting the Sustainable Ginseng Program (SGP), and it plans to operate programs that include standard cultivation, environmental protection, labor rights, and history management. SGP is a program that not only supplies high-quality ginseng for the health of customers, but also manages ginseng cultivation sustainably in compliance with environmental and social regulations. In the future, KGC plans to promote internalization of cultivation management through development of ginseng cultivation regulations and an evaluation system, and seeks ways to reduce environmental impact, such as minimizing the use of pesticides through agricultural waste treatment and cultural control¹⁾.

Establishment of SGP Guidelines and Evaluation Checklist | In order to expand social fairness and sustainability, procure raw materials responsibly, and strengthen shared growth with partners, KGC plans to expand and operate the SGP gradually along with compliance with the basic principles of ESG. We will set best practices for sustainable ginseng production, and thus identify, evaluate, and improve the current state based on the set indicators in 2023.

Strengthening the Implementation of SGP | In addition to the implementation of SGP, we will focus on fostering key experts and enhancing stakeholder understanding through internal and external trainings as a way to promote sustainable ginseng farming. We will also do our utmost to fulfill social and environmental responsibilities by guaranteeing ginseng farmers' right to work, implementing safety management, and reducing GHG emissions.

Acquisition of Low-carbon Agricultural Product Certification for Herbal Medicines KGC attempted to expand the certified items of low-carbon agricultural products in 2022, but experienced difficulties due to such issues as suspension of product production and restrictions on herbal medicine items. In the case of agricultural products, we had to suspend the contracts for six items (red cabbage, broccoli, purple onion, carrots, and beans) that had undergone low-carbon certification due to the discontinuation of "Good BASE" products. It was also difficult to expand items subject to low-carbon certification restrictions (bio-based certification policy). As of June 2023, we have maintained two low-carbon certified items (Schisandra, Korean black raspberry), and will continue to strive for low-carbon certification in the future.

Regarding herbal medicines, we exclusively procure products that hold certifications including GAP, eco-friendliness, and geographical labeling, in addition to their low-carbon attributes. This not only bolsters our own raw material safety protocols but also contributes to eco-friendly agricultural agreements that indirectly align with our ESG policies. Moving forward, we will endeavor to broaden the scope of low-carbon certified offerings by engaging in dialogue and consultation with government bodies.

Supply Chain ESG Risk Management

Farm Support Program

Consulting for Farm Support | KGC has set in place the SGP to create a sustainable ginseng production platform with farmers under its directions to systemize sustainable management. SGP is a program that manages sustainable ginseng cultivation to provide high-quality ginseng for customers' health and comply with environmental and social regulations. In addition, we plan to set our own compliance guidelines and have a third-party evaluation of the result. To this end, we will provide the minimum guidelines for sustainable production by distributing and training the standard cultivation methods for the stable operation of the SGP based on the cooperative relationship with farms. Moreover, we will expand and differentiate SGP by sending Ginseng Consultants (GC) from local offices to farms for on-site training and promotion.

Supply Chain ESG Evaluation and Advancement of Indicators | In 2022, we conducted an assessment aimed at enhancing the ESG evaluation criteria within the annual comprehensive evaluation of key packaging material partner companies, including paper boxes and pouches. We will make continuous efforts to improve our ESG evaluation metrics. In addition, we have signed an MOU with our packing box partner companies to recycle waste paper generated during the product production process to resources. Going forward, KGC will use ESG evaluation tools in collaboration with external accredited agencies to advance the evaluation system and strive to help our partners enhance the sustainability management capabilities.

Outline of Partner Company Evaluation



¹⁾ Method of growing crops healthily by reducing the occurrence of diseases or weeds by improving cultivation methods, etc.

Product

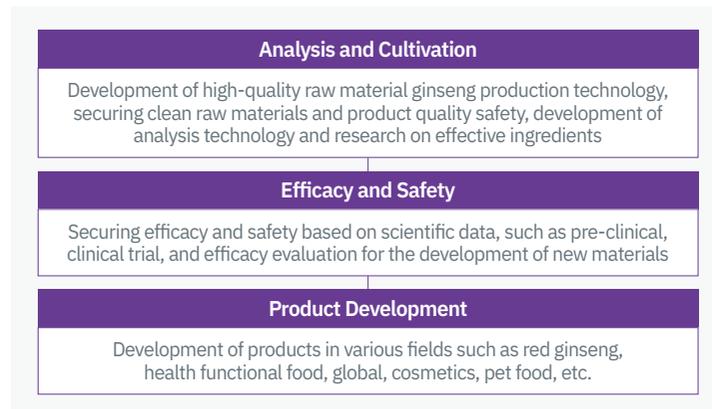
Strengthening Product Competitiveness through R&D

R&D System to Strengthen Product Competitiveness

KGC promotes R&D in various fields with the goal of accelerating the development of new products responding to the market, securing scientific basis for efficacy, discovering differentiated competitive advantages through standardizing raw materials and deriving differentiated factors, and strengthening global marketing support through expanding the global efficacy network. We have established a R&D system based on scientific verification through organic collaboration in each field, from raw materials to finished products, such as cultivation, efficacy, safety, and product development, and is leading the R&D of red ginseng and natural products around the world.

In 2022, KGC made a wide range of efforts to strengthen product competitiveness. To this end, we specified product development process and revised development guidelines, introduced product efficacy and safety pre-verification process, expanded efficacy study conducted by local experts in the market (China, U.S.) and promoted overseas joint research, discovered a competitive advantage through standardizing and differentiating raw materials, and promoted the review of effectiveness of global local product development infrastructure. Moving forward, we will continue with relentless innovation and R&D efforts to secure the excellence of red ginseng through efficient product design based on consumer needs and the efficiency of product development process. We will also expand the global efficacy study, increase our market presence through the development of local customized products, work on the standardization and differentiation of major raw materials (red ginseng, deer antler, etc.), thereby creating a healthy future.

R&D System of KGC



Eco-friendly Technology and Product Certification “Fat-soluble red ginseng fraction new material (red ginseng oil) manufacturing technology” is an eco-friendly red ginseng oil extraction technology developed by KGC with its own technology. We defined the technology as a promising technology that meets changing market dynamics, such as the expansion of the domestic and international food upcycle market and the increased demand for eco-friendly products due to changes in consumer awareness, and thus went through the verification process to receive an objective evaluation of its value from an institution with public confidence. As a result of qualifying for both “greenness” of the eco-friendly manufacturing system for the separation and purification of red ginseng oil and “technical excellence” of the manufacturing technology, we obtained the Green Technology certification¹⁾ in December 2022. We also received confirmation from the Green Certification Office, Korea Institute of Planning and Evaluation for Technology in Food, Agriculture, and Forestry, and the Ministry of Agriculture, Food and Rural Affairs for two types of products, “Blood Circulation Support” and “Eye Support” of the Jung Kwan Jang α Project, as Green Technology products²⁾.

This is the result of our constant efforts to produce Jung Kwan Jang products in an eco-friendly way, and KGC plans to expand the manufacturing technology of fat-soluble red ginseng fraction new material (red ginseng oil) to Jung Kwan Jang products as well as DONGINBI cosmetics products in the future. Furthermore, we will continue to make efforts to apply new eco-friendly technologies.

Green Technology Certification

Fat-soluble red ginseng fraction new material (red ginseng oil) manufacturing technology

When red ginseng oil is extracted, carbon dioxide is circulated and recycled to be used, and only pure raw materials are separated without residual solvent to reduce pollutants and greenhouse gases generated during the manufacturing process.



Green Technology Certification for the fat-soluble red ginseng fraction new material (red ginseng oil) manufacturing technology

2 products of the Jung Kwan Jang α Project – Blood Circulation Support, Eye Support



- Green Technology Certification for the Eye support of Jung Kwan Jang α Project
- Green Technology Certification for the Blood Circulation Support of Jung Kwan Jang α Project

¹⁾ Green Technology certification is certification for technologies that save and efficiently use energy and resources to minimize GHG emissions and pollutants.
²⁾ Selected as products that have been commercialized for the purpose of sales as products to which green technology is applied. Must meet the confirmation of green technology certification, product production availability, quality management, and product performance.
³⁾ An environmental impact assessment method that quantifies resource inputs and outputs in the entire process of products and services and evaluates their potential environmental impacts on the environment as a whole
⁴⁾ Selected Korean red ginseng extract and Korean red ginseng root in consideration of manufacturing process and product representativeness

Product Environmental Management

Implementation of Life Cycle Assessment (LCA) for Major Products The social demand for environmental review from the planning and development stage of products, beyond the workplace-centered environmental management, is continuously growing. Accordingly, KGC plans to conduct a Life Cycle Assessment (LCA)³⁾ for major products⁴⁾ in 2023 to diagnose environmental impacts and prepare measures to reduce them by evaluating the impact of products on the environment throughout the entire process of procurement of raw materials to disposal after use. Going forward, based on the LCA results, we plan to derive environmental improvement factors such as reducing energy and raw material usage, and conduct external communication such as attaching labels of evaluation product. Furthermore, we will establish eco-friendly product standards and build a product eco-friendliness review system in the mid-to long-term.

Management of Value Chain Emissions Inventory Building a Scope 3 inventory is critical for companies to identify and reduce their indirect greenhouse gas emissions. KGC plans to build a Scope 3 inventory in the second half of 2023, which will enable us to use resources and energy more efficiently and fulfill our environmental and social responsibilities, thereby improving management performance.

Manufacturing Reducing Environmental Impact of Business Sites

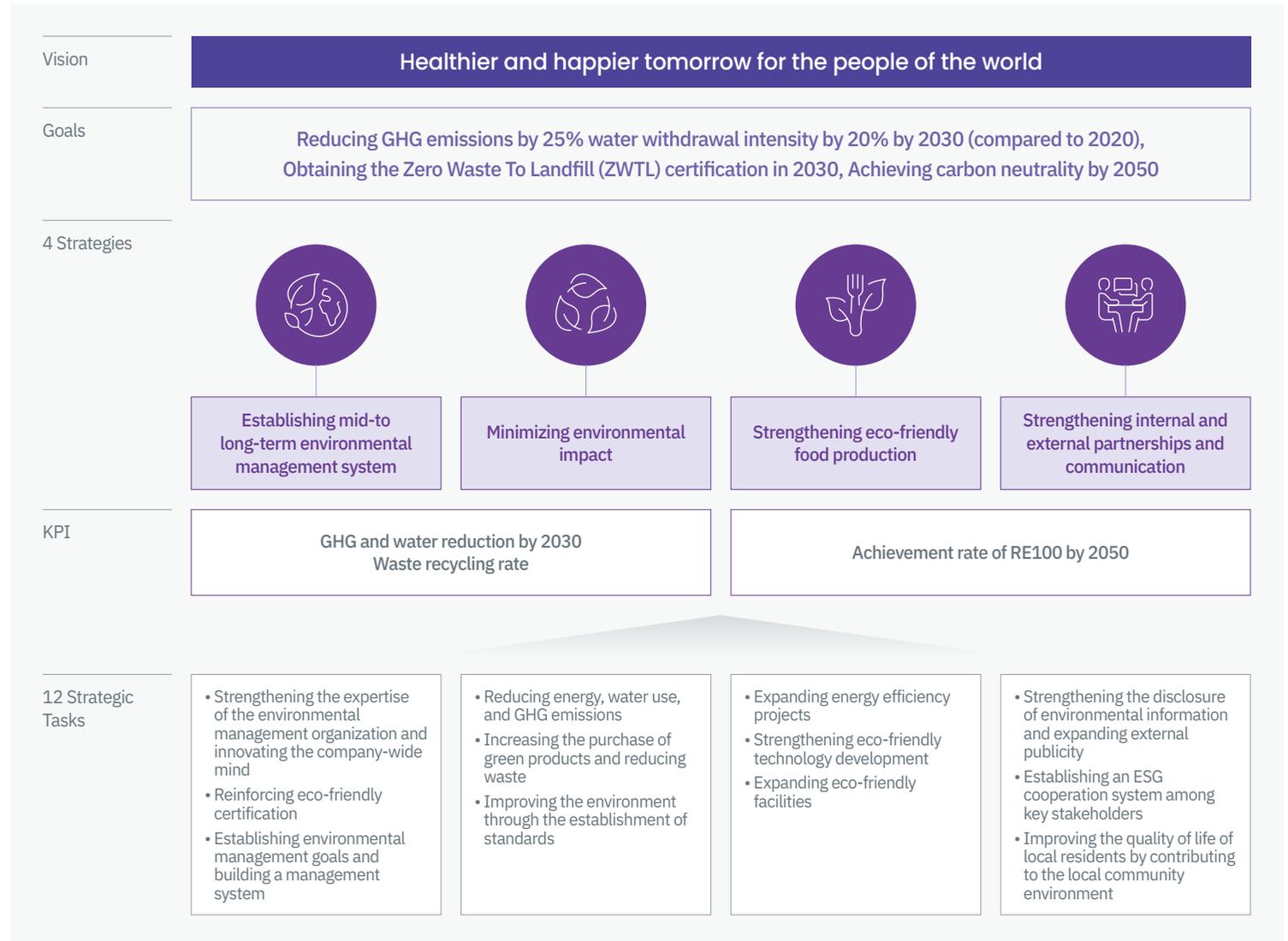
Green Value Chain Implementation System

Environmental Management Strategy System KGC adheres to an environmental management policy and strives for the establishment of environmentally conscious workplaces by setting proactive objectives that surpass the basic requirements of environmental regulations. To achieve the mid- to long-term vision of “minimizing environmental impact through the Green Value Chain”, we are focused on reducing GHG emissions centered on energy conversion in the business site and improving the efficiency of water use in the business site. Going forward, we will continue to discover ESG activities in the production sector to realize “a healthier and happier tomorrow for the people of the world”.

Environmental Management Goals and Major Tasks To achieve the environmental management goals, the Manufacturing HQ of KGC established the mid-to long-term ESG management action plan roadmap in 2022 to establish a mid- to long-term environmental management system and derive strategic tasks to minimize environmental impact.

<p>Carbon Neutrality</p> 	<ul style="list-style-type: none"> Reducing GHG emissions by 25% compared to 2020 by 2030, achieving carbon neutrality by 2050 Considering the internal reduction capacity and emission scale of KGC, and the connectivity with the ESG strategy of KT&G Group, KGC established mid-to long-term reduction targets by 2030 in accordance with the SBTi WB 2°C scenario.
<p>Water Resources Management</p> 	<ul style="list-style-type: none"> Reducing water withdrawal intensity by 20% compared to 2020 by 2030 KGC established mid- to long-term water management goals by comprehensively considering the characteristics of the food industry, product quality management, and the direction of ESG strategy of KT&G Group.
<p>Waste Management</p> 	<ul style="list-style-type: none"> Obtaining the international certification of Zero Waste To Landfill (ZWTL) by 2030 Buyeo and Wonju Plants of KGC will verify the manufacturing process and waste conversion in the facility to achieve the ZWTL certification, a scale for evaluating a company's resource recycling level.

KGC Environmental Policy Implementation Strategy



Manufacturing

Reducing Environmental Impact of Business Sites

Energy and GHG

Management of Energy Consumption at Business Sites The energy sources used at the Wonju Plant consist of direct energy such as LNG, diesel, and gasoline, and indirect energy, which is represented by industrial electricity. The energy usage at the Wonju Plant in 2022 was 384TJ, consisting of 44% direct energy and 56% indirect energy.

Energy sources used at the Buyeo Plant include fixed combustion such as LNG and LPG, mobile combustion such as diesel, LPG for vehicles and gasoline, and indirect one represented by electricity. The energy usage at the Buyeo Plant in 2022 was 388TJ, in the order of 45% fixed energy, 54% indirect energy, and 1% or less mobile energy, and uses energy meters to improve processes using a lot of energy and manages the efficiency of major utility facilities. From the third quarter of 2023, when the Factory Energy Management System (FEMS) is set to be completed, we plan to monitor and analyze energy consumption and carry out additional reduction activities.

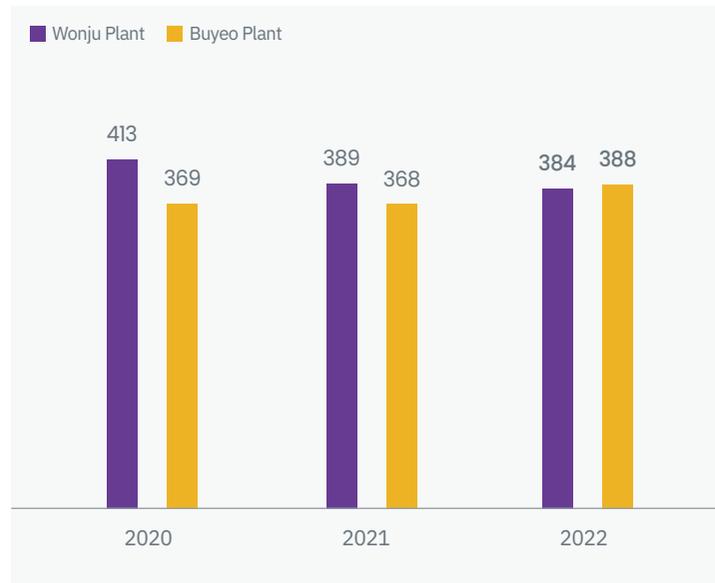
GHG Target Management at Business Site To manage GHG emissions, KGC collects and analyzes electricity and fuel usage in each business site in real time. Through this, it manages the absolute amount of greenhouse gas emissions and basic unit data. In addition, with the goal of reducing greenhouse gas emissions, we will facilitate analysis and reduction activities by process based on FEMS from the third quarter of 2023.

Since the Wonju and Buyeo Plants were designated as GHG target management sites, they have set annual goals, discovered and implemented GHG reduction measures, and managed emissions. Designated in 2012, the Buyeo Plant started executing the strategy in 2013, while the Wonju Plant has been implementing the strategy since 2020 after its designation in 2016. The total GHG emissions in 2022 recorded 18,883tCO₂eq at Wonju Plant and 19,098tCO₂eq at Buyeo Plant.

GHG Reduction Activities | The Wonju Plant reduced GHG emissions by 41tCO₂eq by cleaning boiler pipes used in the process through chemical and physical methods, and reduced 10tCO₂eq by reducing steam through replacing old steam traps. It also reduced 93tCO₂eq by introducing high-efficiency facilities (inverter, LED), and reduced GHG emissions by 151tCO₂eq and 89tCO₂eq, respectively, by improving the air conditioner operation method (control operating hours and set temperature, etc.) and replacing the steam piping insulation and exterior insulation materials.

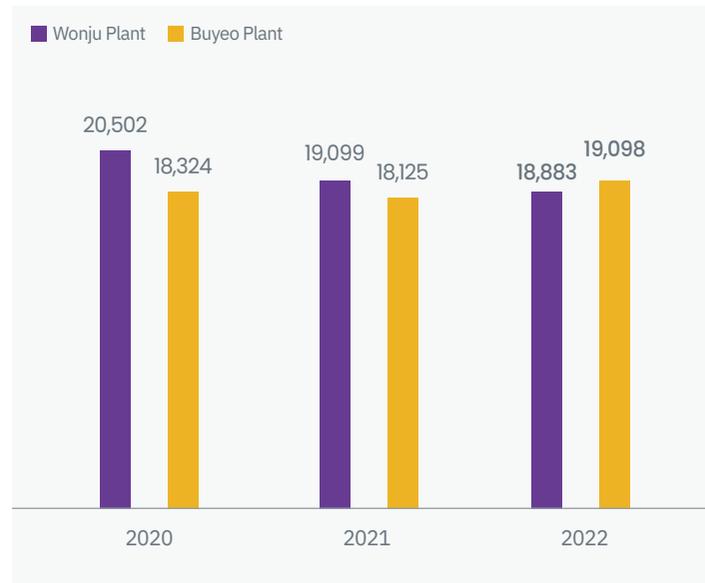
Total Energy Consumption

(Unit: TJ)

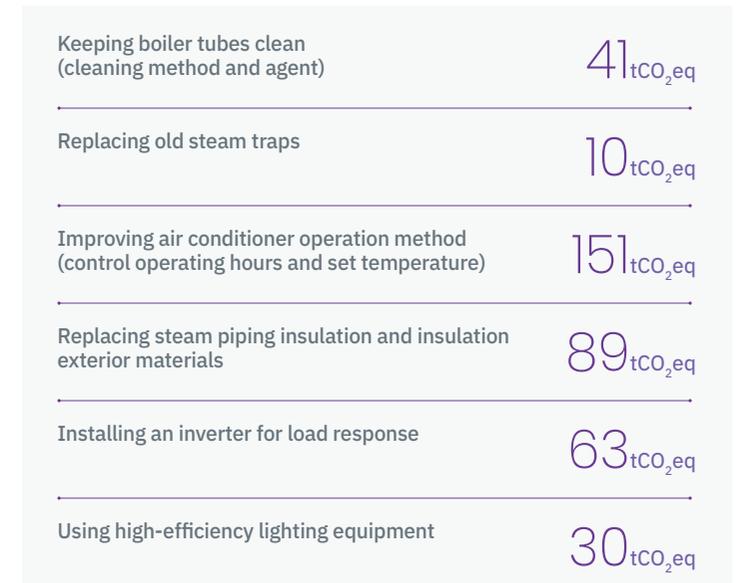


GHG Emissions

(Unit: tCO₂eq)



GHG Reduction Activities and Performances at Wonju Plant

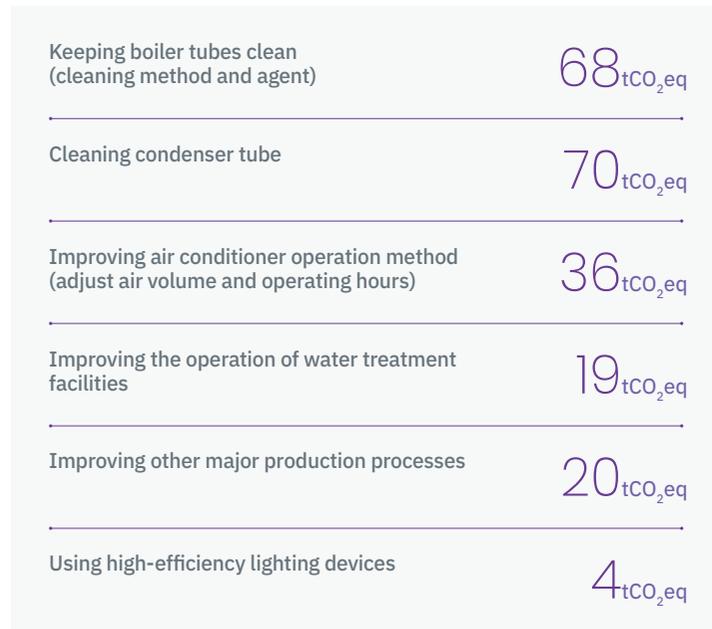


Manufacturing

Reducing Environmental Impact of Business Sites

The Buyeo Plant is also striving to reduce greenhouse gas emissions. It reduced greenhouse gas by 138tCO₂eq through chemically and physically cleaning refrigerators and boiler pipes used in the process, and reduced 24tCO₂eq by introducing high-efficiency facilities (inverters, LEDs). It was able to reduce 36tCO₂eq by improving the operation method of air conditioners (optimal air volume, operating hours, etc.), and reduced greenhouse gas emissions by 19tCO₂eq by improving the operation method of water treatment facilities (operating at the purified water tank level). Moving forward, we will analyze energy use through the energy management system (FEMS) and manage it by applying various GHG reduction technologies.

GHG Reduction Activities and Performances at Buyeo Plant



¹⁾ 1st R/O concentrated water in the water treatment room which is discarded during the production of purified water

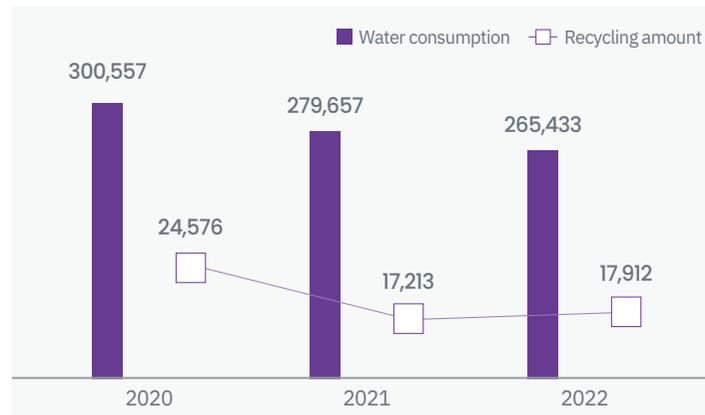
²⁾ Raw (undried) ginseng harvested from the field during the ginseng harvest period (autumn)

³⁾ Liquid with a flavor of ginseng obtained by collecting and condensing steam generated during the steaming process of fresh ginseng and is a raw material for the taste of ginseng and red ginseng in processed foods

Introduction of New and Renewable Energy Buyeo Plant of KGC consumed 22,155MWh of total electricity in 2022 through the Korea Electric Power supply line, and as of March 2023, it uses the electricity produced by the 0.2MW solar power generation facility in parallel. As a result of the two-month operation, it is expected to be able to replace 1.2% of the total electricity with renewable energy in 2023 as it meets the original expected power generation value. According to the mid-to long-term plan, the Buyeo Plant is reviewing the installation of additional 1MW-class solar power facility by utilizing the free space on the roof of the plant building, which is approximately 7,600m². With the aim of overseeing investment risks and ensuring sustainable operational efficiency, we are devising a lease-based business model with a plan to proactively determine and implement the most suitable solar energy design angles, tailored to the specific attributes of each region. This endeavor seeks to elevate the proportion of renewable energy to 6.9% of the overall power capacity by operating solar power generation systems boasting a cumulative capacity of 1.2MW.

Wonju Plant is using electricity in parallel with the introduction of a 0.2MW solar power generation facility in May 2023, generating an average of 700-900kw per day, replacing approximately 2% of the total power with renewable energy. Additionally, to achieve the goal of carbon neutrality, it is reviewing the step-by-step installation of solar power facilities of about 2.5MW by utilizing the free space on the roof of the factory building and intends to increase the proportion of new and renewable energy through efficient methods such as private, lease, and power generation companies.

Water Consumption and Recycling at Wonju Plant (Unit: Tons)

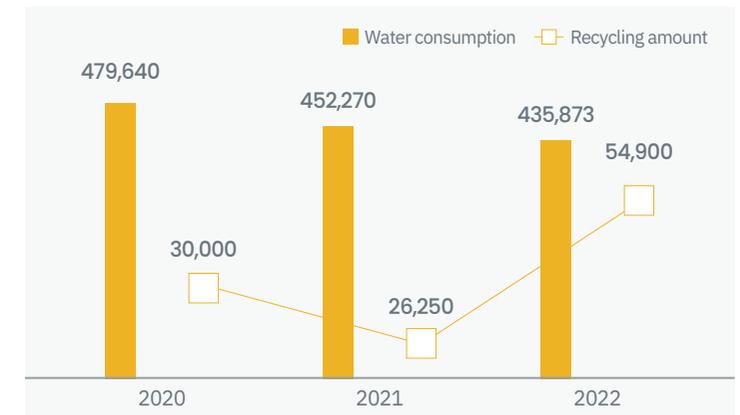


Water Use and Recycling

The Wonju Plant has adopted the “individual circulation method” among methods of using heavy water¹⁾, and self-treats the wastewater generated from the plant and uses it as cleaning water and toilet water in the plant. Going forward, we will make continuous efforts to reduce water consumption by reviewing ways to recycle the concentrated water generated from the facility.

The Buyeo Plant mainly uses water drawn into the business site through the water supply, and the water consumption intensity (basic unit) has been gradually decreasing over the past three years. During the fresh ginseng²⁾ treatment period, which uses a substantial amount of water, it could improve the water recycling rate (6% → 13%) by supplying 50 tons of recycled water per hour through expansion of the operation hours of the water treatment plant (8 hours/day → 24 hours/day) that reprocesses the ginseng root washing water and improvement of the operation method. Constant efforts are also being made to reduce water consumption by reviewing recycling plans for concentrated water wastewater in the water treatment room and ginseng flavor³⁾ indirect cooling water wastewater.

Water Consumption and Recycling at Buyeo Plant (Unit: Tons)



Manufacturing

Reducing Environmental Impact of Business Sites

Waste Recycling

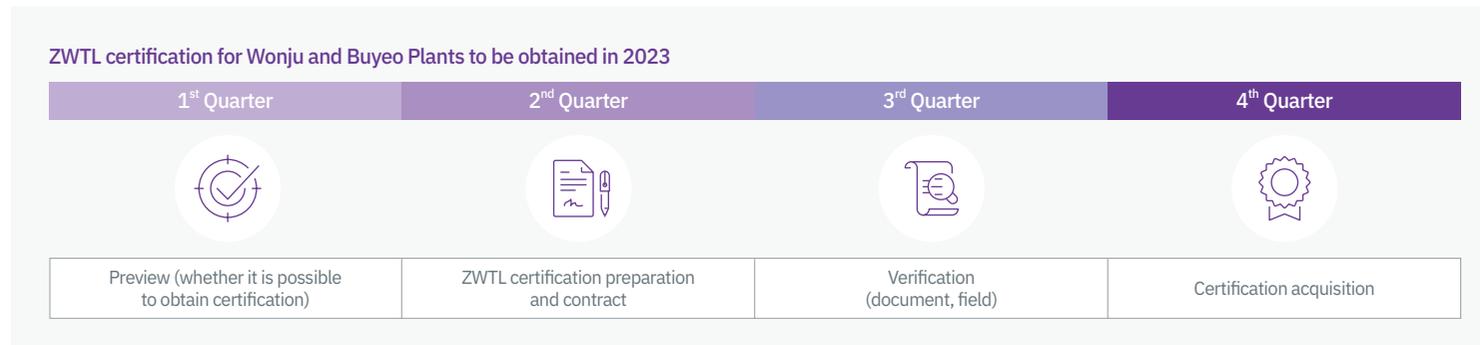
Acquisition of Zero Waste To Landfill Certification KGC is committed to upholding its obligation to sustainable development through a quantitative assessment of the waste discharge volume originating from its premises, based on which the company verifies the rate of waste circulation that undergoes recycling rather than being incinerated or landfilled. As part of this endeavor, we are striving to obtain the ZWTL global certification, slated for 2023, which assesses the recycling performance of workplace-generated waste and assigns corresponding classifications.

Making Red Ginseng Marc Waste Classified as a Circulating Resource As the value of red ginseng marc¹⁾, previously categorized as waste, is now recognized for its values as a resource, KGC is poised to transcend waste regulations. We are thus strategically positioned to generate corporate revenue via open-market transactions, thereby spearheading efforts in realizing a circular economy and implementing ESG management. Moving forward, KGC intends to secure renewed recognition as a circulating resource (initially for a 3-year term, followed by 5-year cycles) through consistent commercial dealings involving red ginseng marc.

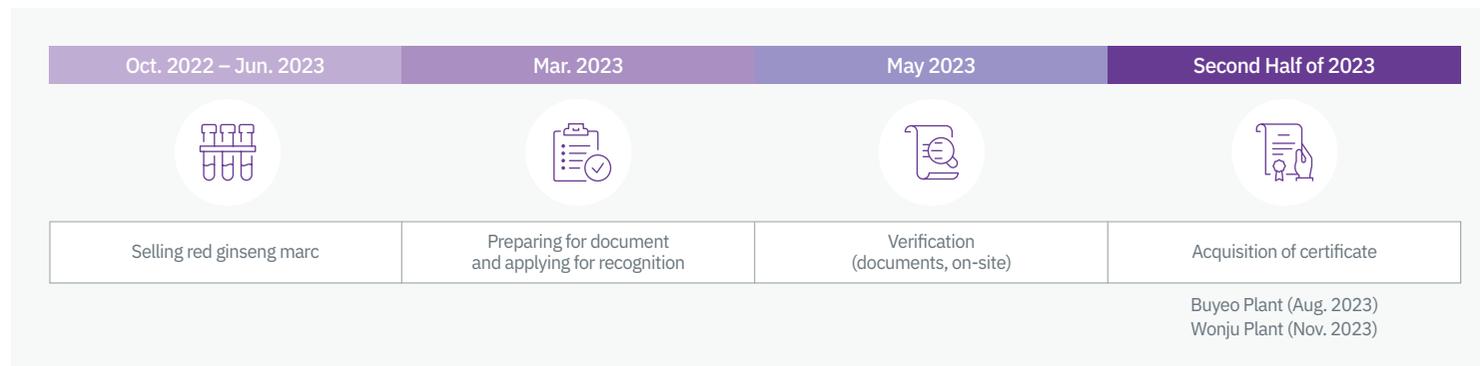
Food Upcycling Using By-products

Instead of disposing of red ginseng marc, a by-product of red ginseng manufacturing, KGC aims to contribute to waste reduction and circular economy by supplying it to food upcycling companies for free and productizing it. As of June 2023, KGC is currently engaged in the evaluation of product testing and scrutinizing the production process. The company is actively assessing potential short-term and mid- to long-term collaborations, including the possibility of introducing pilot products through upcoming business agreements.

ZWTL Certification Process and Plans (2023)



Circular Resource Recognition Process and Plan (2023)



¹⁾ The residue left after extracting active ingredients from red ginseng

Consumption Enhancing Product Eco-friendliness

Eco-friendly Product Vision

In line with the growing attention of internal and external stakeholders to eco-friendly products and resource circulation, and the international community's declaration to pursue carbon neutrality, KGC has been accelerating its pace of eco-friendly product development. We review various ways to create eco-friendly packaging materials and use renewable raw materials for packaging to reduce waste for environmental sustainability. We also strive to develop packages that minimize ecological impact, aiming for "zero waste" and "low impact package" strategies.

Management of Eco-friendly Packaging Development

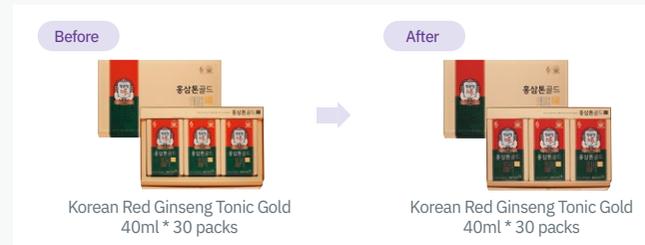
Sustainable Packaging Material Development System Based on the development of sustainable packaging materials, KGC is promoting packaging material development and improvement activities through the 3R strategy (Reduce, Recycle, Replace) to reduce the environmental impact of packaging materials that are used to protect products. We introduced the PLM (Product Lifecycle Management) system in 2022 to establish a new database for packaging material information management for more efficient management of eco-friendly packaging material development and establishment of detailed action plans for the 3R strategy.

This packaging material information management database is used to set tasks for reducing the amount of packaging materials to be improved by inputting and monitoring relevant information such as the material for each major packaging material used for each product, the weight of the packaging materials, MSDS, and the evaluation result of the recycling grade. KGC will make continuous efforts to minimize negative factors to the Earth environment through active use of this system.

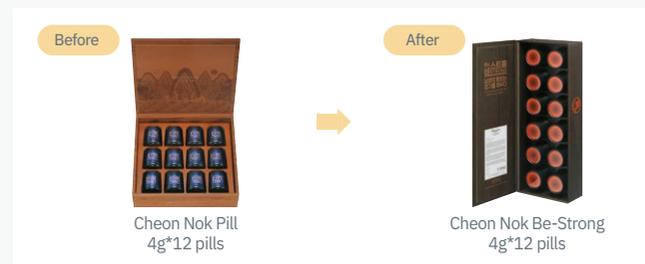
Packaging Material Reduction and Rationalization

Spec-down of pouch aluminum thickness In December 2022, KGC completed the development of packaging materials that reduce the aluminum thickness of pouches used for the unique stability of health functional food products. It is expected to save 101 tons of aluminum per year by applying new packaging materials whose safety has been verified through tests in each field, such as contents, production, and packaging. Going forward, KGC will stay focused on developing packaging materials that consider environment while maintaining the safety of contents.

Simplification of complex packaging structure In December 2022, KGC simplified the packaging structure to remove the packaging materials (paper, foamed PE) that support the product, which is expected to reduce approximately 22 tons of paper and 1.7 tons of plastic per year.



Simplification of packaging materials for premium products In September 2022, KGC switched the wooden box, made of MDF, that has been used to improve the sense of quality to the structure of paper materials that are easy to recycle, and as a result, it could reduce the amount of MDF used from 33.5 tons per year to 15.6 tons per year. This change in packaging material is significant in that it improves recyclability as well as saving resources.



Activities to Apply Sustainable Packaging Materials

Signed an MOU for Resource Circulation for Remanufacturing of Waste Paper Collected from Packaging Boxes KGC signed an MOU for ESG management practice with Klean Nara and 14 packaging material suppliers to promote a resource circulation project for recycling packaging materials generated from product manufacturing process in August 2022. This MOU is a resource circulation project to recycle paper generated in the process of "paper processing - box making - product production" of KGC and partner companies to remanufacture packaging materials. Through this endeavor, more than 4,400 tons of paper is expected to be recycled annually.

KGC and partner companies that supply packaging materials have been cooperating to produce high-quality packaging boxes for Jung Kwan Jang products. As 14 partner companies that supply packaging materials, including KLEAN NARA, have FSC (Forest Stewardship Council)¹⁾ certification, the MOU has enabled KGC to produce and sell products using eco-friendly packaging materials certified by FSC. By signing this MOU, we can make eco-friendly products through the remanufacturing of packaging materials and take a step forward in practicing ESG management. We will continue strive to minimize environmental impact through recycling of packaging materials and practice sustainable ESG management.

¹⁾ An international certification system created by the International Forest Management Association to protect forest resources, and it is granted to paper and products produced in a sustainable way



Consumption

Enhancing Product Eco-friendliness

Signed an MOU to Expand ESG and Eco-friendly Packaging to Improve Packaging Material Recyclability KGC signed a multilateral MOU with the Korea Conformity Laboratories (KCL), the Korea Packaging Recycling Corporation (KPRC), and 5 representative companies that are obligated to recycle producers for expansion of ESG management and use of eco-friendly packaging in October 2022. This MOU was promoted to respond to ESG management needs of the company and establish an efficient cooperation system for eco-friendly packaging through the spread of domestic and international eco-friendly packaging policies and packaging technologies.

The contents of MOU include expanding eco-friendly packing support services for ESG companies; conducting joint research on eco-friendly packing aligned with corporate needs; collaborating for education, promotion, and research on eco-friendly packing buyers; and developing policy and technology aimed at facilitating the use of recycled plastic materials. Accordingly, KCL and KPRC will build collaborative system to provide eco-friendly packing-related companies with technology services and ESG management support. In the meanwhile, KGC and other companies will review the current policies and regulations from a multifaceted perspective, thereby taking the lead in spreading and applying eco-friendly packaging technology.



Future Plan

As a leading company in the health functional food industry, KGC is striving to realize the company philosophy of being a good company that cares about the environment, a company that is aware of environmental issues, and a green earth. Moreover, we will contribute to the transition to a circular economy by expanding the application of eco-friendly packaging materials not only to domestic products, but also to global export products that are less interested in environmental issues.

Developing Eco-friendly Package and Expanding the Application

Development of eco-friendly set paper box

To minimize unnecessary waste of paper used for Hong Yi Jang Gun (Korean Red Ginseng Kids Tonic) and Korean Red Ginseng Extract Everytime products, KGC has simplified the structure of the set paper box as much as possible and completed the improvement of the paper materials to a simplified ECO corrugated materials that simplifies the paper materials. It is expected to reduce paper usage by 417 tons per year, and we will apply it to products in the second half of 2023 and then gradually expand to export products.



Development of an eco-friendly vitality booster eco-package (awarded at the 2023 Korea Star Awards)

Korean Red Ginseng Vital Tonic Booster is a popular product of KGC, featuring a dual formulation packaging that allows convenient intake of liquid and tablet simultaneously. KGC has improved recyclability by applying a simpler paper structure than existing products, and it is expected to reduce paper usage by 28 tons per year. In recognition of these eco-friendly packaging development efforts, KGC was awarded the President's Award of the Korea Association of Packaging Professional Engineer at the Korea Star Awards in April 2023.



Food Safety

Food Quality Control

Food Quality Control System

KGC operates a quality and safety information system based on robotic process automation (RPA) to ensure the provision of safe and superior products. This system focuses on proactive food safety and quality management. Furthermore, we continuously gather domestic and international food safety and quality information, assessing their impact on our operations. When deemed essential, proactive steps are swiftly taken to proactively mitigate potential risks. Moreover, key information is managed by incorporating it into sector-specific operations or standards.

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

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

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

Follow-up Management | Separate from the manufacturing process, we have the inspection, analysis, and verification processes on raw ingredients, suppliers, and manufacturing processes. To enhance the product quality even after product sales, we collect voice of customer (VOC) through our expert counselors and the IT system, and strive to incorporate VOCs into our products. Based on the accumulated database, we are developing and implementing improvement plans to prevent the same VOC from reoccurring, while also sharing the results with customers in a transparent manner. If hazardous elements are found in shipped food or used raw and supplementary materials, we promptly recall the products from the market to minimize consumers' damage, and we conduct periodic inspections in our utmost effort for food safety management.

Food Safety & Quality Management Process



Food Safety

Compliance and Certification

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

Agricultural Products | For agricultural products (fresh ginseng), we introduced the PLS system (deleting the provisional standard for unregistered pesticides, Ministry of Food and Drug Safety Notice No. 2022-84) to ensure safety and conduct up to 430 types of inspections five times from the soil at the planting site to the final product to ensure stability.

Legal Compliance and Certification

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

Processed food | We comply with the Food Sanitation Act and the Health Functional Foods Act when manufacturing processed food. When we design a product and issue a standard within the specification limits under the specifications document attached to each law, our plants use it when manufacturing products. In addition, we meet the regulations by complying with HACCP and GMP.

In August 2022, our Wonju Plant became the first in the health functional food industry to obtain “Smart HACCP” certification. Smart HACCP is a system that utilizes technologies such as Internet of Things (IoT) to digitize food safety information and automate monitoring of critical control points. Unlike the traditional HACCP system that manually records and manages monitoring data, Smart HACCP digitizes various documents, preventing tampering of data. Additionally, when hazards are detected, instant alerts are sent to administrators, enabling immediate corrective actions. We will further enhance our quality management capabilities by expanding the implementation of process analysis and real-time monitoring through our internal production management system.

Compliance with Food Safety Modernization Act | KGC has established and operates regular food safety plans to manage food safety in a proactive and preventive manner. The Food Safety Modernization Act (FSMA) is a law enacted in the United States to prevent incidents and accidents related to food safety. As a global exporting company, we comply with all relevant legal requirements. We also strive to prevent intentional and unintentional food contamination. Key personnel engaged in food safety management are certified as PCQI (Preventive Controls Qualified Individual) after completing relevant specialized training. They are strategically positioned to provide full support for safety management. Through a food preventive management system encompassing manufacturing processes, hygiene, suppliers, and allergens, we prevent unintentional food contamination. Moreover, we operate a food defense and fraud prevention program to prevent deliberate food contamination. We will continue monitor and assess both human and physical environments to ensure safety and put forth our best efforts to maintain a safe environment.

Value Consumption Programs at Customer Touchpoints

Operation of On/Offline Programs KGC is leading a good consumption culture and operating consumer-centric value consumption programs at various online and offline customer touchpoints to foster a value-driven consumer sentiment. In November 2022, as a trial, we launched the ESG Special Offer as a value consumption program on our online mall, “Jung Mall”, targeting customers who purchase eco-friendly and local native products. This special offer included not only our own products such as Red Ginseng Tonic Gold Eco, made of FSC-certified paper, but also 31 products from partner brands which have entered the mall, categorized into 7 “Eco-Packaging” items and 24 “Organic Products”. To increase consumer accessibility and interest in the ESG Special Feature, we prominently featured it on the main page of the Jung Mall website. Customers who purchased products from this exhibition were rewarded with “Eco Points” worth 1,000 points, which they could use as cash equivalents for purchases on Jung Mall. From the launch of the ESG Special Exhibition in November 2022 until April 2023, a total of 1,225 orders were placed, generating sales of approximately KRW 40 million.

Going forward, we will consider expanding consumer-targeted value consumption programs such as the ESG Special Offer, to franchise stores, company-owned outlets, and other offline locations. In this way, we aim to establish a virtuous cycle infrastructure that enables us to create positive impact on society and bring about positive influence.



➔ Jung Mall – KGC’s online mall

Food Safety

CCM Certification Since its initial CCM (Consumer Centered Management) certification¹⁾ in 2010, KGC has secured seven consecutive re-certifications as of 2022. This accomplishment has contributed to advancing consumer rights and solidified KGC's position as a company that fosters a consumer-oriented management culture.

The consistent acquisition of CCM certification by KGC can be attributed to the consumer-oriented mindset of its employees and the corporate culture that emphasizes customer value. To achieve this, we conduct tailored CCM education based on various VOC feedback collected from customer-facing staff, franchise operators, partner companies, and more. Additionally, we make efforts such as issuing newsletters, card news, and regular VOC reports to further enhance our consumer-centric approach.



Outline of CCM Certification



Purpose and Expected Effects of CCM Certification

	<p>Customers</p> <p>The system provides access to information that serves as the criteria for choosing products and services. For issues arising between certified companies and consumers, the CCM operational system allows for prompt and rational resolutions in accordance with its guidelines.</p>
	<p>Business</p> <p>The system enhances the understanding of consumer rights among CEOs and staff, fostering an ongoing improvement in product and service quality through the consumer's lens. Consequently, this strengthens competitiveness on both domestic and global fronts.</p>
	<p>Public Sector</p> <p>The system reduces societal costs related to post-dispute resolution and administrative actions, contributing to the creation of a consumer-centric virtuous cycle market and promoting a culture of win-win growth between companies and consumers.</p>

¹⁾ This system involves the Korea Consumer Agency evaluating every two years whether a company aligns all its business activities, including product development, production, sales, and after-sales service, with a consumer-centered approach and the extent of its efforts for consumers. If the evaluation is successful, the Fair Trade Commission certifies the company. In the case of KGC, the re-certification process is scheduled for the year 2024.

Human Rights Management

Human Rights Management System

Human Rights Management Policy KGC is committed to cultivating a sound organizational culture built upon global principles that uphold the human rights of employees and all stakeholders, striving to realize effective human rights management. In order to eliminate three prohibited acts (harassment, bullying, bribery and solicitation), comprehensive improvement measures have been developed and implemented under the leadership of the management. This includes strengthening systems and procedures, and promoting awareness changes among employees. Notable initiatives for preventing the “3 No’s” behaviors include centralized disciplinary actions against wrongdoers and enhancing personnel reviews (such as convening the Central HR Committee and reviewing all appointment rights), introducing and operating external counseling programs by professionals (with full company support for employee confidentiality and counseling costs), and conducting campaigns to promote changes in the perception of all employees.

In 2023, we expanded the period of limiting the appointment rights of wrongdoers and established guidelines for separating spaces between victims and wrongdoers in order to strengthen measures for victim protection. Through these efforts, we aim to raise awareness about three prohibited acts, promote the daily recovery of victims, and facilitate their early stabilization of organizational adaptation.

KGC’s 3 Core Organizational Culture Directions and 8 Dimensions



We will continue to proactively address and respond to potential human rights issues to respect and protect the human rights of employees, while consistently enhancing our human rights management system and fostering qualitative growth in our organizational culture.

Fair Employment KGC is implementing employment processes to hire talents focusing on their job capabilities for fair and reasonable employment, without considering any factors that might shape prejudice, such as family relations or nationalities. To facilitate capability-based interviews, we provide interviewers with prior training, and during the interview process, each candidate is assigned a blind code to ensure impartiality. For individuals eligible for employment protection, such as veterans and their family and persons with disabilities, we allocate additional points at each stage of the process.

Organizational Culture Diagnosis In the second half of 2022, KGC conducted an organizational culture diagnosis among all employees to systematically determine the level of organizational culture and build a healthy culture. Through this diagnosis, we identified the satisfaction levels and requirements of employees regarding our three core organizational culture directions and eight dimensions.



Strategies to Facilitate Organizational Culture Based on the results of the organizational culture diagnosis and input from members, we identified areas for organizational culture improvement and are implementing follow-up actions. Through these efforts, we aim to cultivate an environment where members can engage voluntarily (loyalty), foster open communication, collaborate in a clear direction, and develop into an organization that secures competitive strength through organizational culture improvement activities.

KGC with Open Communication | We aim to establish a culture that values horizontal communication and collaboration to achieve our goals. Regular CEO card news is being published to create a culture where all members are aware of the organization’s clear direction and collaborate for goal achievement. To strengthen the practice of the three core organizational culture directions, we are conducting organizational culture innovation workshops for leaders. We are also planning to create and distribute web dramas and posters that internalize the three core directions to encourage their implementation. Furthermore, we are planning regular town hall meetings with the CEO or management to share the organization's vision, enhance communication, and increase organizational loyalty. To promote communication and integration across generations and demographics, we are operating the 2nd group of “META Junior Leaders”, a communication advisory group composed of the millennials and Generation Z, thereby improving the organizational culture.

KGC, where Individuals and the Company Grow Together | Since April 2023, we planned and implemented “KGC Learning Day” to provide competence enhancement opportunities and maximize the growth of our members, ultimately enhancing organizational competitiveness. The event takes place every third Friday of the month from 1:00 PM to 5:00 PM. KGC Learning Day consists of various programs such as POP DAY, S-POP DAY, Sponge Day, Core Proficiency Class, and Learning Cell Day, all aimed at providing diverse opportunities for the development of member competency.

KGC plans to conduct regular organizational culture diagnoses (once a year) in the future. Through these diagnoses, we aim to proactively respond to changing environments and continually manage and improve our organizational culture. By innovating our organizational culture, we strive to transform into a “Great Work Place” that fosters sustained growth.

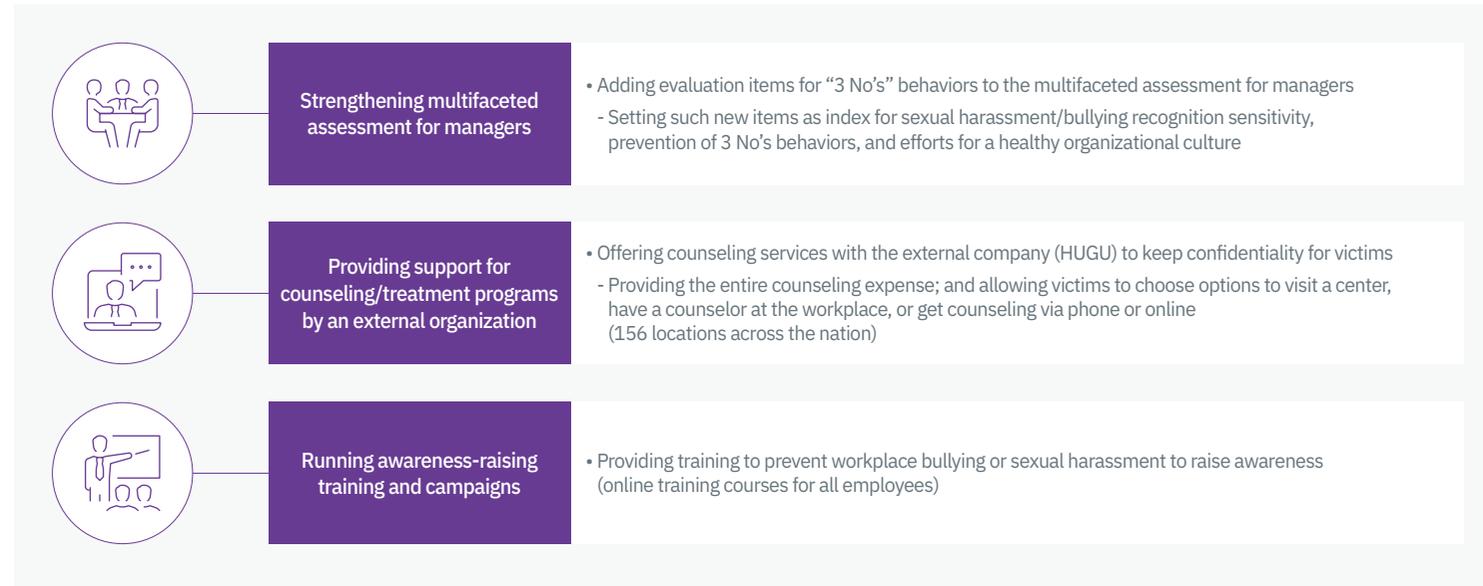
Human Rights Management

Activities to Reduce Human Rights Risk

Strengthening Human Rights Management KGC is enhancing human rights management by including items related to respecting human rights in the multifaceted assessment conducted for managers. We prevent secondary damages by upgrading the relief and protection processes for victims of human rights violations. In addition, we are working to establish a healthy and sound organizational culture with company-wide training and campaigns to raise awareness of employees.

Human Rights Violation Reporting and Remedy Procedures In order to ensure the prevention of human rights violations and facilitate prompt responses to reports, KGC established the “CEO Hot-Line” in 2021, which serves as a direct communication channel to the CEO. Additionally, to enable immediate reporting of human rights violations, an organizational culture banner that allows anonymous reporting has been consistently operated on the main screen of the EIP. These efforts are aimed at addressing the grievances of victims and resolving issues related to human rights violations.

Activities to Strengthen Human Rights Management



Occupational Safety and Health

Safety and Health System

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

In 2023, we will focus on implementing management measures involving reorganization of safety and health system and establishment of site-specific safety and health systems. We will also run campaigns aimed at enhancing prevention against potential hazards such as dangerous machinery and equipment and improving employee awareness regarding safety and health. Furthermore, plans have been made to provide support for manufacturing safety and health certifications and permits related to the relocation of the R&D Headquarters to Gwacheon, with a focus on safety and health.

Duties of Industrial Safety Health Team

- Serving as the unified communication channel of the safety and health management organization, and establishing the emergency management system

- Appointment of safety and health officials / unifying the appointment letter distribution processes
 - Provision of directions and R&R for safety and health officials

- Preparation and distribution of the company-wide industrial safety management organization chart

- Provision of employee training to raise awareness on safety and health
 - Regular training for managers/workers, checking whether safety and health officials completed the job training

- Inspection on Process Safety Management (PSM) sites
 - Identified 11 improvement measures at the Buyeo/Wonju plants

- Responses to the Serious Accidents Punishment Act
 - Establishment of business policies, assignment of safety/health professionals, budget allocation, establishment of response procedures for serious accidents

Safety and Health Organization In accordance with the Article 4 (2) of the Enforcement Decree of the Serious Accidents Punishment Act (Measures for Establishment of Safety and Health Management System and Implementation Thereof), KGC reshuffled its organizational structure to create the Industrial Safety Health Team to control related issues. We also established relevant safety and health regulations and manuals, based on which we are monitoring business sites on a constant basis and identifying improvement measures to upgrade the manuals and the safety and health management system.

Safety and Health Certification In order to proactively prevent and manage potential hazards that could arise in the workplace, KGC has established and operates a safety and health system. In line with this effort, the Wonju Plant obtained ISO 45001 (Health and Safety Management System) certification in December 2020, and the Buyeo Plant obtained the same certification in July 2022. In 2023, a follow-up audit for the second certification of ISO 45001 for the Wonju Plant will be conducted.

In 2019, the Buyeo Plant obtained an “S” grade in the Process Safety Management (PSM)¹⁾ Implementation Status Assessment conducted by the Ministry of Employment and Labor and the Korea Occupational Safety and Health Agency. Scheduled for the second half of 2023, a regular assessment and technical supervision will be carried out in a four-year cycle, and we are making preparations to maintain the existing grade.

Following the relocation of the R&D Headquarters to Gwacheon, a site inspection is planned based on the certified risk prevention plan. Moreover, efforts will be made to promote safety and environmental-related consulting and contracting services with outsourced companies. There will be continuous evaluation and improvements in safety and health matters through further reviews and actions.

¹⁾ A system aimed at preventing major industrial accidents caused by the release of key hazardous substances, fires, explosions, etc. which involves the preparation and submission of a Process Safety Report for assessment and confirmation. Based on the evaluation results, four grades (P, S, M+, M-) are assigned.

Activities for Safety and Health

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

KGC is actively promoting safety and health awareness among its employees through initiatives such as sharing summarized versions of the Serious Accidents Punishment Act, disseminating accident cases, and providing education. Going forward, we make continuous efforts to enhance employee safety consciousness and manage potential risks across all business sites by undertaking various activities aimed at achieving zero major accidents, including the management of dangerous machinery and equipment.

Ethical Management

Strengthening Ethical Management System

KGC firmly believes that transparent and ethical management is the foundation for sustainable growth. With the core values of integrity and honesty as our guiding principles, we are committed to upholding and developing our corporate philosophy – Exemplary, Progressive, and Inclusive. Building upon this philosophy, we are dedicated to enhancing and reinforcing our ethical management system by aligning all employees with KT&G Group Business Ethics Charter and the Code of Ethics, which serve as the behavioral standards that every employee must adhere to. Guided by these principles, our entire workforce conducts their duties transparently, fairly, and with a commitment to maintaining trust.

Direction of Ethical Management

<p>Country and Society </p> <ul style="list-style-type: none"> • Compliance with laws and regulations • Social responsibility 	<p>Customers </p> <ul style="list-style-type: none"> • Customer-centered decision making • Providing reliably products/services • Customer value creation
<p>Shareholders and Investors </p> <ul style="list-style-type: none"> • Increased corporate value • Pursue value maximization • Establish relationship of mutual trust 	<p>Partners and Competitors </p> <ul style="list-style-type: none"> • Grant fair trade opportunities • Pursue mutual development
<p>Company </p> <ul style="list-style-type: none"> • Respect for dignity • Provide fair opportunities • Fair treatment • Safe working environment 	<p>Employees </p> <ul style="list-style-type: none"> • Fair performance of duties • Pursue change and innovation • Employee attitude

Compliance Monitoring

KGC's Audit Office establishes annual audit plans to manage risks proactively. To conduct audits in specific fields, we categorize internal audits into preventive, theme-based, financial, and occasional audits according to the purposes. Also, the Audit Team evaluates the operation condition of the Internal Control Over Financial Reporting annually at the end of the year from an independent point of view. The Audit Team verifies the effectiveness of the design and operation of control activities across the company and reports the results to the auditors.

In discussion with relevant departments, such as Finance Office, it takes improvement measures on issues identified during the evaluation. The internal audit evaluation of the Internal Control Over Financial Reporting for the fiscal year 2022 was completed in February 2023.

Activities to Strengthen Ethical Management

<p>Revision and company-wide sharing of Code of Ethics </p>	<p>In March 2023, the revised KGC Code of Ethics, incorporating the amendment made to the KT&G Group Business Ethics Charter, was updated and shared throughout the entire organization.</p> <p>Code of Conduct and Code of Ethics</p>
<p>Ethical management training </p>	<p>To establish ethical management, we annually provide related training to all employees under our ethics regulations.</p> <ul style="list-style-type: none"> • Employee education on business ethics (Sep. 30, 2022) • Collective education for managers on company management policies and the importance of ethical management (Mar. 2023 to Apr. 2023) • Collective ethical management education for overseas branch managers from the Global Headquarters (Apr. 4, 2023) • Establishment of ethical awareness among employees through the posting of the handbook of case studies on incidents and accidents related to job responsibilities (Oct. 12, 2022 and Feb. 15, 2023)
<p>Pledge on ethics </p>	<p>With pledges to practice ethics and promise compliance with the Code of Ethics, all employees renew their commitment to actively participating in the ethical management pursued by the company and becoming familiar with the Code of Ethics.</p> <ul style="list-style-type: none"> • Signing of Ethics Pledge (Sep. 30, 2022)
<p>Spreading ethics management to partners </p>	<p>For fair business trades with partner companies, KGC includes special terms of ethical practice in contracts to ensure partners get familiar with and comply with the Code of Ethics.</p>
<p>Shinmungo, web page to report unethical practices </p>	<p>We are operating the Shinmungo, a system to report unethical practices, on our homepage to promote ethical management, create healthy corporate culture, and prevent unethical acts.</p> <p>KGC Shinmungo</p>

ENSURE

Amid growing interest, expectations and demands regarding ESG, discussions on the adoption of mandatory ESG regulation are fully in progress.

This trend is an opportunity for prepared companies to further strengthen their external credibility. KT&G will therefore make continued efforts to ensure effective communication with stakeholders by sharing quality information about important ESG issues that may impact the company's strategies and financial status, in addition to systematic data management.

Head of Strategy & Planning Office of KT&G
Yoon, Young-chan



Financial Statement

Consolidated Statements of Financial Position

(Unit: KRW in millions)

	2020	2021	2022
Assets			
Current assets	6,750,383	6,255,862	6,509,585
Cash and cash equivalents	1,253,611	946,571	1,401,018
Current other financial assets	407,735	457,057	201,075
Current financial assets at fair value through profit or loss	914,424	965,384	393,106
Trade and other receivables	1,215,049	1,012,741	1,528,511
Derivative assets	12,710	580	23,069
Inventories	2,535,032	2,375,381	2,575,842
Refund assets and others	1,055	1,795	984
Accrued tobacco excise and other taxes	271,577	324,920	276,181
Advance payments	96,526	98,045	51,090
Prepaid expenses	39,982	53,263	58,708
Assets held for sale	2,681	20,124	-

(Unit: KRW in millions)

	2020	2021	2022
Non-current assets	4,718,000	5,381,409	5,792,131
Long-term other financial assets	10,129	9,001	42,826
Long-term deposits in MSA Escrow Fund	909,794	1,250,468	1,437,130
Long-term financial assets measured at fair value through profit or loss	253,562	304,816	320,429
Long-term trade and other receivables	97,409	94,760	108,476
Long-term financial assets measured at fair value through other comprehensive income or loss	239,539	228,398	206,494
Property, plant and equipment	132,187	242,992	274,534
Tangible assets	1,718,412	1,741,042	1,837,041
Intangible assets	134,084	145,719	167,851
Investment properties	1,030,179	1,150,980	1,071,463
Right-of-use assets	49,088	36,445	40,244
Long-term advance payments	83,059	104,560	113,066
Long-term prepaid expenses	9,579	8,539	7,131
Deferred income tax assets	50,933	52,555	55,758
Net defined benefit assets	46	11,136	109,688
Total Assets	11,468,383	11,637,271	12,301,716

Financial Statement

Consolidated Statements of Financial Position

(Unit: KRW in millions)

	2020	2021	2022
Liability			
Current liabilities	1,991,492	2,063,946	2,527,315
Short-term borrowings	17,308	75,432	72,629
Current portion of long-term borrowings	37,506	2,166	4,126
Trade and other payables	969,202	971,120	1,505,796
Current lease liabilities	19,880	17,181	16,559
Derivative liabilities	57	908	-
Advance receipts	100,837	21,918	21,493
Current refund liabilities and provisions	27,509	26,130	21,563
Current income tax liabilities	234,566	236,397	218,730
Tobacco excise and other taxes payables	584,576	712,693	666,419
Liabilities held for sale	51	-	-
Non-current liabilities	385,319	364,463	415,821
Long-term borrowings	53,492	53,195	78,808
Long-term trade and other payables	49,480	57,434	52,896
Long-term lease liabilities	25,829	19,377	21,050
Long-term advance receipts	8,193	5,077	2,568
Net defined benefit liabilities	112,959	57,736	32,478
Long-term refund liabilities and provisions	3,192	5,222	18,954
Deferred income tax liabilities	130,558	148,105	181,299
Non-controlling interests liabilities	1,615	18,317	27,769
Total liabilities	2,376,811	2,428,409	2,943,136

(Unit: KRW in millions)

	2020	2021	2022
Equity:			
Share capital	9,036,851	9,158,786	9,315,644
Capital	954,959	954,959	954,959
Other capital surplus	4,498	4,498	4,498
Treasury shares	-531,618	-879,982	-1,236,933
Gain on sale of treasury shares	528,894	528,894	528,894
Reserve	5,977,643	6,490,161	6,812,286
Retained earnings (loss)	2,102,475	2,060,255	2,251,940
Non-controlling interests	54,721	50,076	42,936
Total equity	9,091,572	9,208,862	9,358,580
Total liabilities and equity	11,468,383	11,637,271	12,301,716

Financial Statement

Consolidated Statements of Comprehensive Income

(Unit: KRW in millions)

	2020	2021	2022
Sales	5,055,311	5,228,352	5,851,406
Cost of sales	2,127,074	2,350,180	2,891,166
Gross profit	2,928,237	2,878,172	2,960,240
Sales, general and administrative expenses	1,455,054	1,539,788	1,692,590
Operating profit	1,473,183	1,338,383	1,267,650
Other income	289,353	188,398	299,644
Other expense	266,387	144,991	230,629
Financial income	117,739	78,753	131,413
Financial cost	13,161	31,901	87,540
Share of net profit of associates and joint ventures	4,135	10,911	29,370
Profits arising from net monetary assets	-	-	19,611
Profit before income tax	1,604,862	1,439,553	1,429,520
Corporate tax expense	438,493	415,441	415,602
Profit from Continuing Operations	1,166,369	1,024,113	1,013,918
Profit from Discontinued Operations	5,274	-52,354	-8,591
Profit for the year	1,171,643	971,759	1,005,327
Other comprehensive income (loss) after income tax	-49,877	89,479	77,245
Item that will not be reclassified to profit or loss	-26,802	54,412	70,632
Re-measurements of net defined benefit liabilities	-16,212	42,562	64,777
Gain (loss) on valuation of fair value through other comprehensive income or loss	-10,548	11,843	5,818
Capital changes in equity method	-42	7	38
Item that will be reclassified to profit or loss	-23,074	35,067	6,613
Exchange differences on translating foreign operations	-23,241	35,086	6,757
Capital changes in equity method	167	-19	-144

(Unit: KRW in millions)

	2020	2021	2022
Total comprehensive income for the year	1,121,767	1,061,237	1,082,573
Profit attributable to:	-	-	-
Owners of the Parent Company	1,171,734	977,259	1,015,785
Profit from Continuing Operations	1,166,460	1,029,613	1,024,376
Profit from Discontinued Operations	5,274	-52,354	-8,591
Non-controlling interests	-91	-5,500	-10,458
Profit from Continuing Operations	-91	-5,500	-10,458
Profit from Discontinued Operations	-	-	-
Other comprehensive income for the year attributable to:	-	-	-
Owners of the Parent Company	1,122,415	1,065,882	1,089,713
Profit from Continuing Operations	1,118,989	1,117,672	1,099,831
Profit from Discontinued Operations	3,426	-51,790	-10,118
Non-controlling interests	-648	-4,645	-7,140
Profit from Continuing Operations	-648	-4,645	-7,140
Profit from Discontinued Operations	-	-	-
Earnings per Share	-	-	-
Basic & Diluted (Unit: KRW)	9,320	7,898	8,489
Profit from Continuing Operations (Unit: KRW)	9,278	8,321	8,561
Profit from Discontinued Operations (Unit: KRW)	42	-423	-72

Financial Statement

Consolidated Statements of Changes in Equity

	Equity								Total Capital
	Share Capital					Retained earnings	Total capital attributable to the owners of the Parent Company	Non-controlling interests	
	capital	Other capital surplus	Treasury shares	Gain on sale of treasury shares	Reserve				
Balance at January 1, 2020	954,959	4,498	-318,789	528,894	5,680,009	1,834,646	8,684,217	55,369	8,739,585
Profit for the year	0	0	0	0	0	1,171,734	1,171,734	-91	1,171,643
Other comprehensive income (loss) after income tax	0	0	0	0	-33,666	-15,654	-49,320	-557	-49,877
Dividends	0	0	0	0	0	-556,952	-556,952	0	-556,952
Gain (loss) on disposal of retained earnings	0	0	0	0	331,300	-331,300	0	0	0
Gain (loss) on treasury share transactions	0	0	-212,829	0	0	0	-212,829	0	-212,829
Balance at December 31, 2020	954,959	4,498	-531,618	528,894	5,977,643	2,102,475	9,036,851	54,721	9,091,572
Balance at January 1, 2021	954,959	4,498	-531,618	528,894	5,977,643	2,102,475	9,036,851	54,721	9,091,572
Profit for the year	0	0	0	0	0	977,259	977,259	-5,500	971,759
Other comprehensive income (loss) after income tax	0	0	0	0	47,880	40,743	88,624	855	89,479
Dividends	0	0	0	0	0	-595,584	-595,584	0	-595,584
Gain (loss) on disposal of retained earnings	0	0	0	0	464,638	-464,638	0	0	0
Gain (loss) on treasury share transactions	0	0	-348,364	0	0	0	-348,364	0	-348,364
Balance at December 31, 2021	954,959	4,498	-879,982	528,894	6,490,161	2,060,255	9,158,786	50,076	9,208,862
Balance at January 1, 2022	954,959	4,498	-879,982	528,894	6,490,161	2,060,255	9,158,786	50,076	9,208,862
Profit for the year	0	0	0	0	0	1,015,785	1,015,785	-10,458	1,005,327
Other comprehensive income (loss) after income tax	0	0	0	0	20,911	53,017	73,928	3,317	77,245
Dividends	0	0	0	0	0	-575,904	-575,904	0	-575,904
Gain (loss) on disposal of retained earnings	0	0	0	0	301,213	-301,213	0	0	0
Gain (loss) on treasury share transactions	0	0	-356,951	0	0	0	-356,951	0	-356,951
Balance at December 31, 2022	954,959	4,498	-1,236,933	528,894	6,812,286	2,251,940	9,315,644	42,936	9,358,580

Financial Statement

Consolidated Statements of Cash Flows

(Unit: KRW in millions)

	2020	2021	2022
Consolidated statements of cash flows	1,261,665	1,419,821	887,887
Cash generated from operations	1,685,603	1,832,611	1,310,291
Income taxes paid	-423,938	-412,790	-422,405
Cash flows from investing activities	-85,835	-797,610	547,544
Interest received	19,927	10,842	31,996
Interest received	26,140	28,903	32,682
Decrease in other financial assets	562,840	322,158	881,076
Decrease in current financial assets measured at fair value through profit or loss	346,404	158	661,016
Decrease in long-term financial assets measured at fair value through profit or loss	33,667	21,261	2,030
Decrease in financial assets measured at fair value through other comprehensive income or loss	3,134	15,895	7,200
Decrease in long-term deposits in MSA Escrow Fund	30,191	461	-
Disposal of property, plant and equipment	4,814	5,326	3,744
Disposal of intangible assets	2,639	152	300
Disposal of investment properties	4,407	440	2,277
Disposal of assets held for sale	144,712	663	69,796
Disposal of investments in associates and joint ventures	21,208	-	42,882
Collection of loans	14,315	21,163	22,493
Collection of guarantee deposits	694	5,939	543
Collection of finance lease receivables	488	79	-
Increase in other financial assets	-578,456	-371,913	-658,997
Increase in current financial assets measured at fair value through profit or loss	-6,000	-41,743	-19,799
Increase in long-term financial assets measured at fair value through profit or loss	-14,423	-80,708	-64,701
Decrease in financial assets measured at fair value through other comprehensive income or loss	-	-3,500	-3,000
Increase in long-term deposits in MSA Escrow Fund	-223,125	-247,624	-96,556

(Unit: KRW in millions)

	2020	2021	2022
Increase in long-term deposits in MSA Escrow Fund	-216,059	-224,443	-241,382
Acquisition of intangible assets	-35,744	-43,671	-41,502
Acquisition of investment properties	-86,158	-109,650	-27,906
Acquisition of right-of-use assets	-522	-181	-3,295
Acquisition of assets held for sale	-3,283	-	-
Acquisition of investments in associates and joint ventures	-101,500	-79,786	-34,489
Increase in loans	-35,189	-27,337	-16,651
Increase in guarantee deposits	-956	-493	-2,214
Cash flows from financing activities	-808,888	-947,574	-931,785
Dividends paid	-556,952	-595,584	-575,904
Interest paid	-3,372	-3,205	-10,205
Commission of borrowings extention	-	-	-1,200
Repayment of lease liabilities	-21,187	-23,279	-20,341
Repayment of borrowings	-165,109	-144,221	-216,994
Acquisition of treasury shares	-212,829	-348,364	-356,951
Capital increase with consideration	1	-	-
Increase in borrowings	150,559	164,078	249,808
Increase in non-controlling interest	-	3,000	-
Net increase (decrease) in cash and cash equivalents	366,942	-325,362	503,645
Cash and cash equivalents at the beginning of the year	891,306	1,253,611	946,571
Effect of exchange rate fluctuation on cash and cash equivalents	-4,636	18,322	-49,198
Cash and cash equivalents at the end of the year	1,253,611	946,571	1,401,018

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KT&G ESG Quantitative Data

Energy use (TJ)

Scope	Subcategory	Unit	2019	2020	2021	2022
Domestic	Total	TJ	2,090	2,278	2,209	2,338
	Fuel (Non-renewable energy)	TJ	626	678	626	650
	Steam (Non-renewable energy)	TJ	1	21	28	31
	Electricity (Non-renewable energy)	TJ	1,463	1,577	1,552	1,510
	Electricity (renewable energy)	TJ	-	2	3	147
	Energy intensity	TJ/KRW 100 million	0.07	0.07	0.06	0.06
Overseas	Total	TJ	168	171	190	266
	Fuel (Non-renewable energy)	TJ	53	53	54	68
	Steam (Non-renewable energy)	TJ	-	-	-	-
	Electricity (Non-renewable energy)	TJ	115	118	136	56
	Electricity (renewable energy)	TJ	-	-	-	142
Entire	Total	TJ	2,258	2,448	2,399	2,604
	Fuel (Non-renewable energy)	TJ	679	731	680	718
	Steam (Non-renewable energy)	TJ	1	21	28	31
	Electricity (Non-renewable energy)	TJ	1,577	1,694	1,688	1,567
	Electricity (renewable energy)	TJ	-	2	3	289

* Scope: Domestic sites (156 buildings, including all manufacturing sites, including Sintanjin, Yeongju, and Gwangju Plants, rental buildings, and branches) and overseas manufacturing sites (Indonesia, Russia, Turkey))

** Verification status: Completed third-party verification for all business sites in the scope

*** Data reflection of changes in overseas manufacturing site's emissions factor (electric power IEA, other than electric power IPCC) in connection to third-party verification

Energy use (TOE)

Scope	Subcategory	Unit	2019	2020	2021	2022
Domestic	Total	TOE	49,915	54,393	52,758	55,838
	Fuel (Non-renewable energy)	TOE	14,951	16,197	14,959	15,531
	Steam (Non-renewable energy)	TOE	28	493	672	730
	Electricity (Non-renewable energy)	TOE	34,936	37,660	37,063	36,075
	Electricity (renewable energy)	TOE	-	43	64	3,502
	Energy Intensity	TOE/KRW 100 million	1.70	1.58	1.51	1.51
Overseas	Total	TOE	4,013	4,076	4,537	6,358
	Fuel (Non-renewable energy)	TOE	1,272	1,268	1,281	1,618
	Steam (Non-renewable energy)	TOE	-	-	-	-
	Electricity (Non-renewable energy)	TOE	2,740	2,808	3,256	1,343
	Electricity (renewable energy)	TOE	-	-	-	3,398
Entire	Total	TOE	53,928	58,469	57,295	62,196
	Fuel (Non-renewable energy)	TOE	16,223	17,465	16,240	17,149
	Steam (Non-renewable energy)	TOE	28	493	672	730
	Electricity (Non-renewable energy)	TOE	37,676	40,468	40,319	37,418
	Electricity (renewable energy)	TOE	-	43	64	6,900

* Scope: Domestic sites (156 buildings, including all manufacturing sites, including Sintanjin, Yeongju, and Gwangju Plants, rental buildings, and branches) and overseas manufacturing sites (Indonesia, Russia, Turkey)

** Verification status: Completed third-party verification for all business sites in the scope

*** Data reflection of changes in overseas manufacturing site's emissions factor (electric power IEA, other than electric power IPCC) in connection to third-party verification

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Electricity consumption (MWh)

Scope	Subcategory	Unit	2019	2020	2021	2022
Domestic	Total electricity consumption	MWh	152,364	164,433	161,921	172,604
	Renewable electricity consumption	MWh	-	188	281	15,273
	Percentage of renewable electricity consumption¹⁾	%	0.0%	0.1%	0.2%	8.9%
Overseas	Total electricity consumption	MWh	11,952	12,247	14,199	20,675
	Renewable electricity consumption	MWh	-	-	-	14,818
	Percentage of renewable electricity consumption	%	0.00%	0.00%	0.00%	71.70%
Entire	Total electricity consumption	MWh	164,316	176,680	176,120	193,279
	Renewable electricity consumption	MWh	-	188	281	30,091
	Percentage of renewable electricity consumption	%	0.00%	0.10%	0.20%	15.60%

* Scope: Domestic sites (156 buildings, including all manufacturing sites, including Sintanjin, Yeongju, and Gwangju Plants, rental buildings, and branches) and overseas manufacturing sites (Indonesia, Russia, Turkey)

¹⁾ Renewable electricity consumption rate: Percentage of electricity supplied by renewable energy among the total electricity consumption at business sites

GHG emissions (Scope 1, 2)

Scope	Subcategory	Unit	2019	2020	2021	2022
Domestic	Total (Scope 1+2)	tCO ₂ eq	104,631	113,859	109,162	108,568
	Direct emissions (Scope 1)	tCO ₂ eq	33,549	36,430	33,744	34,964
	Indirect emissions (Scope 2)	tCO ₂ eq	71,082	77,429	75,418	73,604
	GHG emission intensity (Scope 1+2)	tCO ₂ eq/KRW 100 million	3.56	3.31	3.13	2.94
	Total (Scope 1+2)	tCO ₂ eq	10,178	10,049	11,353	6,027
Overseas	Direct emissions (Scope 1)	tCO ₂ eq	2,823	2,854	2,878	3,597
	Indirect emissions (Scope 2)	tCO ₂ eq	7,354	7,194	8,475	2,431
	Total (Scope 1+2)	tCO ₂ eq	114,809	123,908	120,516	114,595
Entire	Direct emissions (Scope 1)	tCO ₂ eq	36,372	39,284	36,622	38,561
	Indirect emissions (Scope 2)	tCO ₂ eq	78,436	84,623	83,894	76,034

* Based on market-based GHG emissions calculation method

** Scope: Domestic sites (156 buildings, including all manufacturing sites, including Sintanjin, Yeongju, and Gwangju Plants, rental buildings, and branches) and overseas manufacturing sites (Indonesia, Russia, Turkey)

*** Verification status: Completed third-party verification for all business sites in the scope

**** Emission factor: In accordance with IEA (emission factor electric power at overseas sites) and IPCC (other than electric power) in connection with third-party verification

***** Renewable energy consumption: Sum of self-generation (photovoltaic), Renewable Energy Certificate (REC), etc.

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GHG emissions (Scope 3)

Scope	Subcategory	Unit	2019	2020	2021	2022
Domestic	Other Indirect emissions (Scope 3)	tCO ₂ eq	85,199	292,583	269,486	323,951
	Procured products and services	tCO ₂ eq	77,747	138,077	144,731	150,012
	Capital goods	tCO ₂ eq		84,909	60,281	99,877
	Fuel & energy related activities	tCO ₂ eq		10,463	11,089	12,837
	Upstream transport & distribution	tCO ₂ eq		5,551	4,944	5,234
	Waste from business sites	tCO ₂ eq	3,937	8,096	4,099	2,373
	Business trip	tCO ₂ eq	1,890	332	405	2,013
	Employee commuting	tCO ₂ eq		4,118	4,101	4,237
	Upstream lease assets	tCO ₂ eq				
	Downstream transport & distribution	tCO ₂ eq		12,173	7,344	5,414
	Processing of sold products	tCO ₂ eq				
	Use of sold products	tCO ₂ eq	1,620	3,353	6,955	14,527
	Disposal of sold products	tCO ₂ eq	5	25,510	25,537	27,428
	Downstream lease assets	tCO ₂ eq				

* Scope: 7 upstream items (purchased goods and services, business trip, etc.) 3 downstream items (transportation and distribution, end-of-life treatment of sold products, etc.)

** Verification status: Third-party verification based on GHG data management and collection, and emission calculation and reporting process is completed

*** Verification principle: ISO 14064-1:2018 (WRI/WBCSD GHG Protocol:2004, Corporate Value Chain (Scope 3) Accounting and Reporting Standard

**** Data is different for some items from the previous year's report due to advanced calculation method applied to Scope 3 emissions

Water resources management

Scope	Subcategory	Unit	2019	2020	2021	2022
Domestic	Total water withdrawal	ton	543,790	594,269	538,346	522,708
	Service water	ton	439,861	489,651	444,569	453,298
	Ground water	ton	103,929	104,618	93,777	69,410
	Total water discharge	ton	146,586	171,993	151,236	153,218
	Surface water (fresh water)	ton	57,254	57,702	51,548	48,246
	Discharge to a third-party	ton	89,332	114,291	99,688	104,972
	Total water consumption (withdrawal-discharge)	ton	397,204	422,276	387,110	369,490
	Water recycling amount	ton	-	-	436	7,653
	Water withdrawal intensity	ton/KRW 100 million	18.48	17.30	15.42	14.15
	Total water withdrawal	ton	198,602	171,898	204,977	210,306
Overseas	Service water	ton	30,861	28,764	29,074	32,650
	Ground water	ton	167,741	143,134	175,903	177,656
	Total water discharge	ton	18,101	21,598	27,893	29,997
	Surface water (fresh water)	ton	-	-	-	6,427
	Discharge to a third-party	ton	18,101	21,598	27,893	23,570
	Total water consumption (withdrawal-discharge)	ton	180,501	150,300	177,084	180,309
	Water recycling amount	ton	-	-	-	1,320

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Water resources management

Scope	Subcategory	Unit	2019	2020	2021	2022
Entire	Total water withdrawal	ton	742,392	766,167	743,323	733,014
	Service water	ton	470,722	518,415	473,643	485,948
	Ground water	ton	271,670	247,752	269,680	247,066
	Total water discharge	ton	164,687	193,591	179,129	183,215
	Surface water (fresh water)	ton	57,254	57,702	51,548	54,673
	Discharge to a third-party	ton	107,433	135,889	127,581	128,542
	Total water consumption (withdrawal-discharge)	ton	577,705	572,576	564,194	549,799
	Water recycling amount	ton	-	-	436	8,973

* Scope: Domestic manufacturing sites (Sintanjung 1, Sintanjung 2, Yeongju, Gwangju, Cheonan, Gimcheon) and overseas manufacturing sites (Indonesia, Turkey, Russia)

** Wastewater discharge: Wastewater discharge of all sites in the scope (Gimcheon is calculated as the amount of wastewater inflow)

Waste discharge (by type)

Scope	Subcategory	Unit	2019	2020	2021	2022
Domestic	Subtotal waste emitted	ton	8,983	9,863	8,939	9,974
	General	ton	4,282	5,812	4,779	4,806
	Designated	ton	4,701	4,051	4,161	5,167
Overseas	Subtotal waste emitted	ton	1,035	1,647	1,442	2,206
	General	ton	1,023	1,613	1,398	2,154
	Designated	ton	12	34	44	52
Entire	Subtotal waste emitted	ton	10,019	11,509	10,382	12,179
	General	ton	5,305	7,425	6,177	6,960
	Designated	ton	4,713	4,085	4,205	5,219

* Scope: Domestic manufacturing sites (Sintanjung 1, Sintanjung 2, Yeongju, Gwangju, Gimcheon, Cheonan) and overseas manufacturing sites (Indonesia, Turkey, Russia)

Waste discharge (by treatment)

Scope	Subcategory	Unit	2019	2020	2021	2022
Domestic	Subtotal waste emitted	ton	8,984	9,863	8,939	9,974
	General (Incineration)	ton	1,554	3,642	2,239	1,613
	General (Landfill)	ton	3	-	-	2
	General (Recycling)	ton	615	403	569	668
	General (Recycling with energy recovery)	ton	1,289	910	1,780	2,524
	General (Non-recycling and others)	ton	821	857	191	-
	Designated (Incineration)	ton	4	10	9	12
	Designated (Landfill)	ton	0	3	18	3
	Designated (Recycling)	ton	4,647	3,980	4,081	5,108
	Designated (Recycling with energy recovery)	ton	50	58	53	44
	Designated (Non-recycling and others)	ton	-	-	-	-
	Waste recycling rate	%	73.5	54.3	72.5	83.7
	Waste emission intensity	ton/KRW 100 million	0.31	0.29	0.26	0.27
	Overseas	Subtotal waste emitted	ton	1,035	1,647	1,442
General (Incineration)		ton	-	-	149	234
General (Landfill)		ton	93	414	351	396
General (Recycling)		ton	930	1,199	898	1,524
General (Non-recycling and others)		ton	-	-	-	-
Designated (Incineration)		ton	8	7	2	5
Designated (Landfill)		ton	-	-	-	-
Designated (Recycling)		ton	4	26	42	47
Designated (Non-recycling and others)		ton	-	-	-	-
Waste recycling rate		%	90.3	74.4	65.2	71.2

ESG Facts & Figures

KT&G
 KGC Yungjin Pharm COSMOCOS Tae-A Industrial KGCYebon

Waste discharge (by treatment)

Scope	Subcategory	Unit	2019	2020	2021	2022
Entire	Subtotal waste emitted	ton	10,019	11,509	10,382	12,179
	General (Incineration)	ton	1,554	3,642	2,388	1,847
	General (Landfill)	ton	96	414	351	399
	General (Recycling)	ton	2,835	2,512	3,247	4,715
	General (Others)	ton	821	857	191	-
	Designated (Incineration)	ton	11	17	11	16
	Designated (Landfill)	ton	0	3	18	3
	Designated (Recycling)	ton	4,701	4,065	4,176	5,199
	Waste recycling rate	%	75.2	57.1	71.5	81.4

* Scope: Domestic manufacturing sites (Sintanjin 1, Sintanjin 2, Yeongju, Gwangju, Gimcheon, Cheonan) and overseas manufacturing sites (Indonesia, Turkey, Russia)

Air pollutant emissions

Scope	Subcategory	Unit	2019	2020	2021	2022
Domestic	Subtotal	ton	22.78	11.66	18.69	28.27
	NOx	ton	16.76	9.18	14.82	23.66
	SOx	ton	1.71	0.05	0.02	0.28
	Dust (PM)	ton	4.31	2.43	3.85	4.33

* Scope: 6 domestic manufacturing sites (Sintanjin 2 Plant was added in 2022)

Water pollutant emissions

Scope	Subcategory	Unit	2019	2020	2021	2022
Domestic	Subtotal	ton	7.59	5.17	6.16	4.56
	BOD	ton	0.89	0.58	1.28	0.41
	COD	ton	3.56	2.11	1.97	0.00
	Total organic carbon	ton	0.00	0.00	0.00	1.46
	SS	ton	1.73	1.01	1.52	1.48
	T-N	ton	1.35	1.43	1.38	1.16
	T-P	ton	0.06	0.04	0.03	0.05

* Scope: Domestic manufacturing sites (Sintanjin 1, Sintanjin 2, Yeongju, Gwangju, Gimcheon, Cheonan). The Sintanjin 2 Plant was included in the scope starting in 2022.

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

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

Environmental investment

Scope	Subcategory	Unit	2019	2020	2021	2022
Entire	Environmental investment plan	KRW million	1,361	6,379	5,374	8,724
	Environmental investment practice	KRW million	1,718	6,615	6,011	8,176
	Execution rate	%	126.2%	103.7%	111.9%	93.7%

* Environmental investment scope: Domestic sites (Sintanjin 1, Sintanjin 2, Yeongju, Gwangju, Gimcheon, Cheonan, Head Office)

ESG Facts & Figures

KT&G KGC Yungjin Pharm COSMOCOS Tae-A Industrial KGCYebon

Purchase of eco-friendly packaging materials Status

Scope	Subcategory	Unit	2019	2020	2021	2022	
Domestic	Recyclable Packaging Materials	KRW 10 million	10,487	11,132	11,513	18,042	
		ton	26,763	29,163	28,163	43,750	
		Rate (in weight basis)	93.4%	93.0%	93.5%	95.9%	
	Renewable packaging materials	KRW 10 million	9,714	10,334	10,736	17,061	
		Ton	25,035	27,298	26,402	41,832	
		Rate (in weight basis)	87.4%	87.1%	87.6%	91.7%	
	Eco-friendly packaging materials	Eco-friendly packaging materials	KRW 10 million	10,487	11,132	11,513	18,042
			ton	26,763	29,163	28,163	43,750
			Rate (in weight basis)	93.4%	93.0%	93.5%	95.9%
		Total purchase amount	KRW 10 million	11,000	11,768	12,163	19,033
			ton	28,640	31,355	30,130	45,642
			Rate (in weight basis)	100	100	100	100

* According to KT&G's Sustainable Product Policy, "eco-friendly materials" refer to externally eco-friendly certified materials, recycled materials, recyclable materials, renewable materials, biomass materials, and compostable materials.

Packaging materials

Scope	Subcategory	Unit	Scope (cost to sales cost)	Recycled and certified materials (relative to total weight)
Domestic	Wood/paper fiber	%	12.1	100.0
	Metal (aluminum or steel)	%	0.7	0.0

* Use of 100% recycled and certified raw materials for wood/paper packaging by 2022 (98% target in 2022)

** In 2022, in the case of metal packaging materials, replacement with recyclable paper packaging materials is currently being pursued.

Use of packaging materials

Scope	Subcategory	Unit	2019	2020	2021	2022
Domestic	Total weight of all plastic packaging	ton	1,761	1,903	1,795	1,996
	Percentage of recyclable plastic packaging	%	95.7	95.6	95.6	96.1
	The ratio of packaging material (cost to sales cost)	%	12.1	11.3	10.2	13.4

ESG Facts & Figures

KT&G
 KGC Yungjin Pharm COSMOCOS Tae-A Industrial KGCYebon

Employment

Scope	Subcategory	Unit	2019	2020	2021	2022
Domestic	Subtotal	person	4,386	4,331	4,311	4,469
	Subtotal	person	3,454	3,563	3,889	4,979
Overseas	Turkey	person	78	77	84	111
	Indonesia	person	3,052	3,176	3,568	4,559
	Russia	person	131	133	180	247
	Others	person	193	177	57	62
Entire	Total	person	7,840	7,894	8,200	9,448
	Percentage of overseas employees	%	44.1	45.4	47.4	52.7

¹ Based on direct employment (full-time employees, contract workers)

Female employees

Scope	Subcategory	Unit	2019	2020	2021	2022
Domestic	Percentage of female employees	%		10.3	10.1	10.3
	Percentage of female employees in departments ¹⁾ generating profit	%		7.2	7.2	7.4
	Percentage of female employees in STEM ²⁾ related positions	%		11.1	10.9	11.0
Overseas	Percentage of female employees	%		18.1	17.3	16.2
Entire	Percentage of female employees	%		13.8	13.5	13.4

¹⁾ Profit-generating departments: Sales, Marketing, NGP, Global HQs (including subsidiaries and institutions)

²⁾ Female employees in STEM-related positions: Number/percentage of women in R&D, raw materials, manufacturing departments, PI promotion team, NGP development office in NGP HQ, Privacy Office in Management Support Headquarters HQ, and local plants

Manager position

Scope	Subcategory	Unit	2019	2020	2021	2022
Domestic	Subtotal	person		2,009	1,936	1,903
	Male executive directors	person		60	52	44
	Male managers in charge	person		289	304	317
	Male senior managers	person		1,481	1,404	1,365
	Female executive directors	person		1	1	1
	Female managers in charge	person		13	16	18
	Female senior managers	person		165	159	158
	Percentage of female managers	%		8.9	9.1	9.3
	Subtotal	person		412	510	626
	Overseas	Male executive directors	person		3	2
Male managers in charge		person		79	80	97
Male senior managers		person		264	350	417
Female executive directors		person		0	1	1
Female managers in charge		person		19	15	18
Female senior managers		person		47	62	92
Percentage of female managers		%		16.0	15.3	17.7
Entire	Subtotal	person		2,421	2,446	2,529
	Male executive directors	person		63	54	45
	Male managers in charge	person		368	384	414
	Male senior managers	person		1,745	1,754	1,782
	Female executive directors	person		1	2	2
	Female managers in charge	person		32	31	36
	Female senior managers	person		212	221	250
	Percentage of female managers	%		10.1	10.4	11.4

¹ Classified managers according to KT&G's D&I target (p. 114): Senior managers include level 2, Level 3, Level 4 at domestic business sites, while G3 and M3 are include at overseas business sites

ESG Facts & Figures

KT&G KGC Yungjin Pharm COSMOCOS Tae-A Industrial KGCYebon

Equal wage (percentage of the average wage of women to men, %)

Scope	Subcategory	Unit	2019	2020	2021	2022
Domestic	Average gender wage gap	%	4.7	0.5	1.7	-1.0
	Median gender wage gap	%	1.2	0.8	0.4	0.0
	Average gender incentive gap	%	8.1	5.1	2.0	2.2
	Median gender incentive gap	%	3.1	2.4	0.4	1.3

* Based on level-4 basic salary + service allowance based on direct employment

** Calculation method: (Average wage of men-average wage of women)/average wage of men*100

Average service period

Scope	Subcategory	Unit	2019	2020	2021	2022
Domestic	Male	year	17.1	17.7	17.5	17.0
	Female	year	15.3	15.1	14.9	14.3

* Service period is aggregated based on the day of joining the company with remaining months

** Based on direct employment (full-time employees, contract workers)

Employment of persons with disabilities

Scope	Subcategory	Unit	2019	2020	2021	2022
Domestic	Employees with disabilities	person	140	126	104	103
	Employment rate for persons with disabilities	%	3.2	2.9	2.4	2.3

* Based on direct employment (full-time employees, contract workers)

Age

Scope	Subcategory	Unit	2019	2020	2021	2022
Domestic	Total	person	4,386	4,331	4,311	4,469
	Under 30	person	433	489	539	677
	30-49	person	2,207	2,349	2,226	2,089
	50 and older	person	1,746	1,493	1,546	1,703

* Based on direct employment (full-time employees, contract workers)

New employment

Scope	Subcategory	Unit	2019	2020	2021	2022	
Domestic	Total	person	404	163	233	376	
	By gender	Male	person	331	116	192	309
		Female	person	73	47	41	67
	By age	Under 30	person	221	33	132	225
		30-49	person	138	90	58	116
		50 and older	person	45	40	43	35
	By position	Executive directors	person	-	-	-	-
		Managers in charge	person	4	1	2	2
		Senior managers	person	19	13	3	3
		Entry-level managers and associates	person	381	149	228	371
		Internal recruiting (percentage)	%	96.6	95.9	98.7	95.2
	Overseas	Total	person	1,853	1,674	1,723	2,519

* Based on direct employment (full-time employees, contract workers)

ESG Facts & Figures

KT&G
 KGC Yungjin Pharm COSMOCOS Tae-A Industrial KGCYebon

Turnover

Scope	Subcategory	Unit	2019	2020	2021	2022
Domestic	Total	person	224	197	244	312
	Male	person	193	145	197	270
	Female	person	31	52	47	42
	Under 30	person	9	18	22	43
	30-49	person	25	33	39	58
	50 and older	person	190	146	183	211
	Executive directors	person	4	6	12	10
	Managers in charge	person	0	2	4	19
	Entry-level managers and associates	person	114	109	121	135
	Employee	person	106	80	107	148
	Turnover rate	%	5.1	4.5	5.7	7.0
	Voluntary turnover rate ¹⁾	%	0.4	0.3	0.6	1.3

¹⁾ Voluntary turnover rate: No. of persons who left the company based on direct employment / total employees

CI (Culture Index) Diagnosis Results

Scope	Subcategory	Unit	2020	2022
Domestic	Engagement of Corporate Culture	%	80.9	81.33

* CI: Index to diagnose KT&G's corporate culture that consists of five areas, including corporate vision, leadership, work, and D&I, since 2022. It is assessed every other year. Target for 2022: 80.0 points

Childbirth leave and childcare leave

Scope	Subcategory	Unit	2019	2020	2021	2022
Domestic	Male employees taking childbirth leave	person	73	54	75	79
	Female employees taking childbirth leave	person	18	20	17	13
	Rate of male returning to work after childbirth leave	%	100	100	100	100
	Rate of female returning to work after childbirth leave	%	100	100	100	100
	Male employees taking childcare leave	person	18	12	22	30
	Female employees taking childcare leave	person	22	23	24	19
	Rate of male returning to work after childcare leave	%	100	100	95.5	93.3
	Rate of female returning to work after childcare leave	%	100	100	91.7	100
	Rate of male retiring within 12 months after returning to work from childcare leave	%	11.0	8.3	9.1	-
	Rate of female retiring within 12 months after returning to work from childcare leave	%	-	-	-	-

* There may be some changes according to employees' leave end date and aggregation criteria.
 ** Male and female childcare leave is paid leave. As long as two years can be used per child.

Union membership

Scope	Subcategory	Unit	2019	2020	2021	2022
Domestic	Union membership rate	%	100	100	100	100

ESG Facts & Figures

KT&G KGC Yungjin Pharm COSMOCOS Tae-A Industrial KGCYebon

Employee training

Scope	Subcategory	Unit	2019	2020	2021	2022
Domestic	Total number of trainees	person	32,454	61,054	67,311	56,329
	Male	person	-	-	59,894	49,861
	Female	person	-	-	7,417	6,468
	Annual average training expense per employee	KRW thousand	1,387	1,030	1,079	855
	Male	KRW thousand/Person	-	-	1,075	845
	Female	KRW thousand/Person	-	-	1,122	950
	Executive directors	KRW thousand/Person	-	-	-	8,817
	Managers in charge	KRW thousand/Person	-	-	-	1,840
	Middle-level managers	KRW thousand/Person	-	-	-	758
	Entry-level managers	KRW thousand/Person	-	-	-	766
	Staff	KRW thousand/Person	-	-	-	430
	On the job training	KRW thousand/Person	-	-	550	350
	Leadership training	KRW thousand/Person	-	-	260	114
	General competency training	KRW thousand/Person	-	-	487	391
	Annual average time spent on training per employee	hour/Person	124	172	110	103
	Male	hour/Person	-	-	107	100
	Female	hour/Person	-	-	138	137
	Executive directors	hour/Person	-	-	-	161
	Managers in charge	hour/Person	-	-	-	112
	Middle-level managers	hour/Person	-	-	-	98

Scope	Subcategory	Unit	2019	2020	2021	2022
Domestic	Entry-level managers	hour/Person	-	-	-	125
	On the job training	hour/Person	-	-	43	23
	Leadership training	hour/Person	-	-	7	9
	General competency training	hour/Person	-	-	60	72

Performance evaluation

Scope	Subcategory	Unit	2019	2020	2021	2022
Domestic	Employees subject to evaluation	person	3,796	3,886	3,849	3,825
	Percentage of employees evaluated	%	97	100	100	100

* All level-1 and lower employees subject to performance/capability evaluations, excluding persons on leave, new employees, employees planning to retire, and separately evaluated personnel according to company regulations (dispatched to the Group subsidiaries, etc.)

Human rights protection

Scope	Subcategory	Unit	2019	2020	2021	2022
Domestic	Sexual harassment prevention training	time	1	1	2	1
	Completion ratio of sexual harassment prevention training	%	98.1	98.5	99.4	98.3

* Based on employees in office (full-time employees)

Industrial accident

Scope	Subcategory	Unit	2019	2020	2021	2022
Domestic	Number of victims ¹⁾	person	3	2	5	5
	Industrial accident rate	%	0.057	0.042	0.106	0.112
Overseas	Number of victims	person	11	15	0	12
	Industrial accident rate	%	0.318	0.417	0	0.249

¹⁾ Including full-time employees, contract workers, daily workers

ESG Facts & Figures

KT&G KGC Yungjin Pharm COSMOCOS Tae-A Industrial KGCYebon

Work loss

Scope	Subcategory	Unit	2019	2020	2021	2022
Domestic	(Employee) LTIFR ¹⁾		0.395	0.256	0.652	0.535
	(Partners) LTIFR		2.856	1.547	2.841	3.194
Overseas	(Employee) LTIFR		1.232	1.630	0	1.294
	(Partners) LTIFR		0	0	0	4.354
Entire	(Employee) Total of LTIFR		0.847	0.999	0.227	0.913
	(Partners) Total of LTIFR		2.856	1.532	2.784	3.252

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

** No casualty accidents at domestic or overseas business sites between 2019-2022

¹⁾ Including full-time employees, contract workers, daily workers

ISO Certification Status

Scope	Subcategory	Unit	2019	2020	2021	2022
Domestic	ISO 14001 certification					
	- Certification rate	%	66.7	66.7	83.3	83.3
	- Number of worksites obtained the certification	place	4	4	5	5
	- Number of worksites eligible to obtain	place	6	6	6	6
	ISO 9001 certification					
	- Certification rate	%	83.3	83.3	83.3	83.3
	- Number of worksites obtained the certification	place	5	5	5	5
	- Number of worksites eligible to obtain	place	6	6	6	6
	ISO 45001 certification					
	- Certification rate	%	-	-	83.3	83.3
	- Number of worksites obtained the certification	place	-	-	5	5
	- Number of worksites eligible to obtain	place	-	-	6	6

Scope	Subcategory	Unit	2019	2020	2021	2022
Domestic	ISO 50001 certification					
	- Certification rate	%	-	-	83.3	83.3
	- Number of worksites obtained the certification	place	-	-	5	5
	- Number of worksites eligible to obtain	place	-	-	6	6
	ISMS-P certification					
	- Certification rate	%	-	100.0	80.0	100.0
	- Number of worksites obtained the certification	place	-	4	4	5
	- Number of worksites eligible to obtain	place	-	4	5	5
	ISO 27001 certification					
	- Certification rate	%	100.0	100.0	100.0	100.0
	- Number of worksites obtained the certification	place	5	5	6	6
	- Number of worksites eligible to obtain	place	5	5	6	6
	Business Continuity Management System (ISO 22301) certification					
	- Certification rate	%	100.0	-	-	100.0
	- Number of worksites obtained the certification	place	4	-	-	4
	- Number of worksites eligible to obtain	place	4	-	-	4

* Added "SangSang Planet" to the ISMS-P and ISO 27001 acquisition target in 2021

** Reacquired ISO 22301 in 2022

*** Business sites that obtained ISO 22301: Internet Data Center equipped with an IT server, and Sintanjin, Yeongju, and Gwangju Plants

ESG Facts & Figures

KT&G KGC Yungjin Pharm COSMOCOS Tae-A Industrial KGCYebon

Purchase and use of raw materials

Scope	Subcategory	Unit	2019	2020	2021	2022
Domestic	Purchasing of raw materials (leaf tobacco, tobacco sheet, auxiliary material)	KRW million	288,833	281,820	245,963	289,600
	Raw materials consumption	ton	38,095	41,665	38,579	41,763

* Some purchase details or raw materials based on domestic sites are sourced through overseas sites.

Leaf tobacco partner

Scope	Subcategory	Unit	2019	2020	2021	2022
Domestic	Domestic partners (farmers)	person	2,880	2,960	2,854	2,706
	Amount of domestic purchasing ¹⁾	KRW 100 million	1,175	961	1,071	1,124
	Overseas partners	firm	19	19	20	17
	Amount of overseas purchasing	KRW 100 million	1,713	1,858	1,389	1,772
	Total amount of purchasing	KRW 100 million	2,888	2,819	2,460	2,896

¹⁾ Including purchasing of tobacco sheet from Tae-a Industrial (toll processing cost)

Purchase of entire domestic leaf tobacco

Scope	Subcategory	Unit	2019	2020	2021	2022
Domestic	Purchasing volume	ton	10,214	7,741	8,013	7,224
	Purchasing amount	KRW 100 million	965	745	802	718

NTM (Non-Tobacco Material) partners

Scope	Subcategory	Unit	2019	2020	2021	2022
Domestic	Domestic partners	firm	74	70	76	82
	Domestic purchasing	KRW 100 million	4,352	5,173	6,871	10,261
	Overseas partners	firm	12	10	11	10
	Overseas purchasing	KRW 100 million	440	445	395	384
	Total number of partners	firm	86	80	87	92
	Total amount of purchasing	KRW 100 million	4,792	5,618	7,266	10,645

Support for partners

Scope	Subcategory	Unit	2019	2020	2021	2022
Domestic	Early payment of purchasing amount	KRW million	45,885	27,234	64,383	96,610

Partner opinion collection channels

Scope	Subcategory	Unit	2019	2020	2021	2022
Domestic	Channel operations (workshop, survey, etc.)	time		1	1	2
	Cases received ¹⁾	case				67
	Handling rate	%				36

¹⁾ No. of cases of partner opinions collected through a survey in 2022

Haearin project

Scope	Subcategory	Unit	2019	2020	2021	2022
Domestic	Number of farmers	person	20	22	19	21
	Purchasing of dried red pepper	kg	10,488	11,640	10,680	9,750
	Purchasing amount of dried red pepper	KRW 100 million	1.6	3.0	2.0	1.9

ESG Facts & Figures

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Social contribution

Scope	Subcategory	Unit	2019	2020	2021	2022
	Total	KRW 100 million	1,010	671.6	540.1	620.4
	Social contribution investment to sales	%	3.4	2.0	1.5	1.7
Domestic (by category)	Social responsibility (youth startup, SangSang Fund, CSR, sponsorship, etc.)	KRW 100 million	507	198	128	178
	Arts & culture (SangSang Madang, SangSang Univ., etc.)	KRW 100 million	343	298	218	249
	Scholarship foundation, welfare foundation, etc.	KRW 100 million	160	176	194	193

Board of Directors (BOD)

Scope	Subcategory	Unit	2019	2020	2021	2022
Domestic	Number of BOD meetings held	time	10	14	13	12
	Attendance rate of nonexecutive directors	%	98.3	100.0	97.2	100.0

Compensation

Scope	Subcategory	Unit	2019	2020	2021	2022
Domestic	Director compensation (all directors and auditors)	KRW million	2,403	2,330	5,111	2,709
	CEO salary	KRW million	1,177	1,173	2,557	1,548
	Average salary of employees	KRW million	80	88	90	90
	CEO salary compared with average employee salary	%	6.80	7.50	3.51	5.81
		time	15	13	28	17

ESG evaluation

Scope	Subcategory	Unit	2019	2020	2021	2022
Domestic	KCGS	rating	A+	A	A	A
	MSCI	rating	BBB	A	AA	AA
	CDP Climate Change	rating			C	A-
	CDP Water	rating			B	A-
	Sustainvest ¹⁾	rating	-	AA	AA	AA

¹⁾ Based on overall grades

R&D

Scope	Subcategory	Unit	2019	2020	2021	2022
Domestic	R&D investment	KRW million	23,401	26,317	39,206	23,063
	R&D performance	case	48	59	61	67
	R&D researcher	person	172	180	185	187
	Patents (owned) ¹⁾	case	401	514	781	1,258

¹⁾ Including overseas patents

Violation of laws and regulations

Scope	Subcategory	Unit	2019	2020	2021	2022
Domestic	Fair trade related legal sanctions	case	-	-	-	-
	Monetary sanctions of administrative/public organizations (environment)	KRW million	4.4	8.4	0.8	5.3
	Monetary sanctions of administrative/public organizations (safety)	KRW million	0.6	5.1	2.0	15.5
	Violation of display advertising regulation	case	-	-	-	-
	Personal information infringement	case	-	-	-	-

* There are no unfair trade-related investigations under progress.

ESG Facts & Figures

KT&G KGC Yungjin Pharm COSMOCOS Tae-A Industrial KGCYebon

2022 Misconduct Reports Received

Scope	Subcategory	Unit	Corruption/ bribery	Discrimination/ harassment	Protection of customers' personal information
Domestic	Employees	Case	0	4	-
		Unit			
	Case	Conflict of interests	1	0	Others ¹⁾ 37
		Money laundering/ internal trading			

* Target: All organizations of KT&G

** There were no corruption/bribery-related investigations in the past four years (2019-2022) and there are none at present

¹⁾ Others: Violation of data security, violation of duty of good faith, etc.

Disciplinary Actions in 2022

Scope	Subcategory	Unit	Termination	Suspension	Pay cut	Reprimand
Domestic	Employees	Person	1	5	3	6

NGP

Scope	Subcategory	Unit	2019	2020	2021	2022
Entire	Unit sales of sticks ¹⁾	100 million sticks	25	31	72	107
	Market share in the stick market (domestic)	%	32	34	40	48
	NGP sales	KRW 100 million	2,265	2,792	5,040	8,763
	NGP sales growth (YoY)	%	29	23	81	74
	NGP's sales proportion in the tobacco business	%	8.0	9.5	18.3	24.5
	NGP sales markets	countries	1	4	23	31
	NGP patents applied	item	352	992	1,010	1,339
	- Domestic	item	179	336	361	397
	- Overseas	item	173	656	649	942
	NGP trademarks applied	item	1,572	688	354	392
	- Domestic	item	62	56	17	23
	- Overseas	item	1,510	632	337	369
	NGP design rights applied	item	281	71	87	31
	- Domestic	item	37	25	28	19
	- Overseas	item	244	46	59	12

¹⁾ Based on market sales

Customer satisfaction

Scope	Subcategory	Unit	2019	2020	2021	2022
Domestic	National Customer Satisfaction Index	point	77	78	79	79

ESG Facts & Figures

KT&G
 KGC Yungjin Pharm COSMOCOS Tae-A Industrial KGCYebon

Customer communication channel

Scope	Subcategory	Unit	2019	2020	2021	2022
Domestic	Total channels	place	189	249	253	146
	iil MINIMUMIUM	place	8	8	4	5
	Customer service (A/S) center	place	17	17	25	28
	iil station	place	40	98	100	0
	Visiting A/S	place	121	121	119	108
	Homepage	place	1	1	1	1
	Online customer center	place	-	1	1	1
	Kakao channel	place	-	1	1	1
	Online mall	place	-	1	10	10
	CS center	place	1	1	1	1

VOCs by channel

Scope	Subcategory	Unit	2019	2020	2021	2022
Domestic	Total VOCs received	case	302,128	221,430	193,319	185,845
	Phone counseling	case	262,760	183,585	134,050	125,610
	ARS	case	19,372	26,402	36,144	34,353
	1:1 counseling	case	19,996	10,258	17,834	19,276
	Chat counseling	case	-	1,185	5,291	6,606

VOCs by type

Scope	Subcategory	Unit	2019	2020	2021	2022
Domestic	Total VOCs received	case	302,128	221,430	193,319	185,845
	Inquiry of product purchasing and location	case	29,916	21,157	11,702	32,563
	Discount coupon and homepage	case	11,349	9,443	5,039	4,156
	Inquiry of customer service (A/S)	case	237,383	174,380	165,792	137,045
	Claim on cigarettes	case	118	697	847	963
	Others (phone number, general)	case	23,362	15,753	9,939	11,118

Customer Information Protection

Scope	Subcategory	Unit	2019	2020	2021	2022
Domestic	Information leakage	case	-	-	-	-

ESG Facts & Figures

 KT&G **KGC** Yungjin Pharm COSMOCOS Tae-A Industrial KGCYebon

KGC ESG Quantitative Data

Energy use

Scope	Subcategory	Unit	2020	2021	2022
	Total	TJ	782	757	772
Domestic	Fuel (LNG)	TJ	371	339	343
	Electricity	TJ	411	418	430
	Others	TJ	0.5	0.5	0.4
	Energy use Intensity	TJ/KRW 100 million	0.06	0.06	0.06
	Subtotal	TJ	36	38	42
Overseas	Diesel (fixed combustion)	TJ	0.073	0.606	0.098
	Electricity(indirect emissions)	TJ	16	17	19
	Others(steam, etc.)	TJ	20	20	23
Entire	Energy Intensity	TJ	818	795	815

* Scope: Domestic manufacturing sites (Buyeo, Wonju), overseas manufacturing site (China)

GHG emissions

Scope	Subcategory	Unit	2020	2021	2022
	Total (Scope 1+2)	tCO₂eq	38,826	37,224	37,981
Domestic	Direct emissions (Scope 1)	tCO ₂ eq	18,856	17,221	17,393
	Indirect emissions (Scope 2)	tCO ₂ eq	19,970	20,003	20,588
	GHG emission intensity(Scope 1+2)	tCO ₂ eq/KRW 100 million	2.91	2.88	2.91
Overseas	Total (Scope 1+2)	tCO₂eq	2,199	2,371	2,579
	Direct emissions (Scope 1)	tCO ₂ eq	5	45	7
	Indirect emissions (Scope 2)	tCO ₂ eq	2,194	2,326	2,572
Entire	Total (Scope 1+2)	tCO₂eq	41,025	39,595	40,561
	Direct emissions (Scope 1)	tCO ₂ eq	18,861	17,266	17,400
	Indirect emissions (Scope 2)	tCO ₂ eq	22,164	22,330	23,161

* Scope: Domestic manufacturing sites (Buyeo, Wonju), overseas manufacturing site (China)

** Verification status: Completed third-party verification for all business sites within the scope

Environmental investment

Scope	Subcategory	Unit	2020	2021	2022
Domestic	Environmental investment plan	KRW million	205.90	817.10	1,063.61
	Amount of environmental investments	KRW million	585.90	888.40	746.89
	Execution rate	%	284.6	108.7	70.2

* Scope: Domestic manufacturing sites (Buyeo, Wonju)

Water resources management

Scope	Subcategory	Unit	2020	2021	2022
	Total water consumption (A-B)	ton	128,480	150,562	173,478
Domestic	Service water	ton	779,119	731,235	700,524
	Ground water	ton	1,078	692	782
	Water withdrawal (A)	ton	780,197	731,927	701,306
	Waste water and water discharge (B)	ton	651,717	581,365	527,828
	Water recycling	ton	54,576	43,463	72,812
	Water withdrawal intensity	ton/KRW 100 million	58.5	56.6	53.7
	Total water consumption (A)	ton	38,851	46,548	57,582
Overseas	Service water	ton	38,851	46,548	57,582
	Water withdrawal (A)	ton	38,851	46,548	57,582
Entire	Total water consumption (A-B)	ton	167,331	197,110	231,060
	Water withdrawal (A)	ton	819,048	778,475	758,888
	Waste water and water discharge (B)	ton/KRW 100 million	651,717	581,365	527,828

* Scope: Domestic manufacturing sites (Buyeo, Wonju), overseas manufacturing site (China)

** Internal verification based on all business sites' bills and internal meter-reading proof documents

*** Added missing amount from Buyeo Plant's wastewater discharge amount: 2020 (431,498 tons), 2021 (383,153 tons)

ESG Facts & Figures

 KT&G **KGC** Yungjin Pharm COSMOCOS Tae-A Industrial KGCYebon

Waste discharge

Scope	Subcategory	Unit	2020	2021	2022
Domestic	Subtotal waste emitted (Incineration+Landfill+Recycling+Others)	ton	4,762	4,788	5,369
	Incineration	ton	20	15	20
	Landfill	ton	298	218	254
	Recycling	ton	4,443	4,549	5,088
	Others	ton	0	6	6
	Waste recycling rate	%	93.3	95.1	94.8
	Waste emission intensity	ton/KRW 100 million	0.36	0.37	0.41
Overseas	Subtotal waste emitted (Incineration)	ton	75	80	132
	Incineration	ton	75	80	132
Entire	Subtotal waste emitted	ton	4,837	4,863	5,498
	Incineration	ton	95	95	152
	Landfill	ton	298	218	254
	Recycling	ton	4,443	4,549	5,088
	Others	ton	-	6	6
Waste recycling rate	%	91.9	93.6	92.6	

* Scope: Domestic manufacturing sites (Buyeo, Wonju), overseas manufacturing site (China)

Air pollutant emissions

Scope	Subcategory	Unit	2020	2021	2022
Domestic	NOx	ton	9.5	8.5	10.7
	SOx	ton	0.0	0.0	0.0
	Dust (PM)	ton	0.6	0.5	1.0
	Volatile Organic Compounds (VOCs)	ton	0.0	0.0	0.0

* Scope: Domestic manufacturing sites (Buyeo, Wonju)

Water pollutant emissions

Scope	Subcategory	Unit	2020	2021	2022
Domestic	Subtotal	ton	14.9	12.6	12.6
	BOD	ton	1.6	1.8	1.8
	COD	ton	2.4	0.9	1.1
	TOC	ton	5.2	5.2	5.2
	SS	ton	3.3	2.9	2.6
	T-N	ton	2.2	1.6	1.7
	T-P	ton	0.2	0.2	0.1

* Scope: Domestic manufacturing sites (Buyeo, Wonju)

ESG Facts & Figures

 KT&G **KGC** Yungjin Pharm COSMOCOS Tae-A Industrial KGCYebon

Employment

Scope	Subcategory	Unit	2020	2021	2022
Domestic	Total	person	1,677	1,665	1,633
	Male	person	914	898	890
	Female	person	763	767	743
	Under 30	person	169	157	152
	30-49	person	1,007	968	936
	50 and older	person	501	540	545

* Based on direct employment (full-time employees, contract workers)

Female employees

Scope	Subcategory	Unit	2020	2021	2022
Domestic	Percentage of female employees	%	45.5	46.1	45.5
Overseas	Percentage of female employees	%	5.9	10.0	8.7
Entire	Percentage of female employees	%	45.1	45.6	45.0

* Based on direct employment (full-time employees, contract workers)

Employment of persons with disabilities

Scope	Subcategory	Unit	2020	2021	2022
Domestic	Employees with disabilities	person	16	14	13
	Employment rate for persons with disabilities	%	94.5	83.9	77.9

Average service period

Scope	Subcategory	Unit	2020	2021	2022
Domestic	Male	year	14.2	14.4	14.3
	Female	year	14.0	14.4	14.5

* Based on direct employment (full-time employees, contract workers)

ESG Facts & Figures

 KT&G **KGC** Yungjin Pharm COSMOCOS Tae-A Industrial KGCYebon

New employment

Scope	Subcategory	Unit	2020	2021	2022
Domestic	Total	person	55	67	126
	Male	person	32	30	65
	Female	person	23	37	61
	Under 30	person	23	31	55
	30-49	person	20	24	42
	50 and older	person	12	12	29

* Based on direct employment (full-time employees, contract workers)

Turnover

Scope	Subcategory	Unit	2020	2021	2022
Domestic	Total	person	16	25	78
	Male	person	7	16	41
	Female	person	9	9	37
	Turnover rate	%	1.0	1.6	5.0
	Voluntary turnover rate	%	1.0	1.6	5.0

* Based on direct employment (full-time employees, contract workers)

Childbirth leave and childcare leave

Scope	Subcategory	Unit	2020	2021	2022
Domestic	Male employees taking childbirth leave	person	32	30	22
	Female employees taking childbirth leave	person	28	18	17
	Rate of male returning to work after childbirth leave	%	100.0	100.0	100.0
	Rate of female returning to work after childbirth leave	%	96.4	100.0	100.0
	Male employees taking childcare leave	person	6	3	11
	Female employees taking childcare leave	person	35	24	43
	Rate of male returning to work after childcare leave	%	100.0	100.0	90.9
	Rate of female returning to work after childcare leave	%	100.0	100.0	100.0
	Rate of male retiring within 12 months after returning to work from childcare leave	%	-	-	-
	Rate of female retiring within 12 months after returning to work from childcare leave	%	5.7	-	-

* Based on direct employment (full-time employees, contract workers)

Union membership

Scope	Subcategory	Unit	2020	2021	2022
Domestic	Employees eligible for membership	person	1,369	1,371	1,330
	Union members	person	1,369	1,371	1,330
	Union membership rate	%	100.0	100.0	100.0

ESG Facts & Figures

 KT&G **KGC** Yungjin Pharm COSMOCOS Tae-A Industrial KGCYebon

Employee training

Scope	Subcategory	Unit	2020	2021	2022
Domestic	Total number of trainees	person	15,436	21,969	20,282
	Male	person	8,148	11,681	10,933
	Female	person	7,288	10,288	9,349
	Annual average training expense per employee	KRW thousand	1,030	605	911
	Male	KRW thousand	1,030	605	911
	Female	KRW thousand	1,030	605	911
	Annual average time spent on training per employee	hour	27.3	50.6	29.7
	Male	hour	27.3	47.0	32.1
	Female	hour	27.3	54.7	26.9

Performance evaluation

Scope	Subcategory	Unit	2020	2021	2022
Domestic	Employees subject to evaluation	person	1,557	1,542	1,521
	Percentage of employees evaluated	%	96.0	94.0	90.1

* All level-1 and lower employees subject to performance/capability evaluations, excluding persons on leave, new employees, employees planning to retire, and separately evaluated personnel according to company regulations (dispatched to the Group subsidiaries, etc.)

Human rights protection

Scope	Subcategory	Unit	2020	2021	2022
Domestic	Sexual harassment prevention training	time	1	1	1
	Employees who completed sexual harassment prevention training	person	1,444	1,694	1,462

Industrial accident

Scope	Subcategory	Unit	2020	2021	2022
Domestic	Number of victims	person	2	3	5
	Industrial accident rate	%	0.10	0.18	0.30
	accident-related injuries	case	2	3	5
	disease-related injuries	case	0	0	0
	Total working hour	hour	3,521,440	3,344,520	3,273,680

* Including full-time employees, contract workers, and daily workers

Work loss

Scope	Subcategory	Unit	2020	2021	2022
Domestic	(Employee) LTIFR ¹⁾	-	0.57	0.90	1.53
	(Partners) LTIFR	-	0.33	0.00	0.00

* Including full-time employees, contract workers, daily workers

** No casualty accidents at domestic or overseas business sites between 2019-2022

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

Social contribution

Scope	Subcategory	Unit	2020	2021	2022
Domestic	Total social contribution investment	KRW 100 million	9.2	10.1	13.5
	Social contribution investment to sales	%	0.07	0.08	0.10

ESG Facts & Figures

KT&G **KGC** Yungjin Pharm COSMOCOS Tae-A Industrial KGCYebon

Board of Directors (BOD)

Scope	Subcategory	Unit	2020	2021	2022
Domestic	Number of BOD meetings held	time	8	10	9
	Attendance rate of non-executive directors	%	100.0	100.0	100.0

Violation of laws and regulations

Scope	Subcategory	Unit	2020	2021	2022
Domestic	Fair trade related legal sanctions	case	-	-	-
	Environment-related penalty	KRW thousand	-	6,400	-
	Violation of display advertising regulation	case	-	-	-
	Personal information leakage	case	-	-	-

R&D

Scope	Subcategory	Unit	2020	2021	2022
Domestic	R&D investment	KRW million	11,259	12,234	15,560
	R&D performance	case	66	70	58
	Patents (owned)	case	231	265	289

* Including overseas patents

ESG Facts & Figures

KT&G KGC **Yungjin Pharm** COSMOCOS Tae-A Industrial KGCYebon

Yungjin Pharm ESG Quantitative Data

Energy use

Scope	Subcategory	Unit	2020	2021	2022
Entire	Total	TJ	56.2	47.1	61.8
	Fuel (LNG)	TJ	20.7	15.8	20.0
	Electricity	TJ	35.5	31.3	41.8
	Energy use Intensity	TJ/KRW 100 million	0.03	0.02	0.03
	Total	TOE	2,754.5	2,369.9	3,138.5
Entire	Fuel (LNG)	TOE	496.3	378.8	479.5
	Electricity	TOE	2,258.2	1,991.0	2,658.9
	Energy use Intensity	TJ/KRW 100 million	1.32	1.21	1.44

* Scope: Domestic manufacturing sites (Namyang, Jeonju)

** Verification status: Completed third-party verification for all business sites within the scope

GHG emissions(Scope 1, 2)

Scope	Subcategory	Unit	2020	2021	2022
Entire	Total (Scope 1+2)	tCO₂eq	5,444.4	4,793.7	6,364.5
	Direct emissions (Scope 1)	tCO ₂ eq	1,075.6	807.7	1,027.4
	Indirect emissions (Scope 2)	tCO ₂ eq	4,368.8	3,986.0	5,337.1
	GHG emission intensity (Scope 1+2)	tCO ₂ eq/KRW 100 million	2.6	2.4	3.0

* Scope: Domestic manufacturing sites (Namyang, Jeonju)

** Verification status: Completed third-party verification for all business sites within the scope

Environmental investment

Scope	Subcategory	Unit	2020	2021	2022
Entire	Environmental investment plan	KRW million	1,231.0	1,089.0	387.8
	Environmental investment practice	KRW million	1,247.0	114.5	387.8
	Execution rate	%	101.3	10.5	100.0

* Scope: Domestic manufacturing sites (Namyang, Jeonju)

Water resources management

Scope	Subcategory	Unit	2020	2021	2022
Entire	Total consumption	ton	105,257	92,913	111,468
	Service water	ton	105,257	92,913	111,468
	Water withdrawal	ton	105,257	92,913	111,468
	Water recycling amount	ton	36,783	6,348	11,832
	Water use intensity	ton/KRW 100 million	50.5	47.4	51.0

* Scope: Domestic manufacturing sites (Namyang, Jeonju)

ESG Facts & Figures

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Waste discharge (by treatment)

Scope	Subcategory	Unit	2020	2021	2022
Namyang plant	Subtotal waste emitted	ton	173.4	228.6	198.6
	Incineration	ton	167.3	213.6	178.2
	Landfill	ton	-	4.8	-
	Recycling	ton	6.1	10.2	20.3
	Waste recycling rate	%	3.52	4.45	10.24
Jeonju plant	Subtotal waste emitted	ton	3,566.7	1,866.4	2,811.5
	Incineration	ton	520.5	96.4	34.1
	Landfill	ton	145.8	56.4	97.0
	Recycling	ton	2,896.8	1,709.2	2,680.5
	Waste recycling rate	%	81.2	91.6	95.3
Entire	Subtotal waste emitted	ton	3,736.5	2,090.5	3,010.1
	Incineration	ton	687.8	309.9	212.3
	Landfill	ton	145.8	61.2	97.0
	Recycling	ton	2,902.9	1,719.4	2,700.8
	Waste recycling rate	%	77.7	82.2	89.7
	Waste emission intensity	ton/KRW 100 million	1.8	1.1	1.4

Waste discharge (by type)

Scope	Subcategory	Unit	2020	2021	2022
Namyang plant	Subtotal waste emitted	ton	176.9	224.0	198.6
	General	ton	167.1	212.5	182.3
	Designated	ton	9.8	11.5	16.3
Jeonju plant	Subtotal waste emitted	ton	3,563.1	1,871.3	2,811.5
	General	ton	230.7	132.3	181.5
	Designated	ton	3,332.4	1,739.0	2,630.0
Entire	Subtotal waste emitted	ton	3,740.0	2,095.3	3,010.1
	General	ton	397.8	344.8	363.8
	Designated	ton	3,342.2	1,750.5	2,646.3

ESG Facts & Figures

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Air pollutant emissions

Scope	Subcategory	Unit	2020	2021	2022
Namyang plant	NOx	ton	0.146	0.154	0.211
	SOx	ton	0.006	0.006	0
	Dust (PM)	ton	1.198	0.819	0.290
	Volatile Organic Compounds (VOCs)	ton	-	-	-
Jeonju plant	NOx	ton	-	-	-
	SOx	ton	-	-	0.005
	Dust (PM)	ton	0.923	0.650	0.512
	Volatile Organic Compounds (VOCs)	ton	-	-	-
Entire	NOx	ton	0.146	0.154	0.211
	SOx	ton	0.006	0.006	0.005
	Dust (PM)	ton	2.121	1.469	0.801
	Volatile Organic Compounds (VOCs)	ton	-	-	-

Water pollutant emissions

Scope	Subcategory	Unit	2020	2021	2022
Namyang plant	Subtotal	ton	0.459	0.532	0.708
	BOD	ton	0.041	0.008	0.153
	COD	ton	0.129	0.168	0.268
	SS	ton	0.015	0.002	0.004
	T-N	ton	0.260	0.330	0.259
	T-P	ton	0.013	0.024	0.024
	Subtotal	ton	8.216	11.191	12.357
Jeonju plant	BOD	ton	1.533	4.555	5.030
	COD	ton	2.453	5.081	5.610
	SS	ton	2.453	1.034	1.141
	T-N	ton	1.769	0.519	0.573
	T-P	ton	0.008	0.002	0.003
	Total	ton	5.675	11.726	13.064
Entire	BOD	ton	1.574	4.563	5.182
	COD	ton	2.582	5.249	5.878
	SS	ton	2.468	1.036	1.146
	T-N	ton	2.030	0.849	0.832
	T-P	ton	0.021	0.029	0.026

ESG Facts & Figures

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Use of major raw/secondary materials

Scope	Subcategory	Unit	2020	2021	2022
Entire	Raw materials	ton	50,685	32,050	45,655
	Secondary materials	ton	4,260	2,561	4,537

Purchase of eco-friendly products/services

Scope	Subcategory	Unit	2020	2021	2022
Entire	Amount of eco-friendly product/service purchase	KRW million	440	424	583
	Percentage of eco-friendly product/service purchase	%	10.3	16.6	12.8

Employment

Scope	Subcategory	Subcategory	2020	2021	2022	
Entire	Total	person	630	629	610	
	By gender	Male	person	462	462	450
		Female	person	168	167	160
	By age	Under 30	person	108	114	91
		30-49	person	443	429	426
		50 and older	person	79	86	93
	Percentage of female employees	%	26.7	26.6	26.2	

* Employee status: Based on business report of December 2022

** Based on direct employment (full-time employees, contract workers)

Employment of persons with disabilities

Scope	Subcategory	Unit	2020	2021	2022
Entire	Employees with disabilities	person	3	3	3
	Employment rate for persons with disabilities	%	0.5	0.5	0.5

* Based on direct employment (full-time employees, contract workers)

Average service period

Scope	Subcategory	Unit	2020	2021	2022
Entire	Male	Year	11.0	11.2	11.3
	Female	Year	9.3	10.2	10.3

* Compiling years of service based on the date of joining the company

New employment

Scope	Subcategory	Unit	2020	2021	2022	
Entire	Total	person	36	41	93	
	By gender	Male	person	19	27	66
		Female	person	17	14	27
	By age	Under 30	person	17	24	52
		30-49	person	18	14	36
		50 and older	person	1	3	5

* Based on direct employment (full-time employees, contract workers)

ESG Facts & Figures

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Turnover

Scope	Subcategory	Unit	2020	2021	2022	
Domestic	Total	person	43	52	100	
	By gender	Male	33	33	70	
		Female	10	19	30	
		Turnover rate	%	6.8	8.3	16.4
		Voluntary turnover rate	%	6.8	7.8	13.6

* Based on direct employment (full-time employees)

Childbirth leave and childcare leave

Scope	Subcategory	Unit	2020	2021	2022
Entire	Male employees taking childbirth leave	person	6	23	22
	Female employees taking childbirth leave	person	5	8	5
	Rate of male returning to work after childbirth leave	%	100.0	100.0	100.0
	Rate of female returning to work after childbirth leave	%	100.0	100.0	100.0
	Male employees taking childcare leave	person	-	-	1
	Female employees taking childcare leave	person	6	8	24
	Rate of male returning to work after childcare leave	%	-	-	-
	Rate of female returning to work after childcare leave	%	100.0	100.0	87.5
	Rate of male retiring within 12 months after returning to work from childcare leave	%	-	-	-
	Rate of female retiring within 12 months after returning to work from childcare leave	%	-	-	-

* There may be some changes according to employees' leave end date and aggregation criteria.

Union membership

Scope	Subcategory	Unit	2020	2021	2022
Entire	Employees eligible for membership	person	455	454	454
	Union members	person	399	395	385
	Union membership rate	%	87.7	87.0	84.8

Employee training

Scope	Subcategory	Unit	2020	2021	2022
Entire	Total number of trainees	person	157	165	105
	Male	person	113	125	76
	Female	person	44	40	29
	Annual average training expense per employee	KRW thousand	164	160	180
	Male	KRW thousand	199	165	156
	Female	KRW thousand	90	143	243
	Annual average time spent on training per employee	hour	21.0	21.4	11.1
	Male	hour	-	-	11.5
	Female	hour	-	-	9.9

Performance evaluation

Scope	Subcategory	Unit	2020	2021	2022
Entire	Employees subject to evaluation	person	588	581	541
	Percentage of employees evaluated	%	93.3	92.4	88.7

* All level-2 A and lower employees subject to performance/capability evaluations, excluding persons on leave, new employees, employees planning to retire, and separately evaluated personnel according to company regulations (dispatched to the Group subsidiaries, etc.)

ESG Facts & Figures

 KT&G | KGC | **Yungjin Pharm** | COSMOCOS | Tae-A Industrial | KGCYebon

Human rights protection

Scope	Subcategory	Unit	2020	2021	2022
Entire	No. of cases of human rights-related opinions received	case	1	3	2
	No. of cases of human rights-related opinions handled	case	1	3	2
	Handling ratio of human rights-related opinions	%	100	100	100
	Sexual harassment prevention training	time	1	1	1
	Employees who completed sexual harassment prevention training	person	586	623	628

Industrial accident

Scope	Subcategory	Unit	2020	2021	2022
Entire	Number of victims	person	-	-	1
	Industrial accident rate	%	-	-	0.2
	accident-related injuries	case	-	-	-
	disease-related injuries	case	-	-	-
	Total working hour	hour	1,613,965	1,577,904	1,584,000

* Including full-time employees and contract workers

Work loss

Scope	Subcategory	Unit	2020	2021	2022
Entire	(Employee) LTIFR ¹⁾	-	-	0.6	0.88

* Including full-time employees and contract workers

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

Social contribution

Scope	Subcategory	Unit	2020	2021	2022
Entire	Total social contribution investment	KRW 100 million	0.98	0.04	0.11
	Social contribution investment to sales	%	0.05	0.00	0.01

Board of Directors (BOD)

Scope	Subcategory	Unit	2020	2021	2022
Entire	Number of BOD meetings held	time	10	10	12
	Attendance rate of non-executive directors ¹⁾	%	93.9	93.3	100

¹⁾ Sum of no. of times of attendance by director / no. of times BOD meetings were held X no. of non-executive directors * 100

Violation of laws and regulations

Scope	Subcategory	Unit	2020	2021	2022
Entire	Fair trade related legal sanctions	case	-	-	-
	Environment-related penalty	KRW thousand	-	-	-
	Violation of display advertising regulation	case	-	-	-
	Personal information infringement	case	-	-	-

R&D

Scope	Subcategory	Unit	2020	2021	2022
Entire	R&D investment	KRW million	15,074	13,261	16,142
	R&D performance	case	36	16	16
	Patents (owned)	case	190	176	181

¹⁾ Including domestic and overseas patents

ESG Facts & Figures

 KT&G | KGC | Yungjin Pharm | **COSMOCOS** | Tae-A Industrial | KGCYebon

COSMOCOS ESG Quantitative Data

Energy use(TJ)

Scope	Subcategory	Unit	2020	2021	2022
Entire	Total	TJ	30.7	32.1	32.0
	Fuel(Non-renewable energy)	TJ	8.0	8.4	7.7
	Electricity	TJ	23	24	24
	Energy use Intensity*	TJ/KRW 100 million	0.05	0.04	0.04

* Scope: Domestic manufacturing site (Incheon)

** Verification status: Completed third-party verification for all business sites within the scope

GHG emissions

Scope	Subcategory	Unit	2020	2021	2022
Entire	Total (Scope 1+2)	tCO₂eq	1,508	1,558	1,549
	Direct emissions (Scope 1)	tCO ₂ eq	408	426	387
	Indirect emissions (Scope 2)	tCO ₂ eq	1,101	1,131	1,162
	GHG emission intensity (Scope 1+2)	tCO ₂ eq/KRW 100 million	2.30	2.16	1.96

* Scope: Domestic manufacturing site (Incheon)

** Verification status: Completed third-party verification for all business sites within the scope

Water resources management

Scope	Subcategory	Unit	2020	2021	2022
Entire	Total water withdrawal	ton	29,866	28,437	28,610
	Service water	ton	29,866	28,437	28,610
	Total water consumption	ton	29,866	28,437	28,610
	Water use intensity	ton/KRW 100 million	45.57	39.44	36.38

* Scope: Domestic manufacturing site (Incheon)

Waste discharge

Scope	Subcategory	Unit	2020	2021	2022
Entire	Total waste emitted	ton	415.6	372.1	441.2
	General (Incineration)	ton	152.8	93.4	152.5
	Designated (Recycling)	ton	262.8	278.7	288.7
	Waste recycling rate	%	63.2	74.9	65.4
	Waste emission intensity	ton/KRW 100 million	0.63	0.52	0.56

* Scope: Domestic manufacturing site (Incheon)

** Based on waste discharge and treatment performance report pursuant to the Enforcement Regulations of the Wastes Control Act

Air pollutant emissions

Scope	Subcategory	Unit	2020	2021	2022
Incheon Plant	NO _x	ppm	-	25.7	18.7
	SO _x	ppm	non-detection	0.55	non-detection
	Dust (PM)	mg/Sm ³	1.48	1.68	0.76
	Volatile Organic Compounds (VOCs)	ppm	-	-	-

* Scope: Domestic manufacturing site (Incheon)

** Based on self-measurement

ESG Facts & Figures

 KT&G | KGC | Yungjin Pharm | **COSMOCOS** | Tae-A Industrial | KGCYebon

Water pollutant emissions

Scope	Subcategory	Unit	2020	2021	2022
Incheon Plant	Total	mg/L	77.10	66.45	51.38
	BOD	mg/L	15.45	5.40	7.60
	COD	mg/L	37.15	33.35	26.63
	SS	mg/L	17.65	15.10	8.00
	T-N	mg/L	6.81	12.54	9.12
	T-P	mg/L	0.05	0.06	0.04

* Scope: Domestic site (Incheon)

** Implemented self-measurement of a specific harmful substance polluting the environment

Employment

Scope	Subcategory	Unit	2020	2021	2022
Entire	Total	person	263	264	272
	Male	person	129	129	135
	Female	person	134	135	137
	Under 30	person	35	32	36
	30-49	person	169	170	174
	50 and older	person	59	62	62
	Percentage of female employees	%	51.0	51.1	50.4

* Based on direct employment (full-time employees, contract workers)

Employment of persons with disabilities

Scope	Subcategory	Unit	2020	2021	2022
Entire	Employees with disabilities	person	5	5	6
	Employment rate for persons with disabilities	%	1.9	1.9	2.2

* Based on direct employment (full-time employees, contract workers)

Average service period

Scope	Subcategory	Unit	2020	2021	2022
Entire	Male	Year	9	9	10
	Female	Year	10	9	9

* Based on the date of joining the company

New employment

Scope	Subcategory	Unit	2020	2021	2022
Entire	Total	person	36	56	64
	Male	person	19	23	31
	Female	person	17	33	33
	Under 30	person	10	22	18
	30-49	person	25	33	37
	50 and older	person	1	1	9

* Based on direct employment (full-time employees, contract workers)

Turnover

Scope	Subcategory	Unit	2020	2021	2022
Entire	Total	person	26	51	53
	Male	person	10	19	26
	Female	person	16	32	27
	Turnover rate	%	9.9	19.3	19.5
	Voluntary turnover rate ¹⁾	%	6.5	17.0	14.0

* Based on direct employment (full-time employees, contract workers)

¹⁾ Voluntary turnover rate: No. of persons who left the company based on direct employment / total employees

ESG Facts & Figures

 KT&G | KGC | Yungjin Pharm | **COSMOCOS** | Tae-A Industrial | KGCYebon

Childbirth leave and childcare leave

Scope	Subcategory	Unit	2020	2021	2022
Entire	Male employees taking childbirth leave	person	3	4	2
	Female employees taking childbirth leave	person	1	4	1
	Rate of male returning to work after childbirth leave	%	100.0	100.0	100.0
	Rate of female returning to work after childbirth leave	%	100.0	100.0	100.0
	Male employees taking childcare leave	person	1	1	1
	Female employees taking childcare leave	person	2	5	2
	Rate of male returning to work after childcare leave	%	100.0	100.0	0.0
	Rate of female returning to work after childcare leave	%	100.0	100.0	100.0
	Rate of male retiring within 12 months after returning to work from childcare leave	%	0.0	0.0	100.0
	Rate of female retiring within 12 months after returning to work from childcare leave	%	50.0	0.0	50.0

* Male and female childcare leave is unpaid. A maximum of 1 year can be used.

Employee training

Scope	Subcategory	Unit	2020	2021	2022
Entire	Total number of trainees	person	39	88	167
	Male	person	34	47	83
	Female	person	5	41	84
	Annual average training expense per employee	KRW thousand	195	94	115
	Male	KRW thousand	207	98	137
	Female	KRW thousand	105	88	94
	Annual average time spent on training per employee	hour	13	9	8
	Male	hour	13	9	9
	Female	hour	11	10	6

Performance evaluation

Scope	Subcategory	Unit	2020	2021	2022
Entire	Employees subject to evaluation	person	195	220	218
	Percentage of employees evaluated	%	66.2	70.0	81.0

* All level-1 and lower employees subject to performance/capability evaluations (employees who continually worked for less than three months in the corresponding year (including employees on leave, who returned to work, who joined the company in the middle of the year, etc. are excluded))

Human rights protection

Scope	Subcategory	Unit	2020	2021	2022
Entire	Sexual harassment prevention training	time	1	1	1
	Employees who completed sexual harassment prevention training	person	263	275	275

Industrial accident

Scope	Subcategory	Unit	2020	2021	2022
Entire	Number of victims	person	1	1	2
	Industrial accident rate ¹⁾	%	38.2	38.2	73.5
	Accident-related injuries	case	1	1	2
	Disease-related injuries	case	0	0	0
	Total working hour ²⁾	hour	512,237	503,360	517,888

¹⁾ Industrial accident rate: (No. of workers in accidents/no. of workers subject to industrial accident insurance application) * 100

²⁾ Total working hour: Annual prescribed no. of work days * prescribed work hours (8 hours) * Annual average workers

Work loss

Scope	Subcategory	Unit	2020	2021	2022
Entire	(Employee) LTIFR ¹⁾		1.95	1.99	3.86

* Including full-time employees, contract workers, daily workers

¹⁾ No casualty accidents at domestic or overseas business sites between 2019-2022

ESG Facts & Figures

KT&G KGC Yungjin Pharm **COSMOCOS** Tae-A Industrial KGCYebon

Board of Directors (BOD)

Scope	Subcategory	Unit	2020	2021	2022
Entire	Number of BOD meetings held	time	14	14	10

Violation of laws and regulations

Scope	Subcategory	Unit	2020	2021	2022
Entire	Fair trade related legal sanctions	case	-	-	-
	Environment-related penalty	KRW thousand	-	-	-
	Violation of display advertising regulation	case	-	-	-
	Personal information infringement	case	-	-	-

R&D

Scope	Subcategory	Unit	2020	2021	2022
Entire	R&D investment	KRW million	273	426	433
	R&D performance ¹⁾	case	121	192	200
	Patents(owned)	case	1	4	2

¹⁾ R&D performance in 2022: 194 cases of new products, 6 cases of functional permission, 0 cases of quasi-drug permission

²⁾ 2 cases of patent registration in 2022

ESG Facts & Figures

 KT&G KGC Yungjin Pharm COSMOCOS **Tae-A Industrial** KGCYebon

Tae-A Industrial ESG Quantitative Data

Energy use(TJ)

Scope	Subcategory	Unit	2020	2021	2022
Entire	Total	TJ	369.9	395.6	439.4
	Fuel (LNG)	TJ	232.1	249.4	268.4
	Electricity	TJ	137.3	145.6	170.4
	Others	TJ	0.5	0.6	0.6
	Energy use Intensity	TOE/KRW 100 million	1.7	1.6	1.3

* Scope: Daejeon Plant, Gimcheon Plant

** Verification status: Completed third-party verification for all business sites within the scope

GHG emissions

Scope	Subcategory	Unit	2020	2021	2022
Entire	Total (Scope 1+2)	tCO₂eq	18,468	19,647	21,799
	Direct emissions (Scope 1)	tCO ₂ eq	11,798	12,679	13,644
	Indirect emissions (Scope 2)	tCO ₂ eq	6,670	6,968	8,155
	GHG emission intensity (Scope 1+2)	tCO ₂ eq/KRW 100 million	84.9	77.9	66.9

* Scope: Daejeon Plant, Gimcheon Plant

** Verification status: Completed third-party verification for all business sites within the scope

Environmental investment

Scope	Subcategory	Unit	2020	2021	2022
Entire	Environmental investment plan	KRW million	818	1,140	1,197
	Environmental investment practice	KRW million	704	838	2,030
	Execution rate	%	86.0	73.5	169.6

Water resources management

Scope	Subcategory	Unit	2020	2021	2022
Entire	Total water withdrawal (A)	ton	458,045	447,731	511,245
	Service water	ton	445,096	439,106	507,644
	Ground water	ton	12,949	8,625	3,601
	Waste water and water discharge (B)	ton	-	-	-
	Total water consumption (A-B)	ton	458,045	447,731	511,245
	Recycled water	ton	-	-	-
	Water use intensity	ton/KRW 100 million	2,105	1,774	1,569

* Scope: Daejeon Plant, Gimcheon Plant

Waste emissions and recycling

Scope	Subcategory	Unit	2020	2021	2022
Entire	Total waste emitted	ton	5,892	5,927	6,265
	Incineration	ton	131	194	197
	Recycling	ton	5,760	5,733	6,068
	Waste recycling rate	%	97.8	96.7	96.9
	Waste emission intensity	ton/KRW 100 million	27.1	23.5	-

* Scope: Daejeon Plant, Gimcheon Plant

** Based on waste discharge and treatment performance report pursuant to the Enforcement Regulations of the Wastes Control Act

ESG Facts & Figures

 KT&G KGC Yungjin Pharm COSMOCOS **Tae-A Industrial** KGCYebon

Air pollutant emissions

Scope	Subcategory	Unit	2020	2021	2022
Daejeon plant ¹⁾	NOx	ppm	28.0	15.0	15.5
	SOx	ppm	-	-	0.1
	Dust (PM)	mg/Sm3	4.7	3.4	2.5
	Volatile Organic Compounds (VOCs)	ppm	-	-	-
Gimcheon plant ²⁾	NOx	ppm	23.1	23.5	27.5
	SOx	ppm	0.2	0.5	0.2
	Dust (PM)	mg/Sm3	1.5	1.6	1.3
	Volatile Organic Compounds (VOCs)	ppm	-	-	-

¹⁾ Daejeon Plant: Based on 8 air measurement locations

²⁾ Gimcheon Plant: Based on 4 air measurement locations

Water pollutant emissions

Scope	Subcategory	Unit	2020	2021	2022
Daejeon plant ¹⁾	Total water pollutant	mg/L	132.5	116.2	117.1
	BOD	mg/L	13.0	5.3	6.9
	COD	mg/L	86.0	87.2	87.2
	SS	mg/L	17.0	11.0	12.3
	T-N	mg/L	16.4	12.7	10.6
	T-P	mg/L	0.1	0.1	0.1
Gimcheon plant ²⁾	Total water pollutant	mg/L	56.7	49.8	86.0
	BOD	mg/L	4.1	4.0	5.0
	COD	mg/L	30.5	28.3	50.0
	SS	mg/L	10.4	9.4	17.0
	T-N	mg/L	11.0	7.9	13.0
	T-P	mg/L	0.7	0.2	1.0

¹⁾ Daejeon Plant: Based on water discharge

²⁾ Gimcheon Plant: Based on water discharge of KT&G's joint prevention facility

Employment

Scope	Subcategory	Unit	2020	2021	2022
Entire	Total	person	100	112	145
	Male	person	94	106	137
	Female	person	6	5	8
	Under 30	person	14	20	20
	30-49	person	62	70	96
	50 and older	person	24	21	29
	Percentage of female employees	%	6.0	5.4	5.5

* Based on direct employment (full-time employees, contract workers)

Employment of persons with disabilities

Scope	Subcategory	Unit	2020	2021	2022
Entire	Employees with disabilities	person	1	1	2
	Employment rate for persons with disabilities	%	1.0	0.9	1.4

Average service period

Scope	Subcategory	Unit	2020	2021	2022
Entire	Male	year	7	7	7
	Female	year	15	12	10

* As of the end of each year

ESG Facts & Figures

 KT&G KGC Yungjin Pharm COSMOCOS **Tae-A Industrial** KGCYebon

New employment

Scope	Subcategory	Unit	2020	2021	2022
Entire	Total	person	12	19	44
	Male	person	12	18	41
	Female	person	0	1	3
	Under 30	person	3	10	17
	30-49	person	7	8	21
	50 and older	person	1	1	6

* Based on direct employment (full-time employees, contract workers)

Turnover

Scope	Subcategory	Unit	2020	2021	2022
Entire	Total	person	6	9	14
	Male	person	6	9	14
	Female	person	0	0	0
	Turnover rate	%	6.4	9.0	12.6
	Voluntary turnover rate	%	4.3	4.0	6.3

* Based on direct employment (full-time employees)

Childbirth leave and childcare leave

Scope	Subcategory	Unit	2020	2021	2022
Entire	Male employees taking childbirth leave	person	2	6	4
	Female employees taking childbirth leave	person	-	1	-
	Rate of male returning to work after childbirth leave	%	100.0	100.0	100.0
	Rate of female returning to work after childbirth leave	%	-	-	-
	Male employees taking childcare leave	person	-	1	2
	Female employees taking childcare leave	person	-	1	1
	Rate of male returning to work after childcare leave	%	-	-	50.0
	Rate of female returning to work after childcare leave	%	-	-	100.0
	Rate of male retiring within 12 months after returning to work from childcare leave	%	-	-	-
	Rate of female retiring within 12 months after returning to work from childcare leave	%	-	-	100.0

Union membership

Scope	Subcategory	Unit	2020	2021	2022
Entire	Employees eligible for membership	person	81	85	108
	Union members	person	81	85	108
	Union membership rate	%	100.0	100.0	100.0

ESG Facts & Figures

 KT&G | KGC | Yungjin Pharm | COSMOCOS | **Tae-A Industrial** | KGCYebon

Employee training

Scope	Subcategory	Unit	2020	2021	2022
Entire	Total number of trainees	person	403	491	845
	Male	person	378	464	791
	Female	person	25	27	54
	Annual average training expense per employee	KRW thousand	84	96	41
	Male	KRW thousand	85	96	41
	Female	KRW thousand	69	85	38
	Annual average time spent on training per employee	hour	24	28	6
	Male	hour	24	28	6
	Female	hour	20	26	7

Performance evaluation

Scope	Subcategory	Unit	2020	2021	2022
Entire	Employees subject to evaluation	person	97	109	141
	Percentage of employees evaluated	%	100.0	100.0	100.0

* All level-1 and lower employees subject to performance/capability evaluations (excluding persons on leave)

Human rights protection

Scope	Subcategory	Unit	2020	2021	2022
Entire	Sexual harassment prevention training	person	1	1	1
	Employees who completed sexual harassment prevention training	person	120	131	165

Industrial accident

Scope	Subcategory	Unit	2020	2021	2022
Entire	Number of victims	person	2	-	2
	Industrial accident rate	%	2.2	-	1.9
	Accident-related injuries	case	2	-	2
	Disease-related injuries	case	-	-	-
	Total working hour	hour	193,139	207,913	258,289

* Based on KOSHA industrial accident rate confirmation document

Social contribution

Scope	Subcategory	Unit	2020	2021	2022
Entire	Total social contribution investment	KRW 100 million	0.0	0.0	0.2
	Social contribution investment to sales	%	0	0	0.1

Board of Directors (BOD)

Scope	Subcategory	Unit	2020	2021	2022
Entire	Number of BOD meetings held	time	8	8	9
	Attendance rate of non-executive directors	%	87.5	100.0	100.0

Violation of laws and regulations

Scope	Subcategory	Unit	2020	2021	2022
Entire	Fair trade related legal sanctions	case	-	-	-
	Environment-related penalty	KRW thousand	14,131	2,480	1,600
	Violation of display advertising regulation	case	-	-	-
	Personal information infringement	case	-	-	-

ESG Facts & Figures

 KT&G | KGC | Yungjin Pharm | COSMOCOS | Tae-A Industrial | **KGCYebon**

KGCYebon ESG Quantitative Data

Energy use(TJ)

Scope	Subcategory	Unit	2020	2021	2022
Entire	Total	TJ	124	119	127
	Fuel (LNG)	TJ	56	56	57
	Electricity	TJ	68	63	70
	Energy use Intensity	TOE/KRW 100 million	0.89	0.77	0.86

* Scope: Headquarters and Chungju Plant

** Verification status: Completed third-party verification for all business sites within the scope

GHG emissions

Scope	Subcategory	Unit	2020	2021	2022
Entire	Total (Scope 1+2)	tCO₂eq	6,117	5,855	6,331
	Direct emissions (Scope 1)	tCO ₂ eq	2,838	2,834	2,933
	Indirect emissions (Scope 2)	tCO ₂ eq	3,279	3,021	3,398
	GHG emission intensity (Scope 1+2)	tCO ₂ eq/KRW 100 million	44.0	38.0	43.3

* Scope: Headquarters and Chungju Plant

** Verification status: Completed third-party verification for all business sites within the scope

Water resources management

Scope	Subcategory	Unit	2020	2021	2022
Entire	Total water withdrawal (A)	ton	121,381	119,961	123,703
	Service water	ton	38,224	37,012	34,398
	Ground water	ton	83,157	82,949	89,305
	Water use intensity	ton/KRW 100 million	873	779	837

* Scope: Headquarters and Chungju Plant

Waste Emissions and Recycling

Scope	Subcategory	Unit	2020	2021	2022
Entire	Total waste emitted	ton	3,002	2,518	2,580
	Incineration	ton	10	5	12
	Recycling	ton	2,993	2,513	2,568
	Waste recycling rate	%	99.7	99.8	99.5
	Waste emission intensity	ton/KRW 100 million	22	16	17

* Scope: Headquarters and Chungju Plant

Air pollutant emissions

Scope	Subcategory	Unit	2020	2021	2022
Entire	NO _x	ppm	0.8	4.7	30.3
	SO _x	ppm	4	44	-
	Dust (PM)	mg/Sm ³	3	2	3
	Volatile Organic Compounds (VOCs)	ppm	-	-	-

* Scope: Chungju Plant

Water pollutant emissions

Scope	Subcategory	Unit	2020	2021	2022
Entire	Total	mg/L	29.0	45.7	17.5
	BOD	mg/L	3.8	5	2.2
	COD	mg/L	19.7	23.5	8.2
	SS	mg/L	3.7	14.8	7.2
	T-N	mg/L	1.75	2.37	-
	T-P	mg/L	0.098	0.031	-

* Scope: Chungju Plant

ESG Facts & Figures

KT&G | KGC | Yungjin Pharm | COSMOCOS | Tae-A Industrial | **KGCYebon**

Employment

Scope	Subcategory	Unit	2020	2021	2022
Entire	Total	person	82	82	85
	Male	person	74	73	74
	Female	person	8	9	11
	Under 30	person	11	13	11
	30-49	person	59	54	55
	50 and older	person	12	15	19
	Percentage of female employees	%	10.0	11.0	13.0

* Based on full-time employees, contract workers

Average service period

Scope	Subcategory	Unit	2020	2021	2022
Entire	Male	year	5	6	6
	Female	year	3	3	3

* Based on the date of joining the company

New employment

Scope	Subcategory	Unit	2020	2021	2022
Entire	Subtotal	person	12	9	14
	Male	person	9	7	11
	Female	person	3	2	3
	Under 30	person	10	5	5
	30-49	person	2	4	6
	50 and older	person	-	-	3

* Based on direct employment

Turnover

Scope	Subcategory	Unit	2020	2021	2022
Entire	Subtotal	person	9	11	9
	Male	person	8	9	9
	Female	person	1	2	-
	Turnover rate	%	11.4	13.6	11.0
	Voluntary turnover rate	%	100.0	100.0	100.0

* Based on full-time employees

ESG Facts & Figures

 KT&G KGC Yungjin Pharm COSMOCOS Tae-A Industrial **KGCYebon**

Childbirth leave and childcare leave

Scope	Subcategory	Unit	2020	2021	2022
Entire	Male employees taking childbirth leave	person	-	1	-
	Female employees taking childbirth leave	person	-	1	-
	Rate of male returning to work after childbirth leave	%		100.0	-
	Rate of female returning to work after childbirth leave	%	-	100.0	-
	Male employees taking childcare leave	person	-	-	1
	Female employees taking childcare leave	person	-	1	1
	Rate of male returning to work after childcare leave	%	-	-	100.0
	Rate of female returning to work after childcare leave	%	-	-	-
	Rate of male retiring within 12 months after returning to work from childcare leave	%	-	-	-
	Rate of female retiring within 12 months after returning to work from childcare leave	%	-	-	-

Employee training

Scope	Subcategory	Unit	2020	2021	2022
Entire	Total number of trainees	person	33	30	68
	Male	person	31	29	63
	Female	person	2	1	5
	Annual average training expense per employee	KRW thousand	174	154	132
	Male	KRW thousand	175	154	118
	Female	KRW thousand	160	150	302
	Annual average time spent on training per employee	hour	14	12	10
	Male	hour	14	12	10
	Female	hour	8	8	15

Performance evaluation

Scope	Subcategory	Unit	2020	2021	2022
Entire	Employees subject to evaluation	person	42	45	82
	Percentage of employees evaluated	%	53.8	53.5	96.0

* Persons subject to performance evaluation: All employees (excluding professional contract workers and executives)

Human rights protection

Scope	Subcategory	Unit	2020	2021	2022
Entire	Sexual harassment prevention training	time	7	6	6
	Employees who completed sexual harassment prevention training	person	82	80	83

ESG Facts & Figures

 KT&G KGC Yungjin Pharm COSMOCOS Tae-A Industrial **KGCYebon**

Industrial accident

Scope	Subcategory	Unit	2020	2021	2022
Entire	Number of victims	person	0	0	0
	Industrial accident rate	%	0	0	0
	Accident-related injuries	case	0	0	0
	Disease-related injuries	case	0	0	0
	Total working hour	hour	0	0	0

¹ Based on the cases of incidents reported to the Korea Workers' Compensation & Welfare Service

Work loss

Scope	Subcategory	Unit	2020	2021	2022
Entire	(Employee) LTIFR ¹⁾	-	0	0	0

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

Board of Directors (BOD)

Scope	Subcategory	Unit	2020	2021	2022
Entire	Number of BOD meetings held	time	6	6	8
	Attendance rate of non-executive directors	%	100.0	100.0	100.0

Violation of laws and regulations

Scope	Subcategory	Unit	2020	2021	2022
Entire	Fair trade related legal sanctions	case	-	-	-
	Environment-related penalty	KRW thousand	-	-	-
	Violation of display advertising regulation	case	-	-	-
	Personal information infringement	case	-	-	-

R&D

Scope	Subcategory	Unit	2020	2021	2022
Entire	R&D investment	KRW million	518	341	336
	R&D performance	case	17	10	10

GRI Index

GRI STANDARDS INDEX – UNIVERSAL STANDARDS

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	2-4	Restatements of information	No significant change
	2-5	External assurance	239
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	302-03	Energy intensity	189, (204, 210, 216, 220, 224)
	302-04	Reduction of energy consumption	73-76, (171), 189, (204, 210, 216, 220, 224)
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	403-07	Prevention and mitigation of occupational health and safety impacts directly linked by business relationships	123-126	
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	403-09	Work-related injuries	198-199, (208, 215, 218, 223, 227)	
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	Training and Education	404-01	Average hours of training per year per employee	198, (208, 214, 218, 223, 226)
		404-02	Programs for upgrading employee skills and transition assistance programs	121-122
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SASB Index

SASB INDEX – FOOD&BEVERAGE SECTOR-TOBACCO

Code	Topic	Accounting Metrics	Category	Unit of Measure	Page
FB-TB-260a.1	Public Health	(1) Gross revenue and (2) revenue net of excise taxes from (a) non-tobacco nicotine products and (b) heated tobacco products	Quantitative	KRW	13, 51, 56
FB-TB-260a.2		Discussion on the process to assess risks and opportunities associated with “tobacco harm reduction” products	Discussion and Analysis	n/a	25-26, 54-58, 61-64
FB-TB-270a.1	Marketing Practices	Total amount of monetary losses as a result of legal proceedings associated with marketing, labeling, and/or advertising practices	Quantitative	KRW	60, 201
FB-TB-270a.2		Description of the company’s marketing policy and relevant positions on Articles 11 and 13 of the World Health Organization Framework Convention on Tobacco Control (WHO FCTC)	Discussion and Analysis	n/a	59-60

ACTIVITY METRICS

Code	Accounting Metrics	Category	Unit of Measure	Page
FB-TB-000.A	Combustible tobacco product sales volume: (1) cigarette, (2) cigar, and (3) other smoked tobacco products	Quantitative	Number, Metric tons (t)	12, 14
FB-TB-000.B	Non-combustible product sales volume: (1) traditional smokeless tobacco, (2) non-tobacco nicotine products, (3) heated tobacco products, and (4) nicotine replacement therapy products	Quantitative	Number	13, 56, 181

TCFD Index

Classification	Recommended disclosures	Page
Governance	Describe the board's oversight of climate-related risks and opportunities.	43, Page 5 of TCFD Report
	Describe management's role in assessing and managing climate-related risks and opportunities.	43, Page 5 of TCFD Report
Strategy	Describe the climate-related risks and opportunities the organization has identified over the short, medium, and long term.	76-79, Page 8-14 of TCFD Report
	Describe the impact of climate-related risks and opportunities on the organization's businesses, strategy, and financial planning.	76-79, Page 8-14 of TCFD Report
	Describe the resilience of the organization's strategy, taking into consideration different climate-related scenarios, including a 2°C or lower scenario.	78-79, Page 12-14 of TCFD Report
Risk Management	Describe the organization's processes for identifying and assessing climate-related risks.	77, 155-158, Page 14 of TCFD Report
	Describe the organization's processes for managing climate-related risks.	77, 155-158, Page 14 of TCFD Report
	Describe how processes for identifying, assessing, and managing climate-related risks are integrated into the organization's overall risk management	78-79, Page 14 of TCFD Report
Metrics and Targets	Disclose the metrics used by the organization to assess climate-related risks and opportunities in line with its strategy and risk management process.	70, 73, 77-79
	Disclose Scope 1, Scope 2 and, if appropriate, Scope 3 greenhouse gas (GHG) emissions and the related risks.	73, 77-79, (170-171)
	Describe the targets used by the organization to manage climate-related risks and opportunities and performance against targets.	70, 73-79, Page 17 of TCFD Report

KT&G Green Taxonomy (EU Environmental Taxonomy)

1. About the taxonomy

The EU taxonomy is the EU's important environmental policy and tool that presents standards for sustainable economic activities to counter climate change. The taxonomy provides clear standards on sustainable economic activities and financially quantified figures, thereby providing a standardized method necessary for companies, investors, and policymakers to identify and classify corporate activities. Detailed information on environmentally sustainable economic activities is provided through the EU taxonomy, and market participants receive help with evaluating and managing corporate environmental impact and climate risk. Investors can obtain more accurate and transparent information on companies' eco-friendly activities, while companies discover opportunities needed to implement eco-friendly economic activities.

KT&G applies green taxonomy that complies with the EU taxonomy's standards, thereby using a transparent and standardized method, based on which we are striving to identify and understand the environmental effects and impact of economic activities more clearly.

2. Approach

Although KT&G is not obligated to comply with the EU taxonomy and its relevant regulations, we are striving to strengthen more eco-friendly and climate-friendly economic activities through our own green taxonomy on the company's economic activities. Taxonomy eligibility should be evaluated in accordance with the economic activity's nature rather than the industrial sector or area, and taxonomy-aligned economic activities should satisfy the following three-stage conditions.

- i) Economic activity that makes a significant contribution to one or more of six environmental objectives¹⁾
- ii) Economic activities that do significant harm to any environmental objective – Do No Significant Harm (DNSH) principle
- iii) Satisfying the minimum social safeguards (MSS)

¹⁾ 1. Climate change mitigation, 2. Climate change adaptation, 3. Sustainable use and protection of water and marine resources, 4. Transition to a circular economy, 5. Pollution prevention and control, 6. Protection and restoration of biodiversity and ecosystems

KT&G's green taxonomy was formed in compliance with the EU's standards. We performed an analysis with a focus on two environmental goals that are currently disclosed which are climate change mitigation and adaptation. Through green taxonomy disclosure, we categorized taxonomy-eligible economic activities and taxonomy-aligned economic activities for the financial indexes of sales, capital expenditures (CapEx), and operating expenditures (OpEx) of 2022.

3. Calculation Results

Sales

Results of an analysis indicate that only sales of the real estate business unit, from among KT&G's sales-generating business units, are classified as taxonomy-eligible sales as "7.1 Construction of new buildings" and "7.7 Acquisition and ownership of buildings" among the EU taxonomy's economic activity categories in accordance with the 2022 EU taxonomy standard. These sales stands at KRW 470.5 billion, accounting for around 12.7% of KT&G's total sales of KRW 3,694.3 billion on a separate basis.

CapEx

KT&G set the acquisition of tangible assets as the CapEx standard and categorized economic activities. Accordingly, investment costs for energy efficiency of business sites and recycling of wastes were recognized as taxonomy-eligible CapEx, and also included were afforestation and forest regeneration activities that were carried out as social contribution activities. The taxonomy-eligible CapEx is KRW 13.2 billion, which accounts for around 7.2% of the total CapEx of KRW 185.2 billion.

OpEx

Total OpEx was calculated as operating expenditures that arise from daily business operations of the company in accordance with EU taxonomy standards. This includes R&D expenses, rent, repair and maintenance expenses, and other relevant expenses, which totals KRW 37.8 billion. Taxonomy-eligible OpEx is around KRW 1.5 billion, which accounts for around 4% of total OpEx.

Category	Revenue		CapEx		OpEx	
	KRW million	%	KRW million	%	KRW million	%
A. Taxonomy-eligible Activities	470,456	12.7%	13,242	7.2%	1,498	4.0%
A.1 Taxonomy-aligned Activities	-	-	-	-	-	-
None	-	-	-	-	-	-
A.2 Taxonomy-eligible but not Taxonomy-aligned Activities	470,456	12.7%	13,242	7.2%	1,498	4.0%
a. Major activities	470,456	12.7%	12,250	7.3%	552	1.5%
7.1 Construction of new buildings	386,550	10.5%	-	-	-	-
7.3 Installation, maintenance and repair of energy efficiency equipment	-	-	10,898	5.9%	547	1.4%
7.5 Installation, maintenance and repair of instruments and devices for measuring, regulation and controlling energy performance of buildings	-	-	1,352	0.7%	5	0.0%
7.7 Acquisition and ownership of buildings	83,906	2.3%	-	0.7%	-	-
b. Others	-	0.0%	992	0.5%	946	2.5%
B. Taxonomy-Non-Eligible Activities	3,223,902	87.3%	171,911	92.8%	36,260	96.0%
Total A + B	3,694,358	100.0%	185,153	100.0%	37,758	100.0%

¹⁾ On a non-consolidated basis of KT&G, observed the EU taxonomy's activity classification criteria

²⁾ Our company's business does not generate sales from "7.3 Installation, maintenance and repair of energy efficiency equipment" and "7.5 Installation, maintenance and repair of instruments and devices for measuring, regulation and controlling energy performance of buildings" but categorizes investment and operational expenses that arise from business site maintenance and operation as CapEx and OpEx.

³⁾ Other taxonomy activities include financial information categorized as "1.1 Afforestation," "1.2 Rehabilitation and restoration of forests, including reforestation and natural forest regeneration after an extreme event," "2.1 Restoration of wetlands," "5.1 Construction, extension and operation of water collection, treatment and supply systems," "5.3 Construction, extension and operation of waste water collection and treatment," "5.5 Collection and transport of non-hazardous waste in source segregated fractions," and "6.5 Transport by motorbikes, passenger cars and light commercial vehicles."

K-ESG Index

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ESG Certification Status

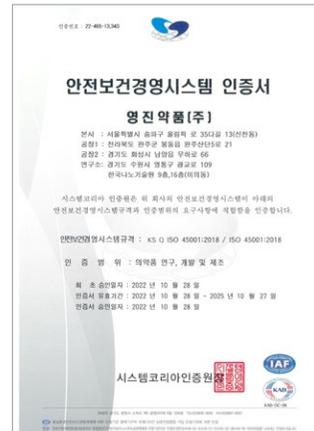
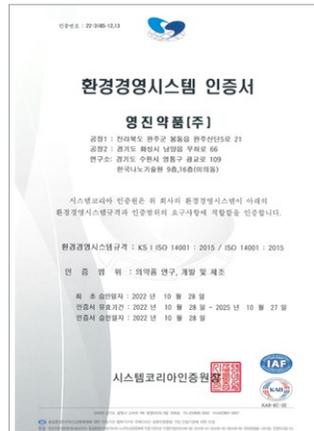
Company	Domestic/ Overseas	Site	Certification						
			Environmental management	Health and Safety	Quality control	Energy management	Protection of information	Consumer safety	Others
KT&G	Domestic	Headquarters					ISO 27001 ¹⁾ ISMS-P ²⁾	KOLAS (Raw materials) KFI (Conventional cigarette) CB (NGP) CE (NGP) EAC (NGP) PSE (NGP) KC (NGP)	ISO 22301
		Sintanjin							
		Gwangju							
		Yeongju	ISO 14001	ISO 45001	ISO 9001	ISO 50001			
		Cheonan							
		Gimcheon							
		Sintanjin 2 plant	Report to the Ministry of Environment through NGMS						
KGC Korea Ginseng Corporation	Domestic	Headquarters					ISO 27001 ISO 27701 ISMS-P		
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		Wonju			GMP HACCP FSSC 22000 COSTCO Addendum KMF HALAL				
		Overseas	China			ISO 9001 ISO 22000 HACCP KOSHER(KOF-K) HALAL			

¹⁾ Acquired websites: Company, SangSang Madang, SangSang Univ. SangSang Planet, lil

²⁾ Acquired website/system: Corporate Homepage, SangSang Madang, SangSang Univ. lil, new sales system

ESG Certification Status

Company	Domestic/ Overseas	Site	Certification						
			Environmental management	Health and Safety	Quality control	Energy management	Protection of information	Consumer safety	Others
Yungjin Pharm	Domestic	Headquarters							
		Namyang			KGMP PMDA GMP				
		Jeonju	ISO 14001	ISO 45001	KGMP			ISO 37001	
		R&D HQ							
COSMOCOS Co., Ltd	Domestic	Headquarters Incheon	ISO 14001	ISO 45001	CGMP ISO 22716 ISO 9001			Eve VEGANQuasi-drug approval Veterinary quasi-Incheon drugs approval	
KGCYebon	Domestic	Chungju			HACCP				



GHG Emissions Assurance Statement

Verification Target

Korean Foundation for Quality hereinafter has conducted a verification of Greenhouse Gas Emissions (hereinafter 'Inventory Report') of KT&G. (hereinafter the for 2022)

Verification Scope

KFQ's verification covered emission sources of all facilities and buildings under the operational control and organizational boundary of KT&G during 2022.

Verification Criteria

The verification process was based on 'Rule for emission reporting and certification of greenhouse gas emission trading Scheme (Notification No. 2021 112 of Ministry of Environment)', 'Rules for verification of operating the greenhouse gas emission trading scheme (Notification No. 2022 279 of Ministry of Environment)' and 'ISO14064 3:2019' for every applicable part.

Level of Assurance

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

Verification Limitation

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

Verification Opinions

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

- 1) The Inventory Report has been stated in accordance with 'Rule for emission reporting and certification of greenhouse gas emission trading Scheme' and "ISO 14064 1:2018.
- 2) The result of material discrepancy satisfied the criteria for an organization that emits less than 500,000 tCO₂e shall not exceed 5% from total emission as per 'Rules for verification of operating the greenhouse gas emission trading scheme'
- 3) Therefore, KFQ concludes that the Greenhouse Gas Emissions of Company have been correctly calculated and issues an unmodified opinion.

(Unit: tCO₂e)

Scope 1	Scope 2	Scope 2
34,963.946	73,603.994	108,568

*The totals in this verification statement do not match the totals in emission trading scheme because the total emissions of each facility are calculated by truncating to integer units.

June 28th 2023



CEO Ji Young Song Korean Foundation for Quality

GHG Emissions Assurance Statement

Introduction

DNV Business Assurance Korea Ltd. (“DNV”) was commissioned by KT&G Corporation (“KT&G”) to verify the KT&G’s Greenhouse Gas Inventory for the calendar year 2022 (“the report”) based upon a limited level of assurance. KT&G is responsible for the preparation of the GHG emissions data on the basis set out within the ‘ISO 14064-1:2018 (Greenhouse gases - Part 1: Specification with guidance at the organization level for quantification and reporting of greenhouse gas emissions and removals)’. Our responsibility in performing this work is to the management of KT&G only and in accordance with terms of reference agreed with them. DNV expressly disclaims any liability or responsibility for any decisions, whether investment or otherwise, based upon this verification opinion.

Scope of Assurance

The emissions data covered by our examination comprise Direct emissions (Scope 1) and Energy indirect emissions (Scope 2) from KT&G boundary of the report;

- Organizational boundary for reporting: 3 global networks (production) of KT&G (Indonesia, Russia, Türkiye)

Verification Approach

The verification has been conducted by DNV in June 2023 and performed in accordance with the verification principles and tasks outlined in the ‘ISO 14064-3:2019 (Greenhouse gases - Part 3: Specification with guidance for the validation and verification of greenhouse gas assertions)’. We planned and performed our work to obtain all the information and explanations deemed necessary to provide us with sufficient evidence to provide a verification opinion with 5% materiality level, concerning the completeness of the emission inventory as well as the reported emission figures in ton CO₂ equivalent. As part of the verification process;

- We have reviewed and verified the KT&G’s GHG inventory report (Excel based) for the calendar year 2022
- We have reviewed and verified the process to generate, aggregate and report the emissions data

Conclusions

Based on the above verification of core elements, it is the DNV’s opinion that nothing comes to our attention to suggest that GHG emissions are not properly calculated, and a significant uncertainty and error are included in the GHG Emissions from 3 global network(production) of KT&G for the year 2022 below;

Greenhouse Gas Emissions of KT&G global networks (production) sites for Yr 2022

(Unit: ton CO₂eq)

KT&G	Direct emissions (Scope 1)	Energy indirect emissions (Scope 2)	Total emissions
Location-based*	3,597	13,002	16,598
Market-based**		2,431	6,027

- ※ In order to report the GHG emissions as an integer, the rounded number on the statement might be different with ± 1 tCO₂eq
- * The ‘Location-based’ is GHG emissions reported as Scope 2 based on local-grid emission factors.
- ** The ‘Market-based’ is GHG emissions reported as Scope 2 by reflecting purchase of renewable electricity (I-REC) in 2022.

Greenhouse Gas Emissions of KT&G global networks (production) for Yr 2022

(unit: ton CO₂eq)

KT&G	Country	Direct emissions (Scope 1)	Energy indirect emissions (Scope 2)	Total emissions
Location-based	Indonesia	1,857	10,153	12,010
	Russia	1,022	1,792	2,814
	Türkiye	717	1,057	1,775
	Total	3,597	13,002	16,598
Market-based	Indonesia	1,857	639	2,496
	Russia	1,022	1,792	2,814
	Türkiye	717	0	717
	Total	3,597	2,431	6,027

- ※ In order to report the GHG emissions as an integer, the rounded number on the statement might be different with ± 1 tCO₂eq.
- * The ‘Location-based’ is GHG emissions reported as Scope 2 based on local-grid emission factors.
- ** The ‘Market-based’ is GHG emissions reported as Scope 2 by reflecting purchase of renewable electricity (I-REC) in 2022.

28th June 2023

Jang-Sub Lee

Seoul, Korea Country Manager DNV Business Assurance Korea Ltd



This Verification Opinion is valid as of the date of the issuance. Please note that this would be revised if any material discrepancy which may impact on the Greenhouse Gas Emissions is subsequently brought to our attention. In the event of ambiguity or contradiction in this statement between English version and Korean version, Korean shall be given precedent.

GHG Emissions Assurance Statement

Introduction

DNV Business Assurance Korea Ltd. (“DNV”) was commissioned by KT&G Corporation (KT&G) to verify the KT&G’s Greenhouse Gas Inventory for the calendar year 2020-2022, based upon a limited level of assurance. KT&G is responsible for the preparation of the GHG emissions data on the basis set out within the WRI/WBCSD’s ‘The Corporate Value Chain (Scope 3) Accounting and Reporting Standard’ and the principles set out in ISO 14064-1:2018. Our responsibility in performing this work is to the management of KT&G only and in accordance with terms of reference agreed with them. DNV expressly disclaims any liability or responsibility for any decisions, whether investment or otherwise, based upon this verification opinion.

Scope of Assurance

The emissions data covered by our examination are for the Other indirect emission (Scope 3 emissions);

- Reporting boundary: Other indirect emissions which are not included in the Direct emissions (Scope 1) and Indirect emissions (Scope 2)
- Reporting category: 10 Categories (1, 2, 3, 4, 5, 6, 7, 9, 11, 12)

Verification Approach

The verification has been conducted by DNV in June 2023 and performed in accordance with the verification principles and tasks outlined in ISO 14064-3:2019. We planned and performed our work so as to obtain all the information and explanations deemed necessary to provide us with sufficient evidence to provide a verification opinion with 5% materiality level, concerning the completeness of the emission inventory as well as the reported emission figures in the unit of ton CO2 equivalent. As part of the verification process:

- We have reviewed and verified the Scope 3 Greenhouse Gas Inventory System (Excel based)
- We have reviewed and verified the process to generate, aggregate and report the emissions data

Conclusions

Based on the above verification of core elements, it is the DNV’s opinion that nothing comes to our attention to suggest that GHG Emissions are not properly calculated, and a significant uncertainty and error are not included in the other indirect emission of KT&G for the year 2020-2022 below.

Other indirect emissions (Scope 3) of KT&G in Yr. 2020-2022

(Unit: tCO₂eq)

KT&G	2020	2021	2022
Scope 3	292,583	269,486	323,951

※ The details refer to annex 1.

19th July 2023 **Lee , Jang Sup**
Country Manager DNV Business Assurance Korea Ltd



Appendix #1. Verified Emissions in each Categories (Scope 3)

Other indirect emissions (Scope 3) of KT&G in Yr. 2020 - 2022

(Unit: tCO₂eq)

Categories	2020	2021	2022
1 Purchased Goods and Services	138,077	144,731	150,012
2 Capital Goods	84,909	60,281	99,877
3 Fuel- and Energy-Related Activities Not Included in Scope 1 or Scope 2	10,463	11,089	12,837
4 Upstream transportation and distribution	5,551	4,944	5,234
5 Waste Generated in Operation	8,096	4,099	2,373
6 Business Travel	332	405	2,013
7 Employee Commuting	4,118	4,101	4,237
9 Downstream transportation and distribution	12,173	7,344	5,414
11 Use of Sold Products	3,353	6,955	14,527
12 End-of-Life Treatment of Sold Products	25,510	25,537	27,428
Total	292,583	269,486	323,951

This Verification Opinion is valid as of the date of the issuance. Please note that this would be revised if any material discrepancy which may impact on the Greenhouse Gas Emissions of Company is subsequently brought to our attention. In the event of ambiguity or contradiction in this opinion between English version and Korean version, Korean shall be given precedent.

Independent Assurance Statement

We were engaged by KT&G Corporation (hereafter 'KT&G') to provide limited assurance on the '2022 KT&G Report' (hereafter 'the Report') for the year ended December 31.

Context and Scope

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

The scope of our engagement conforms to the KPMG Sustainability Assurance Manual™ (KSAM™), including the aspect of "materiality", and it covers KT&G's mid-to-long term sustainability targets including both environmental and social KPIs. With regards to financial data, our procedures were limited to verifying that they were correctly derived from audited financial statements. To obtain a thorough understanding of KT&G's financial results and position, the audited financial statements produced on 20 March 2022 should be referred to.

Responsibilities

As stated in the 'Reporting Principles and Standard,' KT&G is responsible for all content within the Report in respect of the GRI Sustainability Reporting Standards. It is the responsibility of KT&G's management to establish and maintain appropriate performance management and internal control systems from which the reported sustainability information is derived. Our responsibility is to perform a limited assurance engagement and to express a conclusion based on the work performed.

Independence

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

Assurance Standards

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

Limitations

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

Main Assurance Procedure

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

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

Opinion

- Stakeholder Inclusiveness
 - KT&G operates communication channels with key stakeholders such as shareholders/investors, government, local communities, employees, partners, customers, media, and NGO.
 - We are not aware of any key stakeholder group that has been excluded from dialogue in the Report.
- Sustainability Context
 - KT&G has established a process to incorporate CSR in management's decision-making and the business management plans of relevant teams, thereby securing continuity.
 - We confirmed that KT&G recognizes general business management and social responsibility management comprehensively and applies such understanding within the Report.
- Materiality
 - KT&G conducts a materiality test in determining material issues.
 - We are not aware of any material aspects concerning its sustainability performance which have been excluded from the Report.
- Completeness
 - KT&G's applies reporting scope, boundary, and temporal criteria.
 - In terms of criteria mentioned above, we confirm that the Report is suitable for stakeholders to assess social responsibility performance.

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

July 2023

KPMG Samjong Accounting Corp.
CEO Kim, Kyo Tai



Association Membership and Sponsorship

(Unit: KRW)

Association	Sponsorship	Comments
STP (Sustainable Tobacco Program)	106,372,601	Amount converted into Korean won (Reflected average EUR and SEK exchange rates for 2022)
Korea Enterprises Federation	36,000,000	
Korea IR Service	14,130,000	
Korea Intellectual Property Association	8,800,000	
Korea Mecenat Association	3,000,000	
Korea IR Service	1,900,000	
Korea Personnel Improvement Association	1,870,000	
Korea Exchange	550,000	
Climate Change Center	550,000	
Others ¹⁾	1,700,000	Daejeon, Sejong, Chungnam Environmental Engineers Association, Korea Environmental Preservation Association
Total	174,822,601	

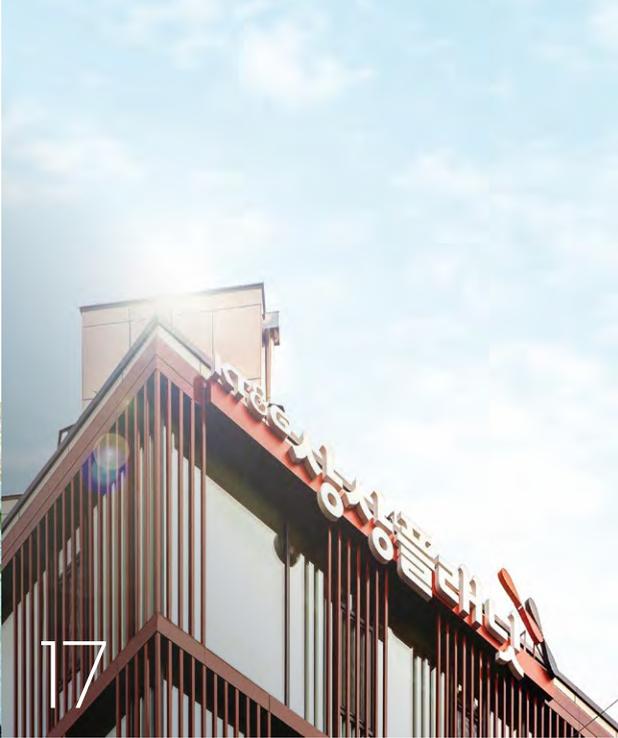
¹⁾ Under Article 31 of the Korean Political Funds Act (Every foreigner, corporation, or organization both at home and abroad shall be prohibited from contributing any political funds, and no one shall contribute any political funds from any corporation or any organization both at home and abroad.) and the KT&G Code of Conduct, political donations, sponsorships, political funds, campaign finance, and lobbying funds to political organizations are strictly prohibited.

A large, stylized letter 'S' composed of four overlapping, rounded rectangular segments in teal, green, blue, and orange, set against a background of textured, light brown paper with faint technical drawings and lines.

IMAGINE A BETTER **TOMORROW**

2022 KT&G S-REPORT

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INTERACTIVE PDF

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LETTER TO STAKEHOLDERS

As a global corporate citizen, KT&G does its utmost to shape a sustainable future together with its stakeholders. Building upon our corporate philosophy of an “Inclusive Company”, we are implementing a wide range of social contribution endeavors in partnership with people, community, and our planet.

As environmental and social uncertainties are increasing, the importance of a sustainable tomorrow that KT&G is pursuing becomes more imminent, and ESG management has become a corporate imperative. To enhance sustainability, KT&G carries out various eco-friendly CSR activities such as forestation projects at home and abroad, as well as biodiversity conservation, while fulfilling our social responsibilities by conducting social contribution activities and improving D&I in the workplace. For better governance, we make concentrated efforts to implement ethical management and conduct advanced compliance based on the KT&G Group Business Ethics Charter.

KT&G has been conducting social contribution activities systematically since 2003, even before ESG became mainstream. Based on the first-generation charity activity platform consisting of the KT&G Welfare Foundation and the KT&G Scholarship Foundation, we are contributing to the establishment of social welfare infrastructure, which was followed by the development of a second-generation cultural contribution platform centered around SangSang Madang and SangSang Univ. Furthermore, KT&G continuously expanded the scope of activities to the 3rd generation social problem-solving platform represented by SangSang Planet a space for young entrepreneurship, and Global CSR, and then the 4th generation eco-friendly social contribution platform.

The impetus behind our ongoing efforts to broaden the realm of social value generation lies in our systematic approach to social contribution strategy, which propels us to consistently extend the boundaries of social value creation. KT&G has established flexible social contribution strategies suitable for the issues of each period, based on the social contribution vision of “Sustainable Development of Corporate and Society”. In 2022, KT&G implemented the “People-Community-Planet” framework, a strategy centered around the welfare of beneficiaries, to effectively address a wider range of social issues.

To implement the “People-Community-Planet” system, the KT&G Welfare Foundation and the KT&G Scholarship Foundation are striving to build various social safety nets so that individual growth of “people” can lead to social change and innovation. We also promote a wide range of social contribution activities, such as SangSang Planet (space for youth startup), SangSang Madang (complex cultural space), SangSang Univ. (community of college students), and SangSang Fund in order to realize a society of mutual prosperity by improving “community issues. Lastly, KT&G is playing the role as a global corporate citizen by carrying out various environmental CSR activities such as forestation projects at home and abroad and habitat preservation activities to preserve biodiversity, and CSR activities in many foreign countries such as Indonesia, Mongolia, and Laos in order to expand the scope of social value creation on the global scale and for our “planet”.

Corporate sustainability cannot be achieved by corporate efforts alone. Keeping in mind that the sustainability of corporations and society can be achieved only when working with various stakeholders, KT&G will continue to unfold varied imaginations to achieve sustainability.

As a global corporate citizen, KT&G does its utmost to shape a sustainable future together with its stakeholders. Building upon our corporate philosophy of an “Inclusive Company”, we are implementing a wide range of social contribution endeavors in partnership with people, community, and our planet.



Lee, Sang-Hak

Chief of Sustainability Management HQ (CSO) & Executive Vice President of KT&G

KT&G AT A GLANCE

Corporate Profile

Under our corporate philosophy of being “Exemplary,” “Progressive,” and “Inclusive,” KT&G imagines together with our customers as we strive to create a better life. We are generating performance in various business areas such as the health/functional food, pharmaceutical, bio, and real estate business as well as the next-generation tobacco business, which will be the engine of future growth. While evolving into a globally outstanding company through change and innovation, we continue to create social value and expanding sustainability management activities.

Company name	Establishment	CEO	Headquarters	No. of employee
KT&G Corporation	April 1, 1987	Baek, Bok-In	71, Beotkkot-gil, Daedeok-gu, Daejeon, Republic of Korea	4,469 ¹⁾ <small>¹⁾ As of December 31, 2022; and based on direct employment</small>

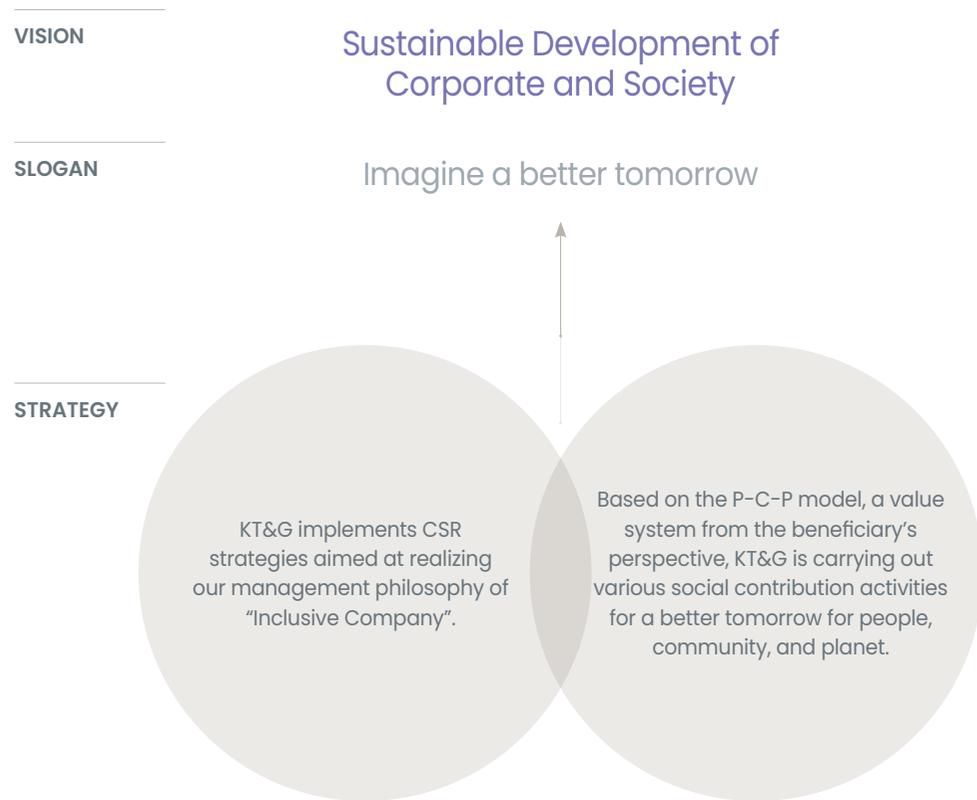
Milestones	Beginning of Korean Tobacco History	Development and Advancement through Innovation	Present Giant Global Company
	1883-1980	1987-2002	2003-
	<ul style="list-style-type: none"> 1883 <ul style="list-style-type: none"> Founded the Sunhwaguk 1965-1983 <ul style="list-style-type: none"> Completed construction of major manufacturing plants in Korea 	<ul style="list-style-type: none"> 1987 <ul style="list-style-type: none"> Founded the Korea Monopoly Corporation 1989 <ul style="list-style-type: none"> Founded the Korea Tobacco & Ginseng Corp. 1999 <ul style="list-style-type: none"> Listed on the Korea Stock Exchange Separation of Red Ginseng Business (Launched the KGC) 2002 <ul style="list-style-type: none"> Changed the corporation name from Korea Tobacco & Ginseng Corp. to KT&G Corp. 	<ul style="list-style-type: none"> 2003 <ul style="list-style-type: none"> Founded the KT&G Welfare Foundation 2005 <ul style="list-style-type: none"> Received the Presidential Award for employee job training 2006 <ul style="list-style-type: none"> Selected as the best corporation by the Korean Corporate Governance Improvement Support Center in its corporate governance performance evaluation 2007 <ul style="list-style-type: none"> Received the Excellence Award from the Korea Investors Relations Association (3 consecutive years) 2008 <ul style="list-style-type: none"> Established the KT&G Scholarship Foundation Established a local subsidiary in Russia and Iran Received the Grand Award from the Korea Investors Relations Association Awarded for reaching the USD 400 million export target 2010 <ul style="list-style-type: none"> Included in the DJSI World Completed construction of plant in Russia
	<ul style="list-style-type: none"> 2011 <ul style="list-style-type: none"> Acquired Trisakti (Indonesian tobacco company) Selected as the best corporation for corporate governance in 2011 2012 <ul style="list-style-type: none"> Received A Level in the ESG evaluation by the Korea Corporate Governance Service (KCSG) 2013 <ul style="list-style-type: none"> Developed low ignition point tobacco and flavoring capsule for tobacco filters Selected as a No. 1 company in the tobacco category of the National Customer Satisfaction Index (NCSI) 2014 <ul style="list-style-type: none"> Won the Minister Prize of Trade, Industry and Energy at the 36th Energy Saving Competition 2015 <ul style="list-style-type: none"> Won the Presidential Prize at the 2015 Mecenat Award Won the Grand Prize at the Korea HRD training facility sector 	<ul style="list-style-type: none"> 2016 <ul style="list-style-type: none"> Won the Grand Prize at the 2016 Korea HRD Award Certified as a “leisure-friendly company” by the Ministry of Culture, Sports and Tourism and selected as “Excellent Institution for Culture and Arts Sponsorship” 2017 <ul style="list-style-type: none"> Launched heat-not-burn products “lil” and “Fiit” Selected as an excellent company in gender equality in employment by the Ministry of Employment and Labor Awarded the USD 400 million export tower Won the Grand Prize at the 2017 Korea HRD Award (2 consecutive years) 2018 <ul style="list-style-type: none"> Launched “lil HYBRID” Won A+ (the highest) Level in the ESG evaluation by the KCSG Won the Prime Minister Prize as a family-friendly company by the Ministry of Gender Equality and Family Won the Presidential Prize for contributing to law and order by the Ministry of Justice 	<ul style="list-style-type: none"> 2019 <ul style="list-style-type: none"> Won the Grand Prize for corporate governance by the KCSG Won the Minister of National Defense Award at the Korea Volunteer Grand Prize by the Korea United Nations Volunteer Corps Minister of Employment and Labor’s commendation for “person of merit in fostering social enterprises” 2020 <ul style="list-style-type: none"> Formed a partnership with PMI (Philip Morris International) Korea Intellectual Property Association “Intellectual Property Management Company of the Year” Commendation from the Commissioner of the Korean Intellectual Property Office Opened the SangSang Planet and SangSang Madang Busan 2021 <ul style="list-style-type: none"> Established a local subsidiary in Taiwan Received the AA rating in MSCI ESG Ratings (2 consecutive years) Won the Presidential Citation for Social Economy Promotion Merit 2022 <ul style="list-style-type: none"> Awarded the Korea Brand Hall of Fame (4 consecutive years in the category of cigarette-type e-cigarette) Awarded the Contribution to Shared Growth Award from the Minister of SMEs and Startups Awarded the Prime Minister’s Sustainability Management Excellence Award hosted by the Korea Productivity Center Received the Presidential Commendation for job creation from the Ministry of Employment and Labor

SOCIAL CONTRIBUTION FRAMEWORK

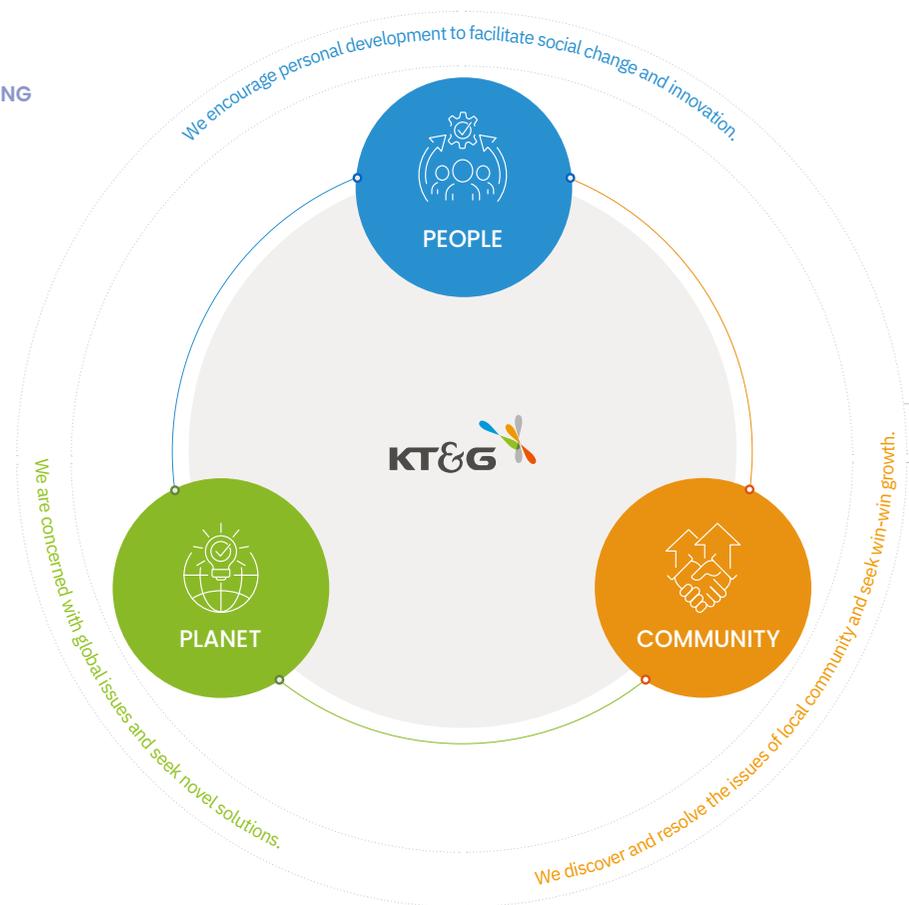
Social Contribution Value System

Recognizing the importance of corporate sustainability management, KT&G establishes and implements systematic strategies for community contribution with a focus on the department in charge of social contribution to realize the management philosophy of an “inclusive company”. Aligned with the “P-C-P (People-Community-Planet)” value framework, our social contribution strategy, we encourage personal development to facilitate social change and innovation (People); discover and resolve the issues of local community and seek win-win growth (Community); and are concerned with global issues and seek novel solutions (Planet). KT&G builds a better tomorrow by conducting social problem-solving activities encompassing all social classes.

KT& Social Contribution Strategy

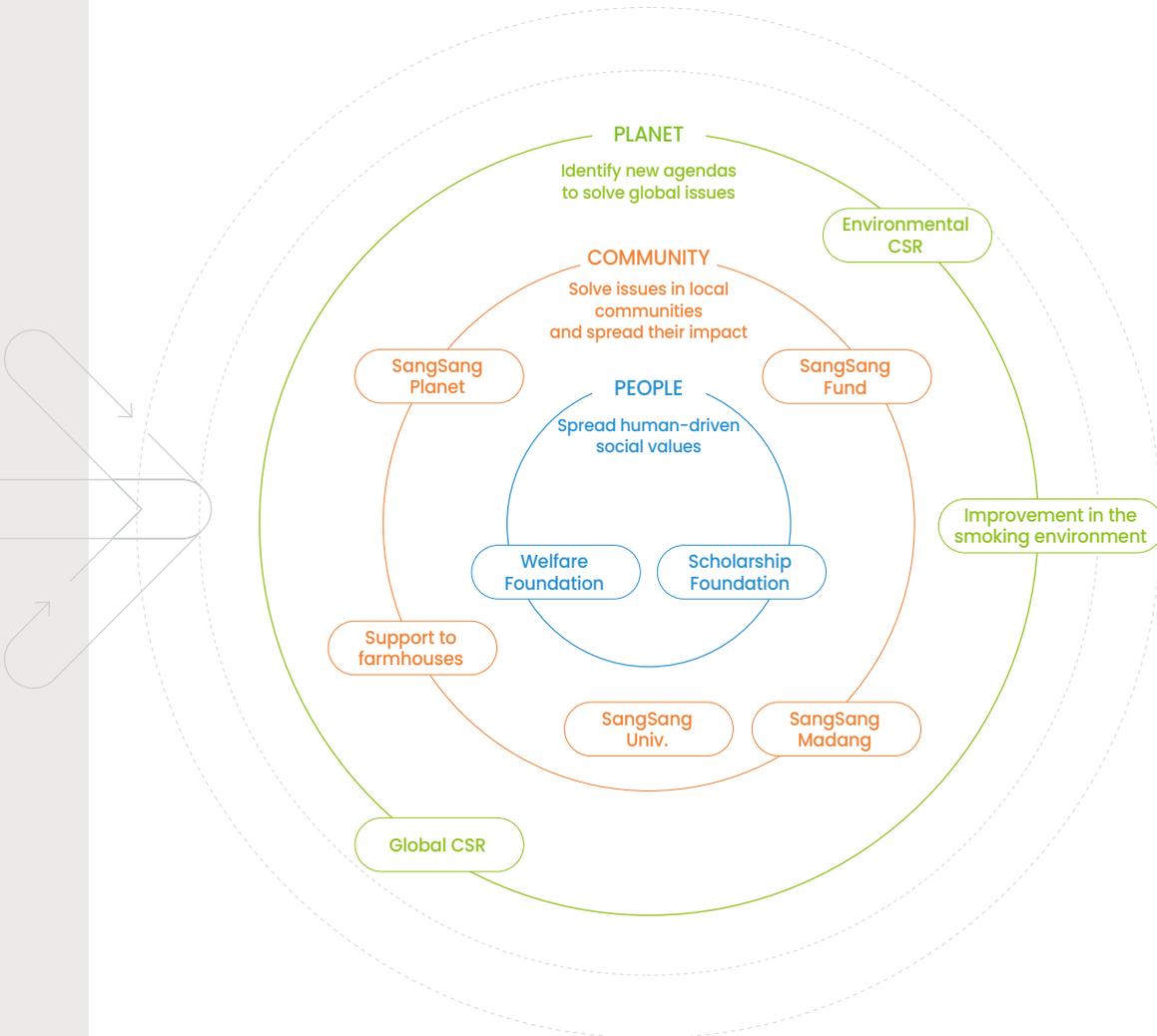


PURSuing VALUE



SOCIAL CONTRIBUTION FRAMEWORK

Project Areas



Major Social Contribution Projects

Platform	Main Projects	Main Beneficiaries
KT&G Welfare Foundation	 <ul style="list-style-type: none"> • Low-income Group Support • Overseas Relief • Welfare Center Support • Volunteering Activities 	<ul style="list-style-type: none"> • Vulnerable social group
KT&G Scholarship Foundation	 <ul style="list-style-type: none"> • SangSang Scholarship • Culture & Art Scholarship • Restart Scholarship • Global Scholarship 	<ul style="list-style-type: none"> • Vulnerable social group
SangSang Planet	 <ul style="list-style-type: none"> • SangSang Summit • SangSang Start-up Camp • Social Venture Scale-up Program • Play & Network Program 	<ul style="list-style-type: none"> • Local communities, Stakeholders, Youth/University students
SangSang Fund	 <ul style="list-style-type: none"> • Donation Market, Donation Petition • Employee Volunteering Group • Other Public Services 	<ul style="list-style-type: none"> • Vulnerable social group, Local communities, Stakeholders
SangSang Madang	 <ul style="list-style-type: none"> • Discovering New Artists • Performance/Exhibition Support • Culture & Art-related Education 	<ul style="list-style-type: none"> • Local communities, New artists
SangSang Univ.	 <ul style="list-style-type: none"> • Culture & Art Program • SangSang Jiphyeonjeon • SangSang Marketing School • SangSang Friends 	<ul style="list-style-type: none"> • Youth/University students
Support to Farmhouses	 <ul style="list-style-type: none"> • Volunteering for harvesting tobacco leaves • Supporting for additional profits • Improving welfare of farms 	<ul style="list-style-type: none"> • Local communities, Stakeholders, Farms
Environmental CSR	 <ul style="list-style-type: none"> • Improving smoking environment • Protecting marine ecosystem • Forestation • Biodiversity CSR 	<ul style="list-style-type: none"> • Local communities, Stakeholders
Global CSR	 <ul style="list-style-type: none"> • Indonesia SangSang Univ. • Korean Language Institute • Global disaster relief 	<ul style="list-style-type: none"> • Vulnerable social group, Local communities, Stakeholders

SOCIAL CONTRIBUTION FRAMEWORK

Implementation of UN SDGs

As a global corporate citizen, KT&G seeks to engage in various activities to contribute to achieving SDGs (Sustainable Development Goals) resolved by the United Nations. In particular, we lend a helping hand in solving global issues such as environmental pollution, human rights, and inequality by utilizing the company resources and capabilities, and trying to grow together with the global community by implementing SDGs with sincerity.

GOAL		MAIN ACTIVITY
	No Poverty 1.3 Implement nationally appropriate social protection systems and measures for all, including floors, and by 2030 achieve substantial coverage of the poor and the vulnerable	Emergency living expenses for the low-income class
	Zero Hunger 2.1 By 2030, end hunger and ensure access by all people, in particular the poor and people in vulnerable situations, including infants, to safe, nutritious and sufficient food all year round	Foodstuff support for the low-income class
	Good Health and Well-being 3.8 Achieve universal health coverage, including financial risk protection, access to quality essential health-care services and access to safe, effective, quality and affordable essential medicines and vaccines for all	Support for seriously-ill patients from low-income class
	Quality Education 4.1 By 2030, ensure that all girls and boys complete free, equitable and quality primary and secondary education leading to relevant and effective learning outcomes	Education support for children from low-income households
	4.a Build and upgrade education facilities that are child, disability and gender sensitive and provide safe, non-violent, inclusive and effective learning environments for all	Improving education facilities at home and abroad
	Decent Work and Economic Growth 8.3 Promote development-oriented policies that support productive activities, decent job creation, entrepreneurship, creativity and innovation, and encourage the formalization and growth of micro-, small- and medium-sized enterprises, including through access to financial services	Establishment and operation of SangSang Planet, Operation of SangSang Start-up Camp
	8.6 By 2020, substantially reduce the proportion of youth not in employment, education or training	Establishment and operation of SangSang Univ.
	Industry, Innovation and Infrastructure 9.3 Increase the access of small-scale industrial and other enterprises, in particular in developing countries, to financial services, including affordable credit, and their integration into value chains and markets	Raising win-win growth fund, Offering early payment to partners
	Reduced Inequalities 10.2 By 2030, empower and promote the social, economic and political inclusion of all, irrespective of age, sex, disability, race, ethnicity, origin, religion or economic or other status	Discovering artists with disabilities and providing support
	11.1 By 2030, ensure access for all to adequate, safe and affordable housing and basic services and upgrade slums	Supporting low-income households and improving their living environment at home and abroad
	11.2 By 2030, provide access to safe, affordable, accessible and sustainable transport systems for all, improving road safety, notably by expanding public transport, with special attention to the needs of those in vulnerable situations, women, children, persons with disabilities and older persons	Vehicle support to social welfare centers
	11.6 By 2030, reduce the adverse per capita environmental impact of cities, including by paying special attention to air quality and municipal and other waste management	Improving smoking environment
	11.a Support positive economic, social and environmental links between urban, peri-urban and rural areas by strengthening national and regional development planning	Establishment and operation of SangSang Madang
	Life Below Water 14.1 By 2025, prevent and significantly reduce marine pollution of all kinds, in particular from land-based activities, including marine debris and nutrient pollution	Marine environment purification
	Life On Land 15.2 By 2020, promote the implementation of sustainable management of all types of forests, halt deforestation, restore degraded forests and substantially increase afforestation and reforestation globally	Domestic and overseas forestation, Volunteering to restore Mt. Bukhan ecosystem, Han River purification activities
	15.5 Take urgent and significant action to reduce the degradation of natural habitats, halt the loss of biodiversity and, by 2020, protect and prevent the extinction of threatened species	Biodiversity CSR

SOCIAL CONTRIBUTION MILESTONES

History of Major Social Contribution Activities

KT&G is conducting social contribution activities systematically for the sustainable development of the corporation and society from a long-term perspective. In addition, we are committed to fulfilling our responsibilities as a corporate citizen by creating shared values using our own unique methods.



- **JAN. 2003**
Established KT&G Welfare Foundation
 KT&G established KT&G Welfare Foundation to realize advanced welfare of sharing happiness.
- **SEP. 2007**
Opened KT&G SangSang Madang Hongdae
 We opened SangSang Madang Hongdae, a culture complex, in 2017 to support wide range of culture and art activities and promote exchanges.
- **OCT. 2007**
Launched Employee Volunteering Group SangSang Together
 KT&G launched KT&G Employee Volunteering Group to solve issues in local communities and widen support to neighbors in need.

- **JUN. 2008**
Established KT&G Scholarship Foundation
 KT&G established KT&G Scholarship Foundation to create a level playing field in education and provide stable education opportunities to the marginalized class.

- **APR. 2010**
Established SangSang Univ.
 We established SangSang Univ., a community of culture and art for university students to share opportunities of learning, exchanges and sharing.

- **MAR. 2011**
Raised SangSang Fund
 We raised SangSang Fund, KT&G's signature donation program based on employees' voluntary donation and matching grant system.

- **JUN. 2011**
Opened KT&G SangSang Madang Nonsan
 We opened experience-based culture space in the suburbs to enjoy culture and art in natural surroundings.

- **APR. 2014**
Opened KT&G SangSang Madang Chuncheon
 KT&G opened KT&G SangSang Madang Chuncheon, following the SangSang Madang Hongdae and Nonsan, as a culture and art space in nature.

- **NOV. 2015**
Awarded Presidential Award at MECENAT Grand Award for KT&G SangSang Madang
 KT&G won the grand award at the 2015 MECENAT Awards in recognition of the efforts to sponsor minor culture and art and expand cultural infrastructure through SangSang Madang.

- **FEB. 2016**
Expanded Social Contribution Organization
 KT&G escalated organization responsible for social contribution from department level to office level to beef up social contribution activities in a more professional manner.

- **OCT. 2017**
Launched Social Innovation Youth Startup Program
 KT&G launched KT&G SangSang Start-up Camp with the goal to accelerate support for youth start-up and drive paradigm shift towards "social innovation by solving social issues".

- **DEC. 2018**
Received Presidential Award for Merit in Law and Order
 KT&G won Presidential Award for merit in law and order in recognition of sponsoring KRW10 billion in public good initiatives for 20 years including Crime Prevention through Environmental Design (CPTED).

- **JUL. 2019**
Won Minister of Employment & Labor Award for Merit in Promoting Social Enterprises
 KT&G won Minister of Employment & Labor Award in recognition for contribution to fostering original social enterprises led by the private sector through the KT&G SangSang Start-up Camp.

- **JUL. 2020**
Opened KT&G SangSang Planet
 KT&G opened SangSang Planet exclusively for startups in Seongsu-dong, the center of social ventures, in Seoul with the goal to promote youth startup ecosystem and lay the foundation for sponsoring youth startups.

- **SEP. 2020**
Opened KT&G SangSang Madang Busan
 KT&G opened KT&G SangSang Madang Busan in Seomyeon to build on sponsorship for culture and art and open up greater opportunities to experience local culture.

- **JUL. 2021**
Won Presidential Award for Merit in Social Economy
 KT&G won Presidential Award in the social economy and value category in recognition of sponsoring youth start-ups and helping neighbors in need as part of the company's social contribution activities.

- **DEC. 2022**
Won Presidential Award in Recognition of Contributing to Job Creation
 KT&G received the Presidential Commendation in recognition of its contribution to youth employment promotion, including the operation of youth startup platforms such as SangSang Planet and SangSang Start-up Camp, a social venture fostering program.

2022 HIGHLIGHTS

KT&G CSR Activities

In 2022, KT&G realized the value of “Inclusive Company” by spreading positive impact on our society with a consistent mindset to fulfill our social responsibilities as a corporate citizen.



Successfully Completed the 6th Class of SangSang Start-up Camp and the 5th SangSang Summit

KT&G is implementing various programs to promote the youth startup ecosystem. In 2022, the 6th class of SangSang Start-up Camp, a program fostering social innovation entrepreneur, and the 5th SangSang Summit, an expert forum to promote the social venture ecosystem, were held at the KT&G SangSang Planet, a dedicated space for youth startup.

Young entrepreneurs who participated in the 6th SangSang Start-up Camp developed a business model for solving social problems based on a practical startup training program that had been implemented for 14 weeks. Five winners were granted a unique opportunity to use the business office space at SangSang Planet for a year, free of



charge. In addition, a range of subsequent aid was offered, including the promotion of business items and facilitating connections for investment opportunities. At the 5th SangSang Summit held under the theme “Power Generated by Connection” experts in various fields such as the academic world and venture investment industry, as well as young entrepreneurs participated in the Summit as speakers and provided insight into a way of solving social problems with the “Power of Connection” in the rapidly changing era of endemic. Approximately 70 people, including the youth who want to be a social innovation entrepreneur, also joined the event and contemplated over how to expand the base of the social venture ecosystem.



Held the 2022 Daedanhan Short Film Festival to Expand the Base of Independent Films



In August 2020, the 2022 Daedanhan Short Film Festival was held in great success at KT&G SangSang Madang Hongdae Cinema, which was newly opened after three years of renovation since its closing to prevent the spread of COVID-19. The Festival is an ongoing short film exploration initiative established in 2007 to promote short films. In 2022, a total of 878 films were submitted, and among them, 25 films were chosen to be showcased through the main competition, attracting some 1,000 audiences. SangSang Madang Hongdae plans to carry out various support activities such as holding Daedanhan Short Film Festival, supporting the film-maker community, and renting free screening space on weekdays to revitalize the film industry.

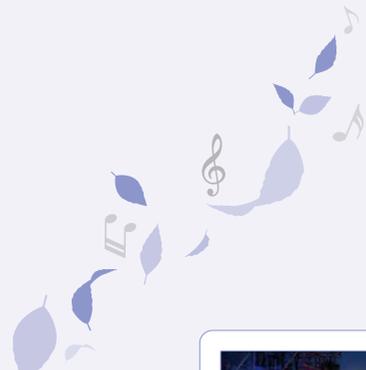
Received the Presidential Award in Recognition of Contributing to Job Creation



KT&G received the Presidential Commendation in the youth employment promotion sector at the Contribution to Job Creation award ceremony hosted by the Ministry of Employment and Labor. KT&G was awarded in recognition of helping about 21,000 young people on a cumulative basis by providing the youth startup platform “SangSangPlanet” and the social venture fostering program “SangSang Start-up Camp”. Going forward, KT&G will make continuous efforts to give more opportunities to young people by operating sincere youth startup programs.



2022 HIGHLIGHTS



Successfully Completed the SangSang Jiphyeonjeon, a Creative Musician Incubating Project for College Students

SangSang Jiphyeonjeon is a project designed to support college students with passion and talent for music to grow into future artists. It is a representative program of KT&G SangSang Univ. that has been in operation since 2020. In 2022, 391 teams participated from all over the country and 12 teams advanced to the final contest. We helped participants grow into future artists by providing one-to-one mentoring by top vocal, rap, and band musicians in Korea and experience of playing with professional bands. Approximately 1,000 audiences attended the final contest held in September 2022, where six mentors delivered a congratulatory performance and 12 finalists performed on the stage of the final competition. The final top 3 winners were given various benefits such as production support and sound source release.



Continued to Lend a Helping to Leaf Tobacco Farmers for Mutual Prosperity



For continuous mutual prosperity with leaf tobacco farmers in Korea, KT&G has been carrying out volunteer activities for leaf tobacco harvesting to help leaf tobacco farmers having difficulties with labor shortage every year since 2007. Volunteer activities continued in 2022, and Raw Material HQ and Gimcheon Plant employees visited leaf tobacco farms located in Gaeun-eup, Mungyeong-si, Gyeongsangbuk-do, and helped farmers in harvesting leaf tobacco on a farmland of about 15,000m². KT&G also has been carrying out economic support projects such farmer health check-up fee support, children's scholarships, and fuel reduction device for exhausting heat, to promote the welfare of leaf tobacco farms in Korea.

Signed an MOU with the National Institute of Ecology for Ecosystem Preservation and Biodiversity Promotion



KT&G signed an MOU with the National Institute of Ecology to preserve ecosystems and promote biodiversity and announced cooperation to build a healthy ecosystem for the future generation. Accordingly, KT&G will implement cooperative projects every year for three years starting in 2023 and plans to continue more effective biodiversity promotion projects based the mid-to-long term cooperative system. The first cooperative project being conducted in 2023 is to protect the Janggu catfish wetland located in Yeongyang-gun, Gyeongsangbuk-do. Located in a mountain rage over an area of about 38,000 m², the wetland is an excellent wetland that has been recommended as a protection area for its vastness and naturality. However, its biodiversity is decreasing due to the destruction of biological habitats due to silt inflow and scouring phenomenon caused by the surrounding roads. KT&G and the National Institute of Ecology will contribute to the restoration of biodiversity by carrying out various activities such as Janggu catfish wetland restoration project and vegetation research.



2022 HIGHLIGHTS

KGC CSR Activities

Based on the belief that sharing of healthier value leads to a better world where people can come together, KGC is conducting various social contribution activities to share social values and love, thereby creating a healthier, happier world.

▶ Root-Finding Expedition (Teenagers from Korea find roots of independence activists abroad)



CSR Activities for the Succession of Traditional and Cultural Heritage

As a leading ginseng company with a 120-year history, KGC is conducting various social contribution activities to inherit traditional and cultural heritage. In 2022, we newly organized a “Root-Finding Expedition” to find the descendants of independence activists living abroad. Selected members of Korean youth and Russian Korean youth living in Korea visited Kazakhstan together met the descendants of independence activists to carry out activities aimed at preserving and inheriting the history and culture of the Korean people and to find the roots of the nation.

KGC also hosts a Korean traditional music performance by inviting the bereaved families of the independence activists to honor their dedication and sacrifice and to promote Korean music. In 2022, we held the second performance to deliver comfort and emotion to the bereaved families of independence activists, and provided health functional foods for independence activists, bereaved families, and human cultural assets. Going forward, we will expand CSR activities for independence activists and the successors of traditional and cultural heritage in various fields.



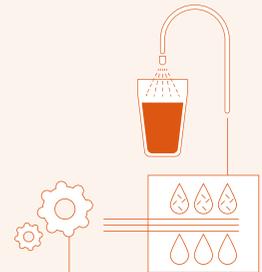
Donations to Create a Healthier World

KGC has been running a “Love Delivery to the Elderly Living Alone” campaign for seniors living alone during the Lunar New Year and Chuseok holidays. As of 2022, we delivered a comprehensive package including Jung Kwan Jang products to about 5,000 seniors living alone, along with “nutrition delivery” (holiday food) and “heart delivery” (emotional support). This initiative utilizes the Jung Kwan Jang Fund as a financial resource, structured around the matching grant approach. When employees donate a certain amount voluntarily, the company provides the same amount as additional support. Since netizens can easily participate through the Jung Kwan Jang online mall or NAVER Happybean fundraising, approximately 15,000 people have participated in donations on a cumulative basis as of 2022.



Global CSR Activity to Improve Educational Environment

With the expansion of our overseas business, KT&G Group takes active part in addressing societal challenges, including education, in key countries where operate our business. This commitment also reflects our dedication to fulfilling our role as a responsible corporate citizen. In 2019, KGC built infrastructure for drinking water facilities and provided training to improve the awareness of hygiene habits for about 10,000 residents in seven villages in Rwanda. In 2022, KGC also provided foodstuff and nutritional supplements to 750 children suffering from malnutrition in poor areas in Vietnam and implemented related education.



PEOPLE

All Changes and Innovations Pursued by KT&G are People-oriented.

KT&G is progressively executing practical and phased welfare endeavors, ranging from education to mobility and self-actualization support, by placing top priorities on the well-being of future generations and prosperity of the underprivileged. In a world where nobody left behind, people change the community for the better and innovate creatively. Imagining a such society where individual growth leads to sustainable development for all, KT&G is building a diverse and strong social safety net.

OUR SOCIAL IMPACT

Total KRW 31.3 billion

KT&G Welfare Foundation



KRW 25.8 billion

KT&G Scholarship Foundation



KRW 5.5 billion

DISCLAIMER Our Social Impact is the monetary value of the value creation outcomes of social contribution activities in 2022 that was derived by applying KPMG's "True Value" methodology, which is a global value measurement model. This does not signify the input project scale, and is provided for reference to stakeholders. It does not serve as a basis for making investment judgments.



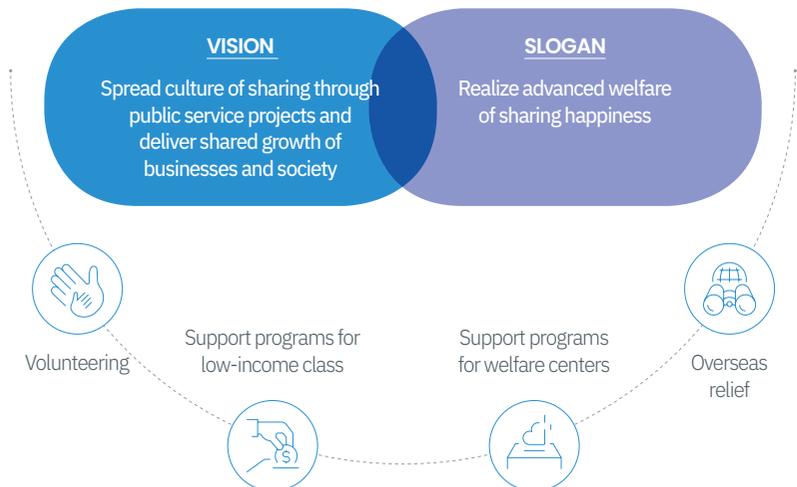
KT&G Welfare Foundation

Realizing mutual prosperity of corporations and society through continuous and sincere social welfare projects

KT&G Welfare Foundation is striving to find ways of sharing happiness for both corporations and society by carrying out advanced welfare activities. The Foundation provides cultural and economic support to the low-income group in need of social consideration, such as children, seniors, and persons with disabilities, and is making efforts to improve welfare institution infrastructure by providing vehicles. Furthermore, it is implementing global educational environment improvement projects, thereby expanding its scope of social value creation.

 [KT&G Welfare Foundation](#)

Overview of KT&G Welfare Foundation



Support for Children from Low-income Households KT&G Welfare Foundation is implementing initiatives with the goal of offering culture, arts, and education assistance to children from economically disadvantaged backgrounds, thereby helping them enhance their self-esteem and nurture their creative capabilities. Furthermore, the Foundation provides opportunities for these children to explore and cultivate their innate talents. It is supporting culture, arts, and education activities at 450 childcare centers in the metropolitan area and providing various cultural programs to children from low-income households across the country in connection with SangSang Madang. The KT&G Welfare Foundation also runs book support projects to help them developing a reading habit and caring for the healthy development of children by providing SangSang Fruit Baskets.

Support for the Vulnerable Social Group KT&G Welfare Foundation holds “Over the Rainbow” exhibition for artist with disabilities every year to realize art welfare and expand the scope of supporting creative works in cooperation with KT&G SangSang Madang. The exhibition’s title, “Over the Rainbow”, symbolizes the harmonious coexistence and hopeful promise captured within diversity, offering a fresh lens that exceeds the boundaries of art. True to its name, this showcase functions as a conduit for communication, where disabled artists can be acknowledged as appreciated creators. By surmounting the bias associated with disabilities, these artists can engage with the global community, fostering meaningful dialogue. Going forward, KT&G Welfare Foundation will continue supporting the exhibition to give artists with disabilities opportunities of self-reliance and exhibition of their work.

KT&G Welfare Foundation is also conducting various activities to support the underprivileged so that they can live without losing hope, such as the medical expense support project for those who are vulnerable to medical services and the cultural experience support project for the single-parent family.



Major Achievements in 2022



Support for children from low-income households

Number of beneficiaries **16,149** persons

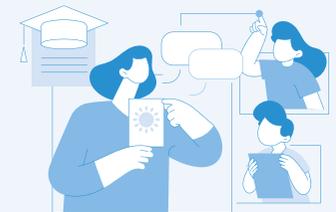
Support amount **KRW 4.8** billion



Support to low-income households (quarantine, heating expenses, etc.)

Number of beneficiaries **17,740** persons

Support amount **KRW 3.13** billion



* As of the end of 2022

KT&G Welfare Foundation

Vehicle Support for Social Welfare Centers KT&G Welfare Foundation is striving to build welfare infrastructure that can help local communities and thus has been providing vehicles since 2004 to enable efficient operations of local social welfare institutes doing their duties at poor working conditions. The Foundation supports compact cars that can drive in narrow roads considering the characteristics of the living areas of social welfare beneficiaries and reflecting the opinions of field workers. The Foundation provided a total of 2,100 compact cars as of 2022. The donated compact cars are serving as a foot for social welfare institutions across the country and keenly utilized for local social welfare activities.

Promotion of University Students' Volunteering Activities KT&G Welfare Foundation is running various volunteer programs to expand the volunteer culture of college students. In 2022, it formed an environmental volunteer group, which comprised 470 college students from 50 universities to carry out volunteer activities on a regular basis, such as planting trees and removing harmful plants in the planting area of Mt. Bukhan for ecological restoration. This has enabled the youth to increase their awareness about environmental protection, and to take part in preserving the natural environment. Furthermore, the group played contributed to enhancing the visual appeal of communities by conducting environmental cleanup activities at the Han River.

Global CSR to Improve Learning Environment The outreach of KT&G Welfare Foundation's public services extends beyond Korea, offering assistance to individuals across the globe. In particular, the Foundation helps the future generation to grow their dreams in a better learning environment by improving education environment for children in developing countries under poor learning conditions. As of 2023, the Foundation is implementing the learning environment improvement projects for two school facilities in Vietnam and Indonesia. The Foundation is supporting Nguyen Thanh Elementary School in Vietnam with school building renovation and auxiliary facility improvement, such as rest rooms. In Indonesia, the Foundation is constructing new school buildings for Ananda Elementary and Secondary School, and when the construction is complete, the Foundation plans to provide necessary learning material and equipment.



Major Achievements in 2022



Vehicle support for social welfare centers¹⁾

Number of vehicles supported **2,100** units
Support amount **KRW 20.6** billion



Global CSR to improve learning environment

Support amount **KRW 0.59** billion



University students' volunteering activities

Affiliated volunteering clubs **50**
Number of participants **470** persons

* As of the end of 2022

¹⁾ Cumulative basis

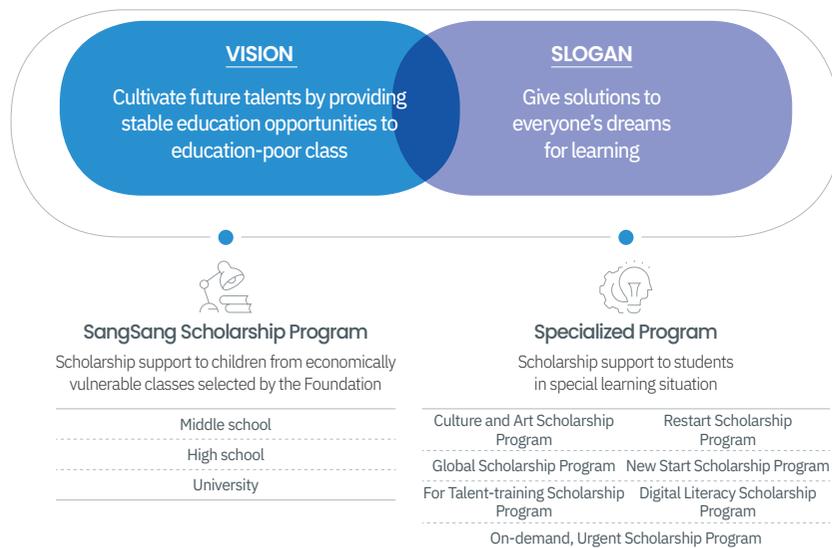
KT&G Scholarship Foundation

Shaping a better tomorrow by answering future generations' questions about learning through sharing

KT&G Scholarship Foundation offers diverse scholarship programs across various domains, ensuring that the aspirations for education of all are realized. The Foundation grants scholarship to middle, high school, and college students from low-income households to provide them with opportunities to study through SangSang Scholarship Program, one of its leading projects. The Foundation is also dedicated to extending educational opportunities to students in unique learning conditions, including those pursuing cultural and artistic disciplines, young applicants, and students enrolled in overseas local universities, through the Specialized Scholarship Program. All these represent KT&G Scholarship Foundation's desire to help talents unlock their full potential regardless of the environment they are in.



Overview of KT&G Scholarship Foundation



SangSang Scholarship Program

Through the SangSang Scholarship Program, KT&G Scholarship Foundation selects and supports students of the underprivileged group every year who have excellent academic abilities even though their economic conditions are challenging. Furthermore, the Foundation employs a “total care approach” that entails sustained scholarship provisions for the chosen students, extending from middle and high school through university, unless disqualification criteria are met. The Foundation grants SangSang Scholarship of KRW 1 million for each middle school student, KRW 2 million for high school students, and KRW 3 million for college students every year. In 2022, the Foundation granted scholarship to a total of 1,497 students with excellent academic performance.

Specialized Scholarship Program

On-demand Scholarship Program In addition to the regular SangSang Scholarship Program, KT&G Scholarship Foundation runs an on-demand scholarship program aimed at assisting adolescents facing educational marginalization as a result of social challenges. The Foundation also donated KRW 180 million to the Korean Red Cross for safety education support projects in order to help the youth obtain a proper sense of safety. The donation will be used in 2023 for youth safety education, distribution of teaching aids, and first aid contests among the youth at the national level.

Culture & Art Scholarship Program In 2016, the Foundation launched the Culture & Arts Scholarship Program through which it identifies individuals displaying exceptional talent in the domains of arts and sports and bestows them with scholarships. Among the beneficiaries of this support, pianist Yunchan Lim won the world-renowned classical music competition “Van Cliburn International Piano Competition” in 2022 as the youngest ever winner. In 2017, pianist Lim was chosen as a scholarship recipient of KT&G Scholarship Foundation, and he was granted scholarships until 2019 to enhance his artistic abilities and further. The Foundation also granted KRW 10 million to him to root for his dream as a pianist. Since 2021, the Foundation has been concentrating on cultivating a people of excellent talent in ballet to implement the project more efficiently. The Foundation also runs a “master class”, a dance education program in which that ballet dancers and choreographers provide professional coaching guidance and showcase performance opportunities to selected talents for more systematic talent development.



Major Achievements in 2022



SangSang Scholarship Program
Number of recipients **1,497** persons
(483 middle school, 796 high school, 218 college students)

Support amount **KRW 2,850** million
(KRW 480 million for middle school, KRW 1,770 million for high school, KRW 600 million for college students)



On-demand Scholarship Program
Support amount **KRW 200** million



Culture and Art Scholarship Program
Number of recipients **62** persons
Support amount **KRW 300** million

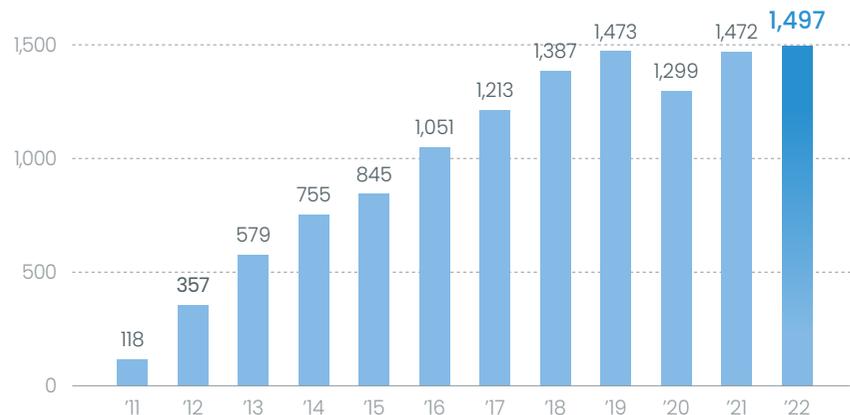
* As of the end of 2022

KT&G Scholarship Foundation

For Talent-training Scholarship Program In 2022, the Foundation launched a new scholarship program aimed at fostering outstanding talents in the fields of social innovation and science and technology. In the field of social innovation, the Foundation held an idea contest to create social values by presenting solutions to social problems for college students and provided scholarships to a total of 59 students from the final 21 teams and incubation training for social innovation startups. In the field of science and technology, the Foundation selected 25 Korean and eight foreign KIST (Korea Institute of Science and Technology) researchers in their masters and doctoral courses to foster science talents.

Restart Scholarship Program Since 2016, KT&G Scholarship Foundation has been operating the Restart Scholarship Program designed to provide academic assistance to adolescents with commendable lifestyles, aiding in their social reintegration during their time in juvenile detention centers or upon their departure from such facilities. In collaboration with the Korea Juvenile Protection Association, a public institution under the Ministry of Justice, the Foundation identifies recipients and offers educational expenses. This partnership aims to empower adolescents at risk in their journey towards self-reliance, enabling them to discover and realize their dream. In 2022, the Foundation supported a total of 87 adolescents in detention centers, through tuition for college freshmen, living expenses for middle and high school students, qualification examination fees, and technical training expenses.

Number of Recipients of SangSang Scholarship Program by Year (Unit: Persons)



New Start Scholarship Project In 2022, KT&G Scholarship Foundation launched the New Start Scholarship Project to grant scholarships to runaway adolescents who left their homes due to a lack of protection and support within their domestic environment. These youth are often placed in a blind spot of welfare system because it is difficult to receive protection from institutional authority. In response, the Foundation selected 100 runaway adolescents upon the recommendation of related agencies, such as the Korea Youth Shelter Association, and provided scholarships worth KRW 200 million, so that they can continue to study in a stable learning environment.

Digital Literacy Scholarship Project KT&G Scholarship Foundation has been providing IT learning material and equipment to elementary school students since 2021 to support digital literacy education in order to narrow the gap in digital education by creating a stable online learning environment. In 2022, the Foundation contributed to the establishment of an online learning environment by providing tablet PCs to 106 elementary school students at local children's centers and social welfare institutions across the country. The Foundation also provided digital literacy education with 24 college student volunteers playing their role as mentors so that beneficiary students can quickly utilize the infrastructure.

Global Scholarship Program This is a global project that has been implemented for overseas students since 2018. In 2022, the Foundation held a startup contest in two countries, Indonesia and Turkey, and granted scholarships to 383 college students selected based on the recommendation of local institutions.



Major Achievements in 2022

For Talent-training Scholarship Program

Social Innovation Field
 Number of recipients: 59 persons
 Support amount: KRW 100 million

Science and Technology Field
 Number of recipients: 33 persons
 Support amount: KRW 100 million

Restart Scholarship Program
 Number of recipients: 87 persons
 Support amount: KRW 50 million

New Start Scholarship Program
 Number of recipients: 100 persons
 Support amount: KRW 200 million

Digital Literacy Scholarship Program
 Number of recipients: 130 persons
 Support amount: KRW 200 million

Digital Literacy Scholarship Program
 Number of recipients: 383 persons
 Support amount: KRW 190 million

* As of the end of 2022

COMMUNITY

KT&G dreams of a world where everyone's imagination drives mutual prosperity

In order to realize this dream into reality, KT&G facilitates the sharing of spaces and know-how through which we can address social challenges. As individuals come together to exchange their aspirations and insights, a culture of shared growth and unity will flourish, fostering the expansion of social value that is beneficial to all. We develop such values and resonate with our employees, and they take active part in the company's endeavors to tackle community issues.

OUR SOCIAL IMPACT

Total KRW 44.2 billion

SangSang Madang



KRW 20.2 billion

SangSang Planet



KRW 2.2 billion

SangSang Fund



KRW 3.5 billion

SangSang Univ.



KRW 5.6 billion

Support for Shared Growth¹⁾



KRW 6.1 billion

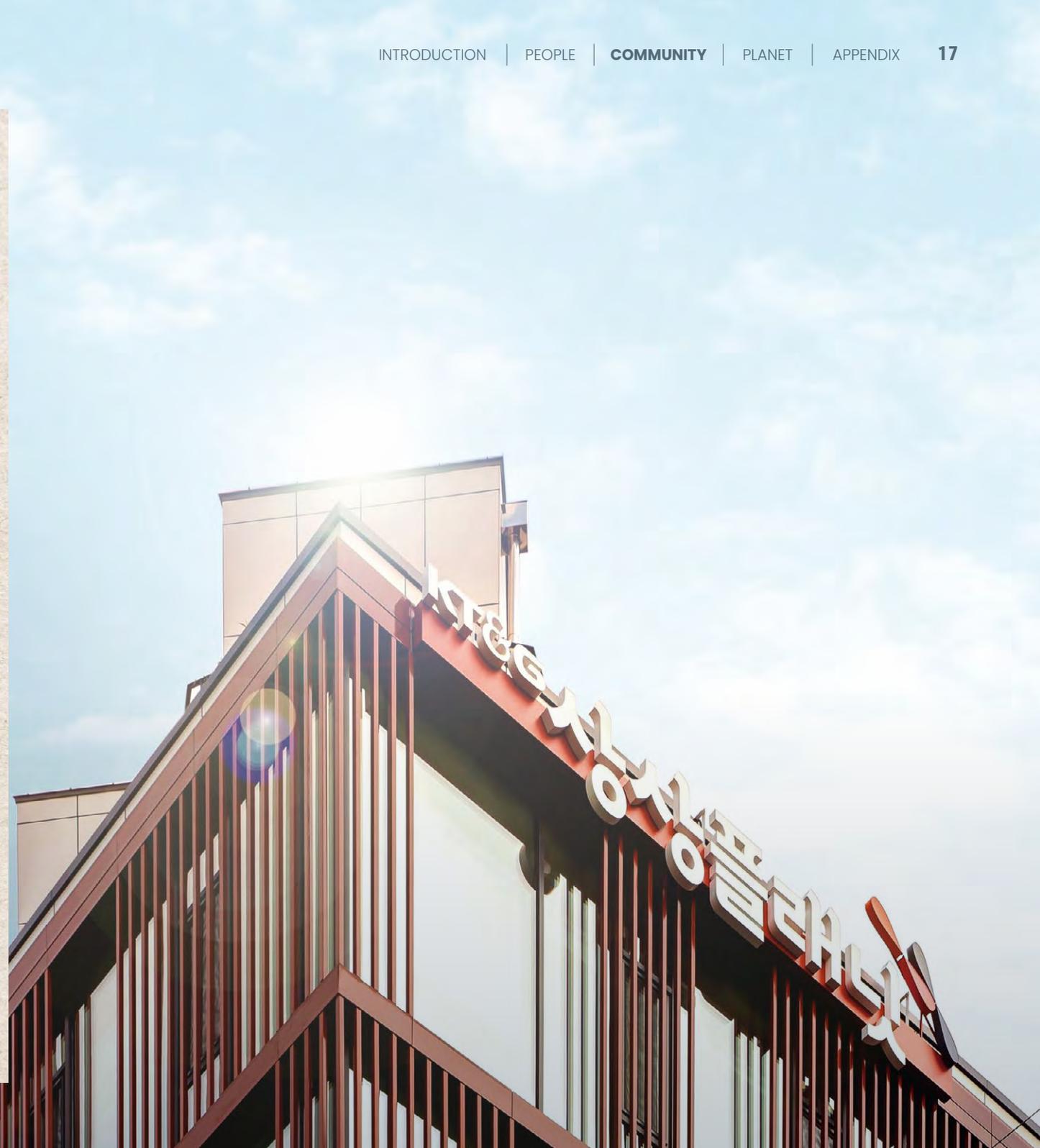
Other Supports



KRW 6.6 billion

DISCLAIMER Our Social Impact is the monetary value of the value creation outcomes of social contribution activities in 2022 that was derived by applying KPMG's "True Value" methodology, which is a global value measurement model. This does not signify the input project scale, and is provided for reference to stakeholders. It does not serve as a basis for making investment judgments.

¹⁾ Excluding the amount for purchasing all domestic leaf tobacco



SangSang Planet

A place where youth entrepreneurs learn, meet, and create impact together to change the world for the better

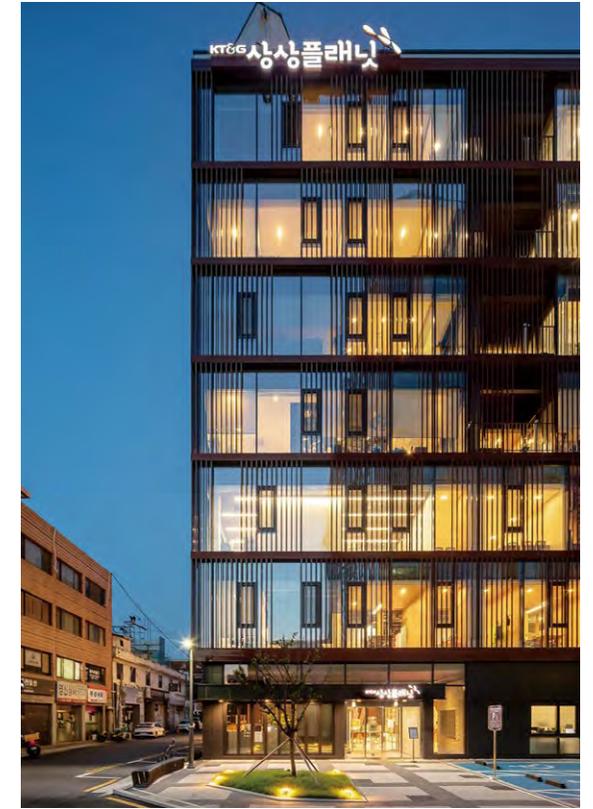
SangSang Planet is a youth startup support space that opened in July 2020. KT&G is promoting various youth startup support projects for the growth of the future generation. KT&G has been helping the youth, who imagine a better future, start their own businesses. Our efforts began with the sponsorship of the Asia University Student Start-up Exchange in 2004, which was followed by the launching of K&G SangSang Start-up Camp in 2017, a program designed to discover and foster social innovators who address societal issues through entrepreneurial endeavors.

SangSang Planet stands as an incubating platform conceived by KT&G, providing young entrepreneurs with a stepping stone to scale-up their business, on the back of KT&G's extensive understanding and experience in fostering youth startup. Going forward, we will provide multifaceted support for youth startup, and SangSang Planet will serve as the base camp for our efforts to support their challenge.



Space of SangSang Planet

KT&G SangSang Planet serves as a collaborative workspace exclusively designed to nurture the development and interactions of social ventures at their early stage. Located in Seongdong-gu, Seoul, a region often referred to as the Social Venture Valley, SangSang Planet provides a conducive environment for fostering innovative growth. The facility spans across 8 above-ground floors and 1 underground floor, with a total floor area of approximately 4,000 square meters. The office space accommodates a total of 256 seats, providing a conducive environment for entrepreneurs to work. There are also meeting rooms and lounges on each floor, and various common spaces such as sleeping rooms and shower rooms are also available for user convenience. In addition to these comfortable and convenient workspaces for youth entrepreneurs, KT&G helps them exchange, communicate, and grow their dreams by running competency support programs such as education and mentoring as well as communication support programs such as busking and small groups on a regular basis.



KT&G Youth Startup Support History



SangSang Planet

SangSang Planet Programs

KT&G provides various benefits for the growth of startups, such as capacity building programs and exchange opportunities, in addition to the office space. Moreover, we seek to discover and nurture social ventures and facilitate the social innovation ecosystem by operating youth startup programs such as KT&G SangSang Start-up Camp and Sangsang Summit, together with the programs that support the growth of tenants of SangSang Planet and promote exchanges among them, such as Planet Campus, Planet Talk, and Connect Planet.



Growth Support (Scale-up) Program



Planet Campus

Planet Campus is a regular education/coaching program aimed at reinforcing working-level capabilities of Planet members. Rookie entrepreneurs are given a chance to learn finance/marketing/HR/labor/legal and others that are needed for running a business. Monthly mentor-mentee matching and 1:1 coaching are also available for them.



Planet Day

Planet Day is held on Jul. 15th, which is the opening day of KT&G SangSang Planet. Tenants present their growth stories to VCs (Venture Capital) and get feedback as well as coaching. This comes in parallel with various other events including reception and photo zone, etc.



Planet Market

Planet Market is a place of sales of products and services for moved-in companies to open up new markets. Planet Market is opened for nearby residents and visitors to Seongsu-dong and supports activities necessary for the growth of the moved-in company, such as product sales and accumulation of customer experience by presenting their products to customers.



Planet Pop-up

Tenants of the Planet can take advantage of the Planet Pop-up zone on the first floor to promote their products and services. KT&G supports fixed budget to applying teams who can promote themselves to customers visiting SangSang Planet and turn it into an opportunity for growth.

Play & Network Program



Play Planet

Play Planet is a busking program to comfort the hearts and minds of exhausted Planet members and professionals in the neighborhood. Performances by artists of different genres on the first floor of SangSang Planet offer the local community a great opportunity to enjoy culture and art.



Planet Talk

Planet Talk is a talk concert program that enables participants to listen to the various experiences of senior entrepreneurs. Participants can share information necessary for growth based on the topics of areas needed for newly established social ventures, such as ESG, brand, HR, corporate culture, and marketing.



Connect Planet

Connect Planet is a networking program that enables Planet moved-in companies to communicate and share information. Connect Planet gives an opportunity for individuals with common interests to form a community.



Wellness Planet

Wellness Planet is a program aimed at keeping physical and mental health of Planet members. Body stretching, meditation and yoga are some of the programs available for members to stay in good health.



Youth Start-up Program



Korea's first-ever fulltime social innovation start-up launching program aimed at supporting youth exploring to solve social issues through business.



SangSang Summit is a forum for social innovation entrepreneurship held every year. Using this conference program, experts and those who are interested in innovation gather and talk about the future by discovering key elements that can achieve innovation.

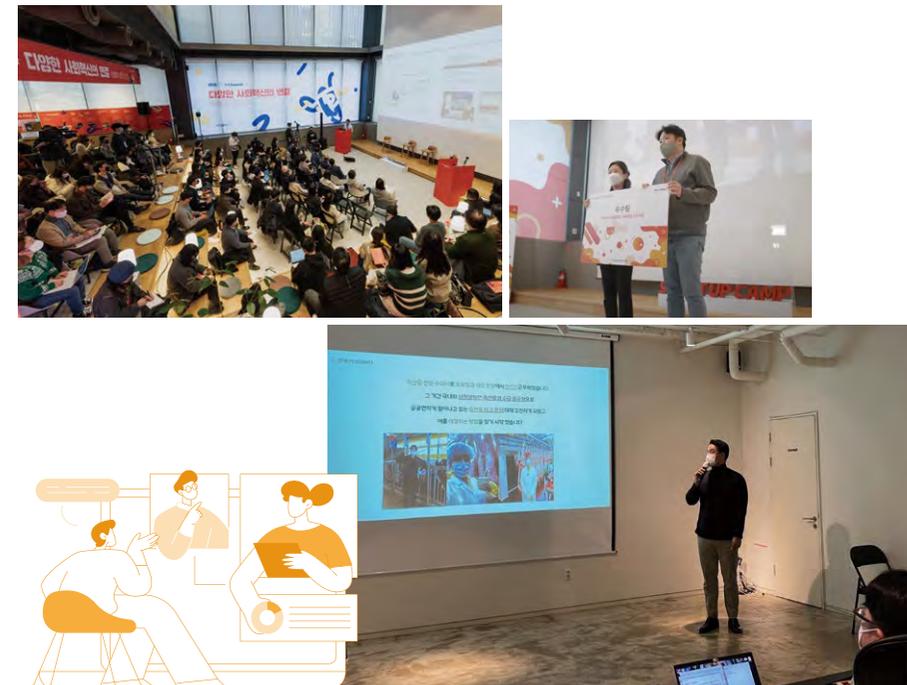
SangSang Planet

KT&G SangSang Start-up Camp Launched in 2017, KT&G SangSang Start-up Camp is an accelerating program aimed at helping social innovation startups grow or re-start. Each year, we chose participating companies among startups at their inception or re-start stage to seed stage to support their ongoing development by offering tailored and hands-on initiatives, including business establishment coaching, expert mentoring, and pitching sessions. As of 2022, the 6th class of SangSang Start-up Camp has been successfully completed, and we are operating the 7th class. In particular, from the 7th class in particular, we have increased the type of startups to support by subdividing the course to the start track (inception stage), reboot track (re-startup), seed track (growth stage).

 [SangSang Start-up Camp](#)



SangSang Summit KT&G hosts SangSang Summit, an expert forum on social innovation, every year with the goal of drawing public attention and engagement to social venture ecosystem. In 2022, the 5th SangSang Summit was held offline at the Connect Hall on the 1st floor of SangSang Planet thanks to the easing of distancing regulations. Under the theme of “Connecting Various Social Innovations”, experts from such various fields as academia, institutions, global IT enterprises, and startups participated in discussions that illuminated the trajectory of social innovation. Their talks spanned an array of subjects, ranging from themes centered on social impact and growth, such as collective impact, social value measurement, and interlinking of social missions. In addition, the theme of “change and connection” was explored to share insights on such subjects as climate change, impact investment, metaverse, and game-changing growth formula.



Achievements of SangSang Start-up Camp



Number of team

144 teams

Number of participants

415 persons

Cumulative sales revenue

KRW 40.3 billion

* Based on cumulative performance from the 1st to 7th classes

Achievements of SangSang Summit Operation in 2022



Number of offline participants

About 150 persons

Cumulative number of participants

About 1,900 persons

SangSang Fund

KT&G's unique donation culture made of employee's voluntary participation and reward of good deeds Donation Petition

SangSang Fund is a social contribution fund raised by the voluntary participation of KT&G employees. When employees donate part of their monthly salary, the company matches the same amount. Since its adoption in 2011, the SangSang Fund has formed a cumulative total of KRW 39.9 billion, including KRW 3.9 billion raised in 2022, as a result of active participation of employee in overall process ranging from fund operations to search for recipients and sponsorship.

The raised SangSang Fund is used to support vulnerable social groups and solve social problems through donation petition and donation market programs. The SangSang Fund Management Committee, composed of 11 employee representatives, deliberates, and makes decisions on the donation agenda to ensure transparent operation. Support for large-scale social problems such as natural disasters is determined by a committee resolution, and funds for social contribution to increase intimacy with the community is executed voluntarily by KT&G local organizations across the country, contributing to diffusing a culture of sharing.

Overview of SangSang Fund



Major Cases Supported through SangSang Fund in 2022

In March 2022, KT&G donated KRW 1 billion to the Korea Disaster Relief Association including KRW 500 million for the relief of large-scale wildfire that occurred on the East Coast including Uljin, Gyeongsangbuk-do, and KRW 500 million for the relief of large-scale heavy rain damage in the metropolitan area that occurred in August. The donated funds were used to provide housing facilities and relief goods for disaster victims. KT&G also donated KRW 400 million to create the SangSang Forest, a forest for environmental protection at home and abroad. The donation was used to restore forests in Bonghwa-gun, Korea, which were damaged by forest fires, and to establish forests to prevent desertification in Mongolia.

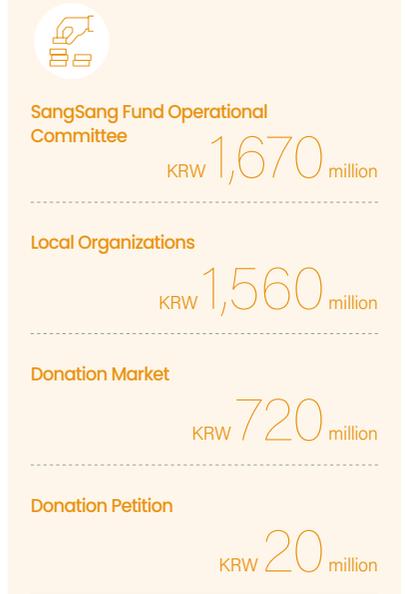
Donation Petition The donation petition initiative serves as a method to identify recipients of donations. In this program, when an employee identifies a story within an underserved welfare area and extends a helping hand, the story becomes eligible for donation consideration if it garners over 200 supportive comments from fellow employees. Since its introduction in 2013, many members have participated in the program to provide various benefits to the underprivileged in the welfare blind spot, such as medical support, residential environment improvement, and education, since they cannot receive support from the welfare institutions.

Donation Market Donation Market is a participation-based donation program that enables employees to select a donation receiver among the candidates collected from various channels such as NAVER Happybean, KT&G Welfare Foundation, and recommendations from local organizations. Started in 2015, the Donation Market program has conducted activities to solve a wide range of social issues in various fields, such as overseas relief and improvement of environmental problems, in addition to the welfare improvement of the underprivileged.

Engagement by Local Organizations Across the country, KT&G is conducting community-based sponsorship projects led by approximately 20 sales headquarters and plants. As employees who are familiar with the community find the donation receiver, practical support and customized social contribution can be made. In 2022, KT&G executed a total of 295 nationwide support initiatives, encompassing areas such as medical expenses, essential daily provisions, enhancement of living conditions, and year-end charitable endeavors. These efforts were directed towards the elderly, disabled individuals, and multicultural families, and were facilitated through local welfare institutions. A sum of approximately KRW 1.5 billion from the SangSang Fund was allocated for these activities.



Raising and Execution of SangSang Fund in 2022



SangSang Madang

Cultural milestones that we have been creating together with local community as a complex cultural and artistic space in daily life

SangSang Madang is Korea's leading culture and art complex that is home to a wide variety of programs from performances to movies, exhibitions, experiences, culture and art and education, etc. It is where KT&G shares culture contents with the general public and supports artists' creative activities to build a cultural ecosystem from production all the way to consumption. SangSang Madang also plays a leading role in creating a new culture by promoting and sharing new trends.



Milestones of KT&G SangSang Madang

Hongdae

Opened in Sep. 2007



Culture and Art Complex in the City

KT&G SangSang Madang Hongdae is a culture and art complex opened in September 2007, spanning across 7 above-ground floors and 4 underground floors. It has space for design, exhibitions, academies, cinema, performances, and café in support of various artistic activities and exchanges. By supporting original and creative works of artists and offering greater opportunities for the general public to enjoy art and culture, KT&G SangSang Madang Hongdae contributes to building a new culture.



Nonsan

Opened in Jun. 2011



Space to Experience Culture and Art in Nature

KT&G SangSang Madang Nonsan is a suburban experience-oriented culture and art complex where adults and teenagers can experience creative education and enjoy special cultural experience in their daily lives. The site consists of 9 building such as the gallery, art hall, cafe, accommodation, educational space and restaurant. The Art Camping Village is also built for the general citizen to have an opportunity to enjoy culture together with nature.



Chuncheon

Opened in April 2014



Encounter of Art and Stay

KT&G SangSang Madang Chuncheon is a culture complex whose building has been remodeled from Gangwon Sports Centers under the concept of "art and stay". Located in the waterfront of Euiahm Lake boasting a beautiful scenery, SangSang Madang Chuncheon consists of Art Center, which is home to performance hall, live studio, gallery, lecture rooms and café, and Stay, which has practice rooms for music and performances, guest rooms and seminar rooms, etc.



Daechi

Reopened in April 2017



Multi-purpose Performance Hall

KT&G SangSang Madang Daechi Art Hall stages plays, concerts, musicals and various other performance genres. Signature works in Korea's performing business ranging from plays to concerts and musicals were staged in SangSang Madang Daechi Art Hall. It is contributing to taking Korea's performing arts to a higher level by giving full support to original and creative performances never tried before.

Small art gallery in the city

KT&G Daechi Gallery is an open gallery where people can meet culture and are easily in their daily lives. The exhibition items change every month in a space of about 59.5 m², and KT&G support artists in various fields such as painting, photography, and installation art to meet visitors.

Busan

Opened in September 2020



Space for Art and Social Contribution

KT&G SangSang Madang Busan, spanning across 13 above-ground floors and 5 underground floors, is the largest SangSang Madang in operation. Culture zones in SangSang Madang Busan consisting of café, design, performance hall, gallery and movie theater allow all visitors to refresh themselves and enjoy culture at the same time. Creators' creative work, space supporting start-ups, accommodation, F&B facilities and diverse contents add excitement to visitors as well.



Business Areas of SangSang Madang

Film



Renewed and re-opened theater in 2021 as the venue to present various contents to filmmakers and audience including playing independent art films and supporting communities of filmmakers.

Support film industry

Concert



Develop feature performances and contribute to taking concert culture to a higher level by identifying rising musicians and building music distribution platform for both the public and artists doing the creative works.

Support in finding musicians

Exhibition



Mirror the true face of young generation by staying in tune with reality and serve as the contents market for culture and art industry. Support up-and-coming writers and peers from various fields and promote communication between writers and citizens aspiring for a new culture created from art works.

Support pure photo art

Education



Run education programs divided into talent cultivation, culture and art and living art classes in various fields of culture and art.

Cultivate talents in culture and art

Design



Run a multi-shop where rookie designers can articulate ideas, communicate with consumers and sell products from independent design brands.

Support distribution of independent designer works

Start-up, Mutual prosperity with local community



SangSang Madang Busan was newly opened in 2020 and continuously realized mutual prosperity with the community using various methods such as youth entrepreneurship support projects and flea markets in connection with local small businesses, in addition to culture and arts.

Startup contest
Flea market for small business owners

SangSang Madang

Major Achievements of SnagSang Madang in 2022

Performance Support Program, Expanding Nationwide KT&G SangSang Madang Hongdae is supporting the practical growth of indie musicians by implementing various music support projects. Starting with “Band Discovery” first introduced in 2007, it supports the growth of new artists in various ways, including My First Concert which has been conducted since 2015. KT&G also expands the project at a national level through SangSang Madang Busan opened in 2020. The “Indie on Spotlight”, one of representative program of SangSang Madang Busan, provides mentoring of popular musicians and performance experience to new musicians based in Busan. Musicians such as Harim, Yozoh, and Car the Garden participated as mentors, and the mentors helps the selected mentee musicians throughout the entire process, from concert planning to joint performance, so that they can experience actual growth. The SangSang Live Practice Room program provides live hall space, musical instruments and equipment in KT&G SangSang Madang Busan to musicians who need a practice space and stage experience. KT&G ensures that participants can expand their activity stage nationwide through cooperation with SangSang Madang Hongdae.

Exhibition Support to Help New Artists Shine The exhibition support project of SangSang Madang started with SangSang Madang Hongdae Gallery. Opened in 2007, KT&G SangSang Madang Hongdae focuses on supporting non-mainstream culture rather than popular culture. Therefore, it plans new visual arts as an exhibition space that supports contemporary art, non-mainstream art and new artists. KT&G SKOPF held its 13th exhibition in 2022, which provides exhibition support, including activity subsidies and mentoring, to selected photographers of the year. KT&G Daechi Gallery is also making efforts to find artists in various fields such as photography, painting, and installation art by holding by holding “Daechi Artist Fellowship (DAF),” an exhibition support project held twice a year, from 2021. In addition, SangSang Madang Busan Gallery, which opened in 2020, implemented ARTISTART, a preliminary artist support program in connection with local art universities. It supports graduates of art colleges to take the first steps as artists by supporting exhibitions.



Major Achievements of SnagSang Madang in 2022



Performance

187 times, artists of 548 teams



Exhibition

67 times, artists of 670 teams



Design

56 times, artists of 826 teams



Education

143 classes,
trainees of 1,579 persons

* Based on major projects of SangSang Madang

SangSang Madang

SangSang Madang Academy – a Gateway to Artists from Amateur to Professional

KT&G SangSang Madang Academy has been launching and running various courses since its opening in 2007 with the hope that more people can and experience culture and arts with ease. To foster professionals in the field of culture and arts, we are operating concert planner workshop, design figure production process, and Bologna picture book workshop, while also running hobby courses to spread daily creative education that life becomes art. These courses give students opportunities to experience a new culture and gives new motivation for creative activities to artists. In 2023, KT&G plans to contributing to the creation of a virtuous cycle structure in the culture and art world by holding special relay lectures given by the graduates of SangSang Madang Academy.

Daedanhan Short Film Festival Held at Newly Renovated Cinema

After about a year of preparation, KT&G SangSang Madang Hongdae Cinema, which had been closed due to the spread of COVID-19, was reopened in January 2022 and is promoting support programs for independent and artistic filmmakers again. SangSang Madang Hongdae Cinema is making efforts to find independent films with imagination and connect potential films with audiences by continuously operating Daedanhan Short Film Festival, leading short film discovery program in Korea, since 2007. The Festival was temporarily closed due to social distancing but raised its curtain again in 2022. In 2022, a total of 878 films were submitted to the 14th Daedanhan Short Film Festival, which was resumed after three years, and an actor Kwon Yul, Cine21 reporter Lee Dahye, and film director Lee Jisong selected 25 finalists, which were visited by 1,000 audiences. The film festival was operated under various themes such as short film competition, short film invitation, and special section. For short film competition, the festival awarded a total of KRW 15 million in prize money in five award categories in order to continue support for the development of the short film industry.

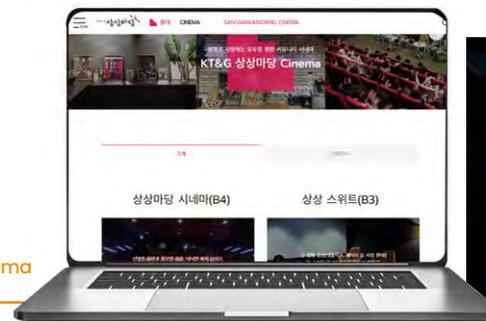
Korea Cosmetics Challenge – Youth Startup Support Program & SangSang Flea Market – Flea Market for Local Small Businesses

KT&G has been operating the “Korea Cosmetics Challenge” contest to support youth start-ups since 2021, aimed at supporting startup ideas in the beauty field. The entire process of the contest is performed in collaboration with SangSang Madang’s cultural contribution platform and COSMOCOS, one of KT&G Group subsidiaries. COSMOCOS supports the final selection team in the overall brand development and production process so that ideas can lead to actual commercialization, by providing ODM-based product development support, expert mentoring and accelerating support, promotion booth and follow-up marketing support, etc.

“SangSang Flea Market” of SangSang Madang Busan is a flea market held together with local merchants. This flea market is held on the last Saturday of every month with the goal of mutual prosperity with local small businesses. This flea market is becoming a place for small business owners to meet consumers, and for visitors to enjoy various cultural and artistic programs such as busking and exhibitions along with shopping. SangSang Madang Busan is nurturing this flea market as a mutual prosperity brand with local small business owners and is also used as a test bed for moving into SangSang Madang Design Square.



 SangSang Madang Cinema



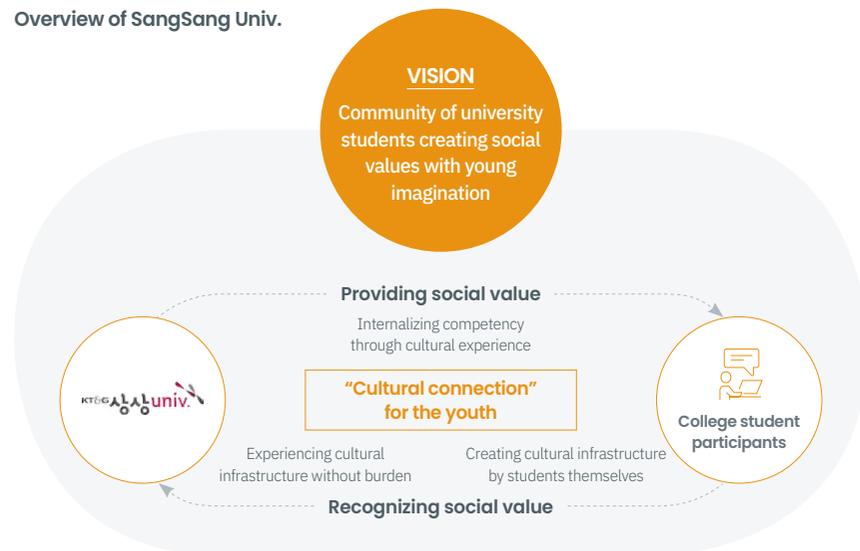
SangSang Univ.

A place where imagination of the youth transforms into social value

SangSang Univ. is a community of college students that turns youth's imagination to social values. As one of the unique CSR programs designed by KT&G, in 2022, SangSang Univ. gave some 103,000 college students facing difficulties in competitive environment from 13 local communities nationwide an opportunity to learn, grow and exchange with each other as part of the efforts to help them create a healthy culture on their own.



Overview of SangSang Univ.



Major Achievements of SnagSang Univ. in 2022

SangSang Jiphyeonjeon – Musician Incubating Program for College Students First introduced in 2020, SangSang Jiphyeonjeon is a musician incubating program that helps college students with passion and talent for music to grow into future artists. In 2022, 391 teams of college student artists who dream of becoming next-generation musicians applied across the country, and a total of 12 teams were finally selected through preliminary and main rounds. The final teams received mentoring from top musicians in Korea and finished the four-month long journey by holding the final stage of competition at the SangSang Univ Jiphyeonjeon Festival. SangSang Univ encourages college students to confidently grow their dreams and skills by providing a stage for community college students to realize their dreams. The winner was given various benefits, such as production support and music release on domestic music streaming sites, and a total of KRW 30 million won in prize money, so that they can cultivate their dreams and skills with confidence.

SangSang Marketing School – Training Program to Foster Future Marketing Experts

KT&G has been operating the SangSang Marketing School since 2010 with the motto of “fostering young and competent marketing experts for the future”. In 2022, 1,200 college students participated in the school and took online training, including practical marketing trends and startup marketing cases, then produced a marketing video for startups and performed a mission to suggest marketing strategies. Then, about 300 participants who passed the finals participated in the Marketing Fair held at the Yangjae aT Center and presented their marketing plans and videos so that they can grow further as a prospective marketer.

SangSang Upcycling Art Workshop – Art Wall Design Program Using Marine Garbage

SangSang Upcycling Art Workshop is a program where college students create art walls using marine garbage collected from the beach in Jeju Island through plogging and plastics collected from campus. The art wall was completed by about 300 college students who participated in the program. They painted murals on the inner wall of the Jeju National University Stadium by drawing silhouettes of participants, and processing and attaching waste resources that were collected in advance. KT&G further develops SangSang Upcycling Art Workshop operating model and plan to launch a new “SangSang Blue Pavilion,” a marine garbage utilization architecture and design program, to inform the seriousness of marine environmental pollution and deliver the message of environmental preservation.



Major Achievements of SnagSang Univ. in 2022



Class

305 times (4,534 persons)



Activity

144 times (23,904 persons)



Campus Attack

316 times (6,715 persons)



Local Project

12 times (5,972 persons)



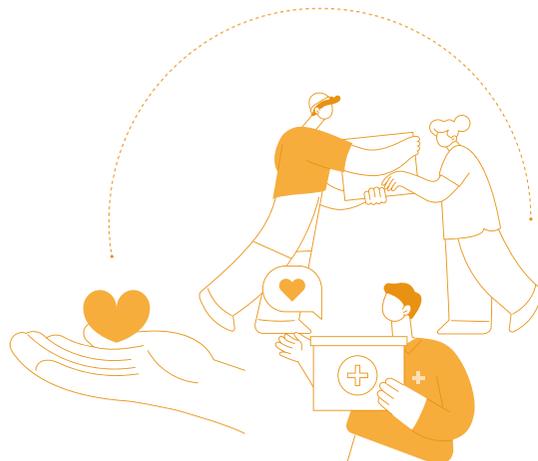
SangSang Friends

2nd Class (400 persons)

Social Responsibilities

KT&G's unique culture of sharing that envisions a better tomorrow with unusual imagination

KT&G employees support and participate in CSR pursued by the company as a member of the community where the company operates. KT&G employees are participating in various social responsibility activities in their own ways, such as donations, talent, and time, and the company seeks ways to coexist with the community by utilizing the efforts and dedication of its employees as a valuable resource.



KT&G Social Responsibility Activities in 2022

Kimchi-making and Winter Supply Drive for the Underprivileged KT&G has been conducting year-end sharing activities for community neighbors who are waiting for a warm helping hand during the winter season. In the winter of 2022, KT&G shared a total of KRW 1 billion including activities conducted by KT&G Welfare and Scholarship Foundation, in addition to SangSang Fund, donations by employees. KT&G carefully looked after alienated neighbors in various fields, such as donating kimchi and heating oil for the community with a fund of KRW 500 million raised through employee donations and KRW 80 million worth of briquettes through the Briquette Run Voluntary Activities based on employee participation.

SangSang Together – Employee Volunteer Group Since 2007, KT&G has been operating the SangSang Together Volunteer Group composed of its employees. The SangSang Together Volunteer Group carries out various service activities, ranging from cleaning up the environment near the company's business site to serving free meals for the underprivileged and sharing activities at the end of the year. In 2022, a total of 600 employees participated in volunteer activities. KT&G employees supported company's social contribution activities by participating in various volunteer activities, such as beach cleaning volunteer activities and plogging near the workplaces for environmental protection and Briquette Run Voluntary Activity to share briquettes with the underprivileged at the end of the year.

Support for the Underprivileged for a Healthy Society In 2022, KT&G implemented sponsorship activities by investing in KRW 180 million in collaboration with the Ministry of Justice to help the underprivileged live in a better environment and settle down in society stably. KT&G constructed horticultural facilities to support the psychological stability of patients and medical staff at the National Law Hospital under the Ministry of Justice and contributed to the improvement of residential environment for 120 households by renovating old houses to support the improvement of the deteriorated residential environment of probationers. In addition, KT&G provided COVID-19 self-diagnosis kits worth KRW 60 million to prevent the spread in detention facilities.



Win-win Growth

Soil for sustainable growth rooted in cooperation and mutual prosperity

Sustainable agriculture that cherishes people and protects the environment is the basis of increasing sustainability of KT&G and farms. We are therefore focused on sustainable agriculture as a way to achieve mutual prosperity with farmers so that the seeds of change can take root and bear fruit. In addition, KT&G is seeking to realize a better future by pursuing joint growth with SMEs, which are the basis of the local economy of where we operate our business.



Activities Aimed at Win-win Growth in 2022

Efforts to Achieve Joint Growth with Farmers As part of ESG management, KT&G is making various efforts for joint growth with leaf tobacco farmers who are raw material suppliers. Among tobacco companies running business in Korea, KT&G is the only company that purchases domestic leaf tobacco to protect the farms. In 2022, KT&G purchased 7,224 tons of leaf tobacco from 2,700 farms, which amounted to KRW 71.7 billion.

Our employees take part in volunteering activities every year to help farmers during leaf tobacco planting and harvesting seasons. To cultivate tobacco, seedlings should be grown in seedling facilities and transplanted instead of sowing seeds in the field. This process is important, since it determines the outcome of the harvest, but it cannot be easily mechanized. Due to the nature of leaf tobacco cultivation, the labor intensity is high. However, farmers are having difficulty securing enough labor due to rural population decline and aging problems. KT&G has been conducting voluntary services to help farmers for 14 years since 2009, to solve these difficulties and transfer know-how to produce high-quality leaf tobacco.

In addition, KT&G has been providing welfare promotion subsidies to leaf tobacco farmers every year since 2013, which amounts to a total of KRW 3,336 million including KRW 480 million in 2022. The subsidy is used to pay for health checkup expenses for leaf tobacco farmers, scholarships for their children, and purchases of exhaust heat fuel reduction devices. In this way, KT&G has been continuously conducting various activities for mutual prosperity with the farmers with sincerity for a long period of time, not a one-time event. KT&G will enjoy the joy of growing together by carrying out sharing activities that can practically help farmers.

Efforts to Grow Together with SMEs According to the basic statistics on SMEs compiled by the Ministry of SMEs and Startups in 2020, the number of SMEs in Korea is 7,286,023, accounting for 99.9% of all companies, and the number of SME employees accounts for 81.3% of all employees. As SMEs are the backbone of our economy and the basis of the local economy considering this statistics, KT&G signed a business agreement for joint growth with Industrial Bank of Korea (IBK) and is providing low-interest loans to SMEs located in the Chungcheong region. KT&G deposited KRW 100 billion in IBK to contribute to facilitating local economy and creating jobs and created a fund worth KRW 200 billion based on the deposit. The fund is used to provide loans at lower interest rates than the market to corporations in five fields, including startups and small business owners located in Daejeon City, Sejong City, and Chungcheong Province. As of 2022, a cumulative total of 954 companies benefited from low-interest loan support, and the amount of interest reduction supported in 2022 was KRW 1.84 billion.



PLANET

KT&G is expanding its global presence with an eye towards future.

The best future imagined by KT&G is where forests that we built bring about change that resolves the climate crisis and where our tailored CSR activities in countries that lacked the capabilities needed to resolve social and environmental issues transform into wings of innovation and solve global issues. To make this future into today, we are strengthening social contribution activities in the area of eco-friendliness while expanding the scope of social value creation to the global stage as part of our utmost efforts to fulfill roles as a global corporate citizen.

OUR SOCIAL IMPACT

Total KRW 11.9 billion

Eco-friendly CSR



KRW 10.5 billion

Global CSR



KRW 1.4 billion

DISCLAIMER Our Social Impact is the monetary value of the value creation outcomes of social contribution activities in 2022 that was derived by applying KPMG's "True Value" methodology, which is a global value measurement model. This does not signify the input project scale, and is provided for reference to stakeholders. It does not serve as a basis for making investment judgments.



Eco-friendly CSR Activities

KT&G is reducing its environmental footprint while raising social value, thereby developing into an ESG-leading company.

KT&G is actively looking into ways to reduce its carbon footprint in the process of use and disposal of our products. We encourage stakeholders to participate in and identify with our efforts to find measures, thus fulfilling our social responsibilities and making diverse efforts to create social value. In addition, we are carrying out various social contribution activities to protect and restore the natural environment to improve environmental issues, which have become a global task.

Smoking Environment Improvement Program

KT&G has been carrying out the smoking environment improvement program for more than a decade to actively fulfill social responsibilities in an area that is related to its business. As a leading activity, we are building an infrastructure (smoking room, cigarette butt collection box, eco-friendly ashtray) to establish a clean street environment and make environmental improvements by eliminating illegal littering of cigarette butts. We are expanding the establishment of smoking rooms at major publicly-used facilities, including airports, train stations, and large public facilities. We set up a cumulative 511 smoking rooms across the nation, including the 86 rooms established in 2022. To more effectively prevent illegal littering of cigarette butts in areas that are difficult to set up a smoking room, such as narrow alleyways, we supported the establishment of cigarette butt collection boxes. We commenced a pilot project in 2021, followed by the installation of a total of 2,236 cigarette butt collection boxes by the end of 2022 in major cities around the nation, including Seoul and Busan. In addition, we are producing and distributing portable ashtrays that are made of eco-friendly materials. Since 2022, we distributed around 100 thousand ashtrays in collaboration with local governments and environmental NGOs, through which we expect to raise consumer awareness and improve smoking habits.

Ssudam Ssudam Campaign KT&G runs the “Ssudam Ssudam Campaign” to build an infrastructure that helps prevent illegal littering of wastes, including cigarette butts, while raising consumer awareness. Meaning “please throw away your cigarette butts in the trash can”, the Ssudam Ssudam Campaign was launched based on a suggestion made by the SangSang Realization Committee (currently Junior Board), a corporate culture improvement organization, in 2020. Since May 2021, we have been applying the Ssudam Ssudam pictogram that encourages the practice of smoking manners to all products sold in Korea (around 70 types). In addition, we set up Ssudam Ssudam Campaign posters at convenience stores (around 46,000) across the nation, and attached campaign slogans to 1,200 work vehicles.



Smoking Environment Improvement Program



Support for Smoking Room Installation

511 smoking rooms,
KRW 7,220 million
(2011-2022)



Support for Cigarette Butt Collection Box Installation

2,236 boxes,
KRW 460 million
(2011-2022)



Distribution of Eco-friendly Ashtrays

102,000 ashtrays,
KRW 850 million
(2022)

* As of the end of 2022, and cumulative basis

Eco-friendly CSR Activities

Natural Environment Preservation Program

Forestation Projects in Korea and Overseas With KT&G Welfare Foundation taking the lead, KT&G has been steadily carrying out a CSR activity that involves building forests, amounting to a total of KRW 5 billion, for 18 years since 2006, thereby contributing to improvements in the forest environment in Korea and abroad. As the first step, we volunteered and planted 38,000 trees in the Naksan Temple forest fire damage area in Yangyang, Gangwon-do from 2006 to 2012. Since 2013, we planted 14,000 trees and removed harmful plants for ecological restoration on Mt. Bukhan. We expanded the scope of the program to go beyond volunteering to restore damaged forests and include support for local communities that suffered losses from wildfires. In 2019, we donated KRW 500 million to help victims of the Goseong and Sokcho wildfires. In addition, we provided KRW 50 million for the victims of 2021 Turkey wildfires, which was followed by a donation of KRW 500 million for the relief of the victims of the Uljin and Samcheok wildfires in 2022.

While our focus on restoring damaged forests as part of CSR activities can be regarded as the 1st generation and supporting victims of large wildfires as the 2nd generation, we launched in 2022 the “KT&G SangSang Forest” establishment program as part of strategic ESG management implementation. Using the KRW 600 million in the SangSang Fund that was raised through voluntary donations made by employees, we plan to build forests consisting of a total 15,000 trees by 2023 in major regions in Korea as well as Mongolia, where we conduct our overseas business, through which we will contribute to reducing carbon and overcoming the climate crisis.

In Korea, we built the KT&G SangSang Forest in Daegwallyeong in 2022, and are building the KT&G SangSang Forest in Bonghwa County in 2023. The Daegwallyeong SangSang Forest consists of 1,000 seedlings that were planted in an area spanning around 1.5 hectares on a national forest trail designated by the Korea Forest Service. The number of seedlings matches the number of employees who took part in a plogging campaign, adding greater significance to the program. In 2022, we commenced the establishment of a SangSang Forest consisting of 5,500 trees in an area spanning around 1.8 ha to restore the forest in Hwacheon-ri, Bonghwa County that was damaged due to a forest fire, and plan to complete the forest in 2023. A unique characteristic of the Bonghwa SangSang Forest is that plants that serve as food for honeybees will be planted to restore biodiversity, thereby raising eco-friendly impact.

Furthermore, we established a SangSang Forest in Mongolia, where desertification is rapidly progressing. In 2022, we built the first SangSang Forest in the form of an urban forest, consisting of a total 3,000 trees, together with 500 resident households in the outskirts of Ulaanbaatar. Aiming for completion in 2023, we are currently building the second SangSang Forest, consisting of a total 5,200 trees, with participation by 1,000 local resident households. The Mongolian President and Minister of Environment and Tourism visited the SangSang Forest when establishment of the first forest was commenced in 2021. They provided considerable support to this project, which is contributing to the Mongolia’s “One Billion Trees” national campaign.



Outcomes of Forestation Project



Value of the SangSang Forest created in Daegwallyeong, Korea in 2022¹⁾

Carbon dioxide absorption

9,248 kg/year

Fine dust absorption

47,872 g/year



Value of the SangSang Forest created in Mongolia in 2022²⁾

Carbon dioxide absorption³⁾

502.8 tCO₂eq/year

Preventing desertification

3 ha (Equivalent to 4 soccer fields)

¹⁾ Estimate of the partner organization Tree Planet

²⁾ Estimates of partner organization Green Asia Network

³⁾ Including soil carbon absorption due to the restored land

Eco-friendly CSR Activities

Preserving Biodiversity KT&G has signed an MOU on “Ecosystem Conservation and Biodiversity Promotion” with the National Institute of Ecology in 2022 to contribute to the recovery of natural capital and the restoration of species, and will jointly carry out a mid- to long-term cooperation project for three years starting in 2023. Accordingly, we will plan and execute activities that are aimed at protecting the ecosystem and restoring biodiversity together with the National Institute of Ecology every year. As the first-year collaboration activity held in 2023, we will protect the Janggu catfish wetland in Yeongyang County, located near the KT&G Yeongju Plant. The Janggu catfish wetland is a mountain wetland spanning around 38,000 m². It is a wildlife habitat where the National Institute of Ecology’s Research Center for Wetland carried out a detailed examination to suggest the wetland’s designation as a wetland protection area, considering its extensive area and outstanding natural aspects. Habitats are being destroyed due to soil inflow from nearby roads and scour, leading to reduced biodiversity. To take action, KT&G and the National Institute of Ecology will carry out restoration construction and research on the species that live in the wetland. Even after the end of the first project, we plan to continue collaborative relations with the National Institute of Ecology in carrying out diverse biodiversity activities, such as protecting endangered species and preserving habitats.

Overview of the 1st Year Projects for the MOU on Ecosystem Conservation and Biodiversity Promotion

 <p>Target Area</p> <p>Janggu catfish wetland nearby the Yeongju Plant</p>	 <p>Restoration Area</p> <p>Approximately 38,000 m²</p>
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Major Species identified

<p>Endangered Species Level II</p> <p>3 bird species (Eurasian goshawk, fairy pitta, black paradise flycatcher)</p> <p>3 mammal species (yellow-throated marten, leopard cat, Siberian flying squirrel)</p> 	<p>National Red List Near Threatened (NT)</p> <p>1 inset species (migrant hawk)</p> 	<p>National Red List Least Concern (LC)</p> <p>3 plant species (trigonotis icumaevine, eleutherococcus divaricatus var. chiisanensis, lysimachia coreana Nakai)</p> <p>7 insect species (agelastica coerulea Baly, etc.)</p> 
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Protecting the Marine Ecosystem To address the ocean pollution issue that is caused by ocean wastes, KT&G has been conducting a marine ecosystem protection project since 2021 in collaboration with the Korea Marine Environment Management Corporation (KOEM) and OSEAN.

In 2021, which was the first year of the project, professional divers collected marine wastes to purify the waters, while our employees volunteered to carry out coastal cleanup activities. In 2022, the scope of the project was expanded to include “Adopt-a-Beach” Program organized by KOEM. It is a program in which a company adopts a beach that needs to be protected and cares for the beach as if it were a companion animal by carrying out such activities as beach cleaning. As of 2022, we adopted four companion beaches and are making the beaches beautiful by collecting wastes and improving the landscape. The 2022 marine environment protection project was participated in by a total of 1,232 people, including employees and civic groups. Beach cleanup activities that were carried out at the companion beaches led to around 15 tons in collected wastes, while professional divers collected marine wastes totaling around 2,200 kg from across the nation, thereby contributing to protecting the ocean.

In addition, we also held a junk art exhibition, using collected wastes, so as to raise citizens’ awareness of ocean environment destruction. The exhibition was held at the Busan Exhibition & Convention Center and SangSang Madang Seoul Daechi Gallery in 2022, attracting around 2,000 visitors, while raising awareness of destruction of the marine ecosystem and communicating the importance of environmental protection by exhibiting artworks that were made of ocean wastes.

Drinking Water Project in Tanzania KT&G supplied 1,300 eco-friendly water purifiers worth KRW 240 million from October 2021 to July 2022 to local elementary schools in Tanzania, from where we import leaf tobacco raw materials. The gravity-type filter water purifier that we supplied not only addresses shortage of drinking water and waterborne diseases but also does not require energy, replacing the past method of purifying water by burning heavy carbon-emitting fuel such as fossil fuel and trees to heat water. This allows around 260,000 students in Tanzania to have access to as much as 340 million liters of clean filtered water a year, which can also lead to carbon emission reduction effects of up to 13,000 tCO₂eq/year.



Performance of Marine Ecosystem Protection Projects in 2022



Waste collected
Approximately **17.2** tons



Participating volunteers
1,232 persons



Visitors of junk art exhibitions
Approximately **2,000**



Global CSR Activities

We fulfill responsibilities as a global corporate citizen to become a truly global top-tier player.

As KT&G's global expansion gains speed, its roles and responsibilities toward local communities around the world are also growing. KT&G is fulfilling social responsibilities as a global corporate citizen by carrying out social contribution activities in diverse countries, including countries where its businesses have a presence. We provide emergency disaster relief overseas and conduct country-tailored social contribution activities, in addition to Korean language education, Korean culture dissemination activities, and job support activities. We are providing help that is needed around the world in accordance with our unique social contribution value system.

Global CSR Activities in 2022

KT&G SangSang Univ. Indonesia KT&G operates SangSang Univ. in Jakarta to enhance Indonesian university students' cultural literacy and help them grow. We provide a variety of experiences and exchange opportunities, in addition to culture and arts, hobby activity, and career development content that local university students usually find difficult to access. In 2022, we simultaneously ran online and offline classes with revitalized face-to-face activities. To provide pleasant offline class experiences, we established the "Univ. Zone", a face-to-face class hub, in collaboration with universities and organizations in Indonesia.

The SangSang Festa that was previously held online due to COVID-19 was held offline to offer performances by local singers as well as various participatory cultural experiences. In addition, we are operating a Korean language school in Surabaya for cultural exchange between Korea and Indonesia. Korean language classes that can be participated in by local residents, including undergraduate students, were provided. A total 486 persons took part in the curriculum in 2022. In 2022 alone, around 32,000 people participated in the SangSang Univ. program through on and offline activities. We plan to continually fulfill roles as a global corporate citizen through our Indonesia program.



Global CSR Activities

Job Creation Support Program in Indonesia In 2019, KT&G established the Coffee Lab in Indonesia to contribute to the creation of jobs for youths. Afterwards in March 2021, we opened a vocational training center for sewing at Universitas Kristen Cipta Wacana (UKCW), a university located in Malang, to strengthen the foundation for the underprivileged to become independent. A total 243 people completed the curriculum at the vocational training center by 2022. Based on the skills they acquired at the center, the participants have found a job or are running their own clothing business. By helping people in Indonesia learn skills that become the foundation of economic activities, such as sewing, we are providing practical help to improve the quality of life of the underprivileged.

We are also providing employment-related content, including resume preparation, interview practice, and consulting, through the SangSang Univ. Career School to help undergraduates find a job or start a business. In 2022, we held a business startup idea contest for undergraduates in Indonesia. The theme of the contest was “vitalizing the local economy by supporting small business owners in Indonesia”. The contest collected ideas from college students whose dream is to start their own business, while providing expert mentoring. Scholarships were provided to five chosen teams.

Country-Tailored CSR Activities KT&G carries out tailored CSR activities that can help resolve social and environmental issues that are respectively experienced by local communities around the world. We delivered tents and relief supplies amounting to around KRW 30 million to help provide temporary homes to victims in Indonesia, which suffered significant damages from an earthquake in 2022.

In Mongolia, which is experiencing serious environmental issues caused by desertification, we are conducting the KT&G SangSang Forest project together with the Agroforestry Training Center in Mongolia that was established by the KT&G Welfare Foundation to prevent desertification and reduce carbon emissions. We are building the forest in the form of an urban forest in collaboration with Mongolian residents. We built the first forest, consisting of a total 3,000 trees, in 2022, and commenced the establishment of the second forest that will be completed in 2023 with a total of 5,200 trees.

We are also striving to improve educational conditions in local communities around the world. To support the educational infrastructure in Laos, we used the SangSang Fund, which was raised through employee donations, to build an elementary school in Nonkeo, for which construction commenced in 2021 and was completed in December 2022. Together with the elementary school in Khampanae that was completed in 2019, the new school is expected to contribute to the nurturing of future talent. The KT&G Welfare Foundation is carrying out an educational environment improvement project at the Nguyen Thanh Elementary School in Vietnam and Ananda Elementary and Secondary School in Indonesia. In Kazakhstan, where KT&G recently advanced into, we began building a Korean language school with the goal of completion in 2023. Through the school, we will provide Korean language education to local residents of Kazakhstan and ethnic Korean descendants, and carry out various CSR activities related to the Korean culture.



APPENDIX

Financial Report

(Unit: KRW 100 million)

Category	2019	2020	2021	2022
KT&G Welfare Foundation	118	135.9	149.6	146.1
KT&G Scholarship Foundation	42	40	44.7	46.3
SangSang Planet	81	92.9	16.7	12.9
SangSang Fund	39	40.5	40.7	39.7
SangSang Madang	287	269.2	175.6	201.8
SangSang Univ.	52	25.8	42.5	47.5
Support for win-win growth, etc.	343	32.7	30.2	71.2
Sponsorship projects such as global CSR	16	22.7	21.6	22.5
Smoking environment improvement, eco-friendly CSR, and other social responsibilities	28	9.2	18.5	32.1
Others	4	2.7	-	-

KT&G Social Contribution Network

KT&G	www.ktng.com	T. 080-931-0399
KT&G Welfare Foundation	www.ktngwelfare.org	T. 02-563-4459
KT&G Scholarship Foundation	scholarship.ktngtogether.com	T. 070-4124-6451
KT&G SangSang Planet	www.sangsangplanet.com	T. 070-7439-9436
KT&G SangSang Madang	www.sangsangmadang.com	T. 02-3404-4589
KT&G SangSang Univ.	www.sangsanguniv.com	T. 02-3404-4346

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CALCULATION METHOD

Amount of donation to address community issues (100%)

Calculation of the return on investment in educational support and job creation projects (118%)¹⁾

Calculation of the return on investment in low-income housing support (231%)²⁾

Calculation of the return on investment against the investment cost of environmental and infrastructure improvement projects (250%)³⁾

Calculation of the return on investment against the investment cost of health care support projects (550%)⁴⁾

To carry out more systematic social contribution activities, KT&G applied KPMG's "True Value" methodology, which is a global value measurement model, and analyzed the value creation outcomes of social contribution activities in 2022. KT&G's social contribution activities were converted into monetary value based on the following calculation method and the results are presented as "Our Social Impact" data in this report. This data is provided for reference to stakeholders and does not serve as a basis for investment judgments.

¹⁾ G.Psacharopoulos and H.A. Patrinos, Returns to investment in education: a further update (2004)

^{2,3)} BCG, The cement sector: a strategic contributor to Europe's future

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

