



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 industryrelated 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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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 **KT&G** Corporation **Milestones**

Establishment

April 1, 1987

CEO

Baek, Bok-In

Headquarters

71, Beotkkot-gil, Daedeok-gu, Daejeon, Republic of Korea

No. of employee

4.469¹⁾

1) As of December 31, 2022: and based on direct employment

Beginning of Korean Tobacco History

1883-1980

- · Founded the Sunhwaguk 1965-1983
- · Completed construction of major manufacturing plants

Development and Advancement through **Innovation**

1987-2002

· Founded the Korea Monopoly Corporation

· Founded the Korea Tobacco & Ginseng Corp.

- · Listed on the Korea Stock Exchange
- · Separation of Red Ginseng Business (Launched the KGC)

· Changed the corporation name from Korea Tobacco & Ginseng Corp. to KT&G Corp.

2003

· Founded the KT&G Welfare Foundation

Giant Global Company

2003-

· Received the Presidential Award for employee job training

· Selected as the best corporation by the Korean Corporate Governance Improvement Support Center in its corporate governance performance evaluation

2007

· Received the Excellence Award from the Korea Investors Relations Association (3 consecutive years)

- · 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

- · Included in the DJSI World
- · Completed construction of plant

- · Acquired Trisakti
- (Indonesian tobacco company) Selected as the best corporation for corporate governance in 2011

· Received A Level in the ESG evaluation by the Korea Corporate Governance Service (KCSG)

- · 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)

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

- . Won the Presidential Prize at the 2015 Mecenat Award
- · Won the Grand Prize at the Korea HRD training facility sector

- · 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"

- · 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 · Won the Grand Prize at the 2017 Korea
- HRD Award (2 consecutive years)

- · Launched "lil HYBRID"
- · Won A+ (the highest) Level in the ESG evaluation by the KCGS
- · Won the Prime Minister Prize as a family-friendly company by the Ministry of Gender Equality and Family
- . Won the Presidential Prize for contributing to law and order by the Ministry of Justice

- · Won the Grand Prize for corporate governance by the KCGS
- · Won the Minister of National Defense Award at the Korea Volunteer Grand Prize by the Korea United Nations Volunteer Corps
- Minister of Employment and Labor's commendation for "person of merit in fostering social enterprises"

- · 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

- · 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

- · 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

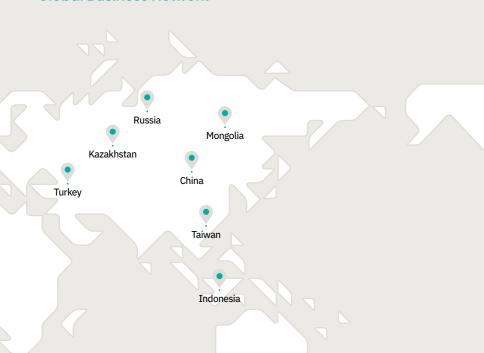
- · Established a local subsidiary in Kazakhstan
- · Signed the KT&G-PMI Global Collaboration Agreement







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

KRW 3,573.8 billion Sales

- Export destinations 126 countries (cumulative)
- · Number of brands exported 642 SKU



Health Functional Food

KRW 1,388.9 billion Sales

 Portion of overseas sales 20.5%

289 · No. of patents



U.S.

Pharmaceuticals

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

Catadami	Unit		Consolidated		Separate				
Category	Unit	2020	2021	2022	2020	20 2021 .4 3,490.5 .0 1,083.4 .3 852.9	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

Catadami	Unit		Consolidated		Separate				
Category	Unit	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 ROA ROE	Unit		Consolidated		Separate				
Category	Unit	2020	2021	2022	2020	2021 9 8.7 4 10.7 9 31.0 1 233.7	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

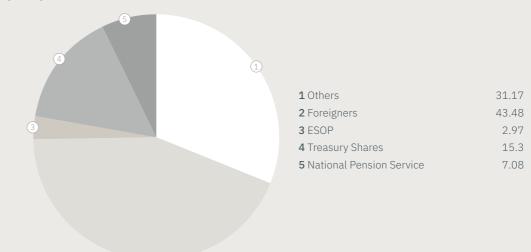
Category	Туре	2022
Number of shares issued	Common share	137,292,497
Number of shares without voting rights	Common share	21,012,574
Number of shares with voting rights	Common share	116,279,923

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

Perform environmental responsibility across the value chain









Renewable energy consumption at all business sites 16% increased







814% achieved

Establishment of Implementation System

Establishment and implementation of waste device recycling system



About 94.8kg of materials recycled

Establishment of product-level environmental management system



LCA completed for 10 key products

Scope 1.2.3 emissions at all Group manufacturing sites received



Third-party Verification

Build a sustainable business ecosystem



Employees

Human capital diversity management



Set the 2030 target³⁾ Increasing human capital diversity



Performance Improvement¹⁾

Supply chain

Improving sustainability of farms by building and implementing



Sustainable Tobacco Program (STP)

Helping significant suppliers build



Environmental Management System⁵⁾

Local communities

Social contribution projects in value chain contributions



KRW 3 billion Exceeded the target by KRW 1.4 billion⁴⁾

Social contribution impact



KRW 87.4 billion

Advance governance and strengthen execution capability



Creating ESG opportunities and managing risks

Accelerating the development of global growth driver by **Expanding CoE**



Promoting the establishment of

integrated company-wide risk management system



Established the

Board Independence & **Diversity Policy**



Upgrading compliance standards

Established the

Anti-Corruption & **Bribery Policy**



Internalizing the

KT&G Group Business Fthics Charter

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



* Results from 2022 through June 2023 MSCI ∰

SUSTAINALYTICS

10%

Top in the industry

Member of
Dow Jones
Sustainability Indices
Powered by the S&P Global CSA

 75_{points}

Included in the Korea Index



Α-

AA

CDP Climate Change

Leadership level achieved

Highest rating in the sector

CDP Water

.

Leadership level achieved

CDP Supplier Engagement Rating

A

Leadership level achieved



* 2022 Results



4

Acquired A level or higher for 12 consecutive years

NICE Investors Service NI



ΑΑ

Based on "Overall Rating"



A+

The highest level: S



* As of 2023

AAA

Korea Investors Service
AN AFFILIATE OF MOODY'S INVESTORS SERVICE

AAA

한국기업평가 KOREA RATINGS

AAA

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

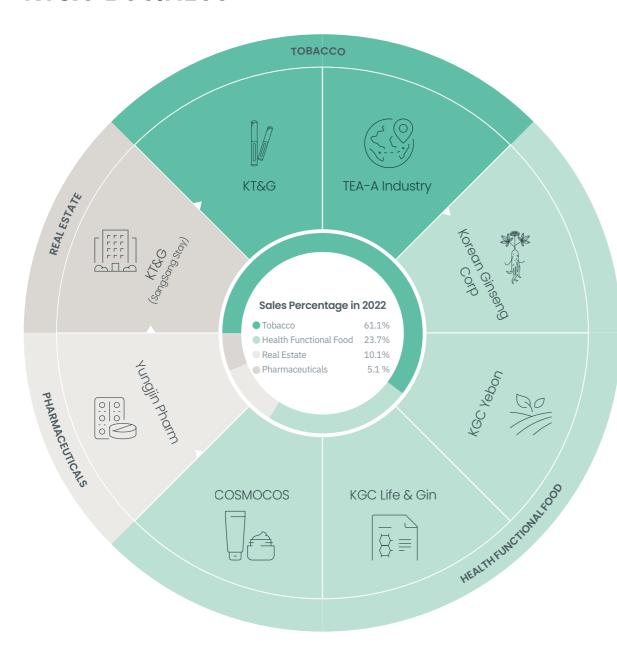
for job creation from the Ministry of Employment and Labor in 2022



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.

Tae-a Industry

• 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.



Corp.

· 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

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

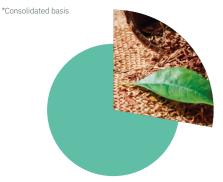
KT&G promotes real estate development and operation business, SangSang Stay Hotel business, etc. using the land it owns, generating profits for corporate growth and the construction of better infrastructure for the development of society.





DOMESTIC **TOBACCO BUSINESS**

SALES PERCENTAGE



28.4%

SALES (CONSOLIDATED)



KRW 1,659.3 billion

MARKET SHARE



65.4%

UNIT SALES



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



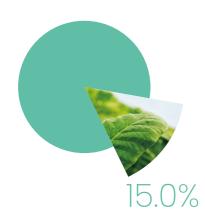




NGP BUSINESS

SALES PERCENTAGE

*Consolidated basis



SALES (CONSOLIDATED)



KRW 876.2 hillion

UNIT SALES OF STICKS



NGP SKU



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 HO









OVERSEAS TOBACCO BUSINESS

SALES PERCENTAGE

*Consolidated basis



SALES (CONSOLIDATED)



KRW 1,010.2 billion

UNIT SALES (CONSOLIDATED)



(expert + overseas subsidiaries)

EXPORT DESTINATIONS



countries (cumulative)

SALES PROPORTION OF OVERSEAS SUBSIDIARIES / NO. OF EXPORT BRANDS

33.8%, 642 SKU

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 companywide 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 HO









HEALTH FUNCTIONAL FOOD BUSINESS

SALES PERCENTAGE

*Consolidated basis



23.7%

SALES (CONSOLIDATED)



KRW 1,388.9 billion

INTELLECTUAL PROPERTIES

289_{patents},

CONTRACT FOR FRESH GINSENG CULTIVATION



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.

CG

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.



CEO of KGC









REAL ESTATE DIICINIECC

SALES PERCENTAGE

*Consolidated basis



10.4%

SALES (CONSOLIDATED)



KRW 607.3 billion

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.



Chief of Real Estate Business HQ



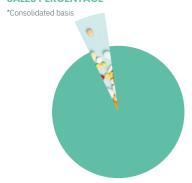






PHARMACEUTICAL BUSINESS

SALES PERCENTAGE



3.6%

SALES (CONSOLIDATED)



KRW 218.0billion

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 Yungiin Pharm

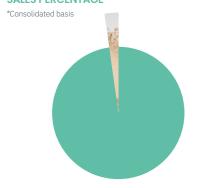






COSMETICS BUSINESS

SALES PERCENTAGE



1.1%

SALES (CONSOLIDATED)



 $_{\text{KRW}}63.4_{\text{billion}}$

MAJOR CERTIFICATION

ISO 900⁻

(Quality Management System)

NUMBER OF NEW CLIENTS



(

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.

66

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 nor 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.













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 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. NGP

NGP Global Top-Tier Player

securing core R&D capability

2. Health Functional Food (HFF)

Global Natural Nutrition Company

• Expanding to the global Big 2 market

and securing material development

• Strengthening partnership with PMI and

Global Top-Tier Player KT&G **Business Transformation Core Business Growth** 3. Global Conventional Cigarettes (CC) • Making direct investment in global businesses and accelerating the establishment of overseas

1. Global

Globalization of the core businesses

various businesses of the Group

Global Business Revenue Contribution¹⁾

50%↑

2. ESG

Creating ESG value

Fostering businesses that create

NGP+HFF Revenue Contribution

60%1

3. Core Expansion

Expansion to adjacent business areas

Being centered around R&D and

Global Top-Player

¹⁾ Excluding real estate business





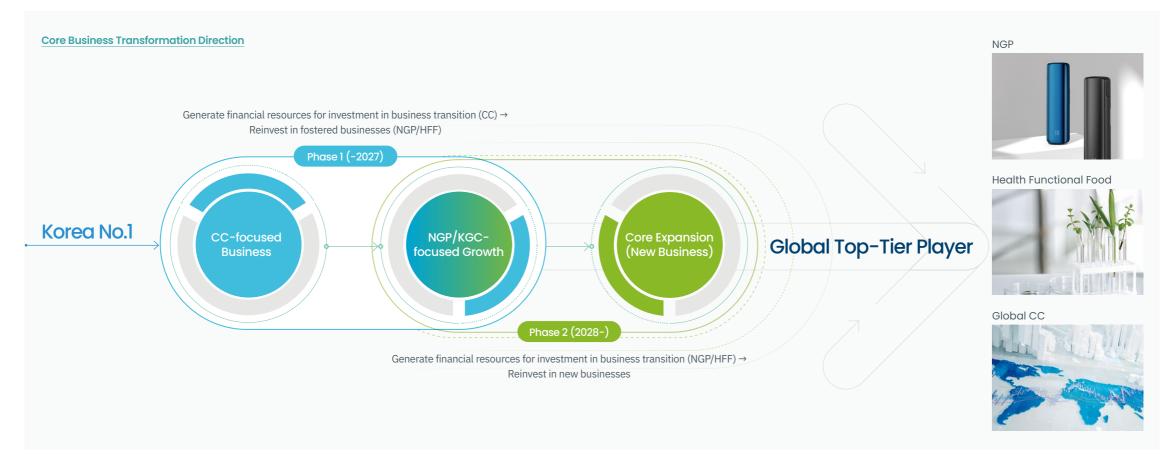


Business Transformation Direction

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









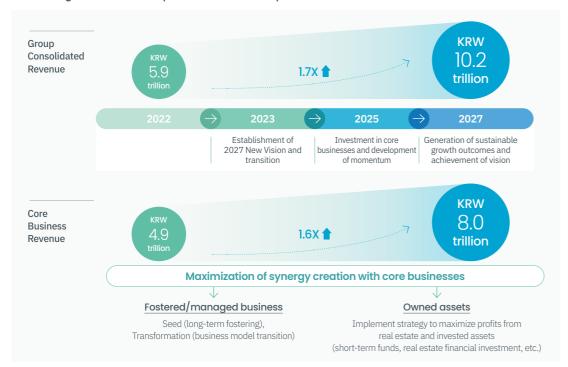
Mid-to Long-term Business Goal

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.

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.

Mid-to Long-term Business Implementation Roadmap



The Group Business Transformation







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

				Category		Management Metric	Unit	2020	2021	2022	YoY	2025 Moon Shot Goal						
						Unit sales of sticks	100 million sticks	30.6	71.8	107.0	49.0%							
		2027			Business expansion	NGP sales	KRW billion	279.2	504.0	876.3	73.9%	KRW 1.5 trillion by 2025						
		New Vision			Схранзіон	NGP sales contribution in the tobacco business	%	9.5	18.3	24.5	6.2							
				Consumer	Consumer purchase market share (based on Korea)	%	34.3	40.4	47.5	7.1	M/S 60%↑by 2025							
Global Bu				NGP	accessibility	Markets where NGP entered	Countries	4	24	32	8	50 countries by 2025						
Revenue Contribut		,				NGP platforms launched	Device platforms	2	2	3	1	5 device platforms ↑ by 20						
		Global Business Revenue	Business		Capability and	NGP patent applications	Cases	992	1,010	1,339	329							
2020	27.8%	Contribution ¹⁾	area		infrastructure	KOLAS ²⁾ -certified items	Cases	78	156	156	-							
2021	29.5%	50%				NGP-related investment amount ³⁾	KRW billion	197.1	228.0	337.8	48.2%							
2022	32.9%					Global business sales	KRW billion	213.0	249.5	285.0	14.2%							
2027	50%				Global growth	Global business sales contribution	%	15.1	18.1	20.5	2.4							
			HHF		China/US sales growth rate	%	24.2	21.6	5.1	-16.5								
NGP+HFF	Revenue				Capability and	No. of items of overseas product registration (cumulative)	Cases	319	348	383	35							
Contribut	tion				infrastructure	KGC patent granted (cumulative)	Cases	231	265	289	24							
2020	49.9%			Category	/	Management Metric	Unit	2020	2021	2022	YoY	2025 Moon Shot Goal						
2021	52.6%			Environ-	Respond to	GHG emissions at business sites	tCO ₂ eq	196,471	191,965	191,199	-0.4%	42% reduction by 2030						
2022	54.5%	NGP+HFF Revenue					olimata changa	Renewable energy consumption rate	%	0.1	0.1	11.1	11.1	80% by 2030				
2027	60%	Contribution	F00		Accelerate the	Water withdrawal ⁴⁾	Tons	1,585,215	1,521,798	1,491,902	-2.0%	20% reduction by 2030						
		60%	ESG area (all Group		circular economy	Zero Waste To Landfill-certified sites	Sites	-	-	-	-	100% by 2030						
		subsidiaries)		Human rights protection	Percentage of business sites that have conducted human rights impact assessment	%	-	10	10	-	100% by 2030							
				Social		Percentage of female employees	%	13.8	13.5	13.4	-0.1	20% by 2030						
				Social	Diversity and	Percentage of female managers	%	10.1	10.4	11.4	1.0	15% by 2030						
				inc							inclusion ³⁾	Percentage of locally hired persons among management and managers in charge	%	21.8	20.8	23.5	2.7	30% by 2030

¹⁾ Excluding real estate business

²⁾ Korea Laboratory Accreditation Scheme (Korean accreditation organization under the Korean Agency for Technology and Standards) 4) Based on KT&G and KGC

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

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



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. Ibillion 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



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.

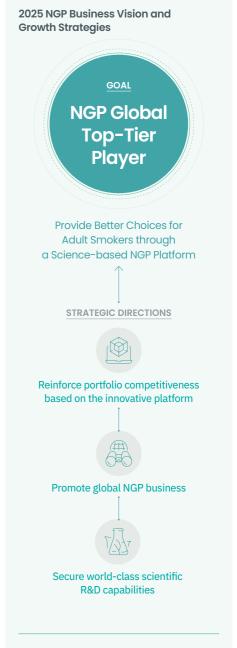
In 2018, KT&G emerged as a new player that would change the landscape of the e-cigarette market with the introduction of the "lil HYBRID" device. Leveraging the advantages of increased vapor production and easy cleaning, we secured the top position in the domestic NGP market and achieved a market share 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 oursevles as a true top-tier player in the NGP market.











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

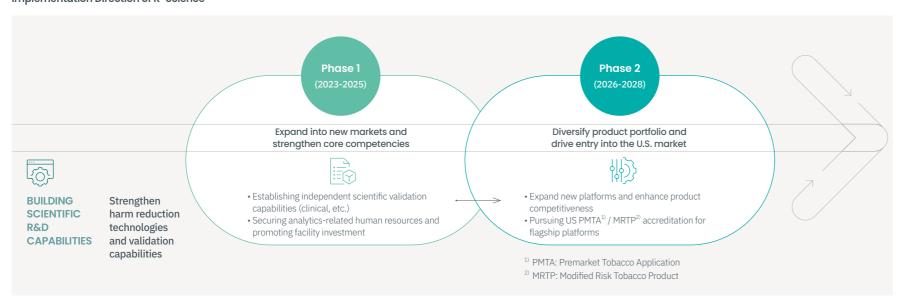
KT&G is committed to R&D and investment in harm reduction of e-cigarettes in order to provide consumers with better products that prioritize safety. Through research on diverse and differentiated materials and underlying technologies, we expand our product portfolio, while also focusing on researching 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.

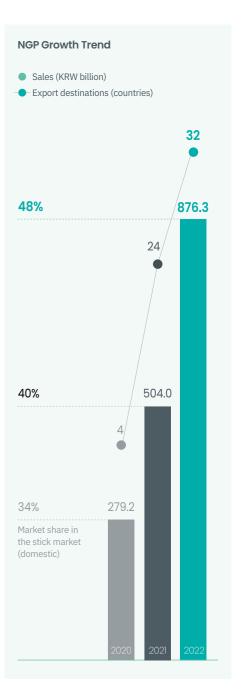
KT&G is establishing a leading position in the NGP market through continuous research based on the development infrastructure for NPG. Furthermore, we strive to build our unique platform and secure competitive differentiators by obtaining patent rights for our research achievements. As of the end of 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 MRTP (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 farreaching 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







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⁾"

Overseas Health Functional Food Business

Export Destinations

bout 40 countries

Products Sold Overseas

About 250 brands

Global Ginseng Market Share

About 42%

(Euromonitor 2022)

Overseas Subsidiaries

Subsidiarie

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

Overseas R&D Centers

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



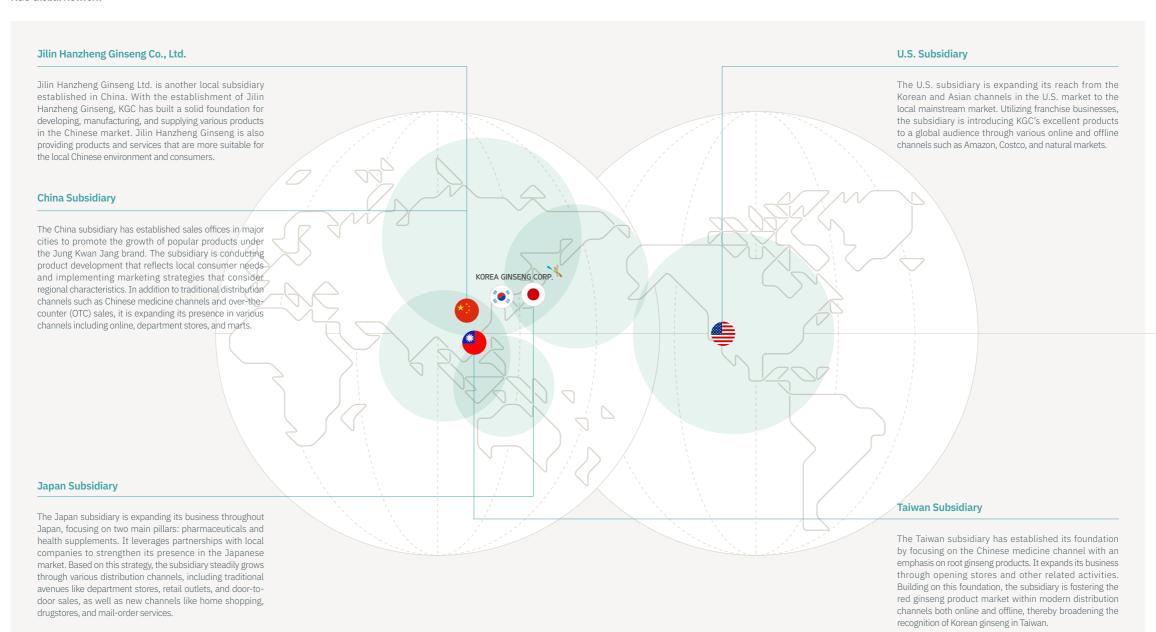
¹⁾ The trademark system that guarantees that the brand is widely known to the public and carries a high reputation and credibility, and receives special protection from the Chinese government.







KGC Global Network







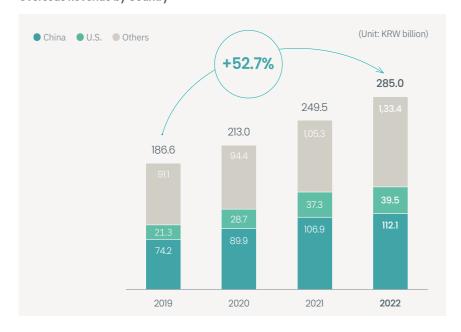


Local-specific Growth Strategies, Leading to Global Achievements

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

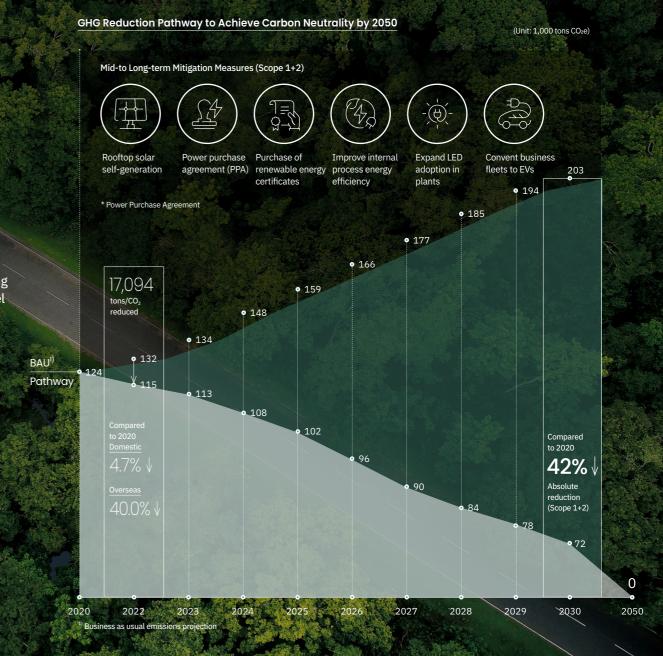
Overseas Business Sales Percentage

20.5%



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.













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

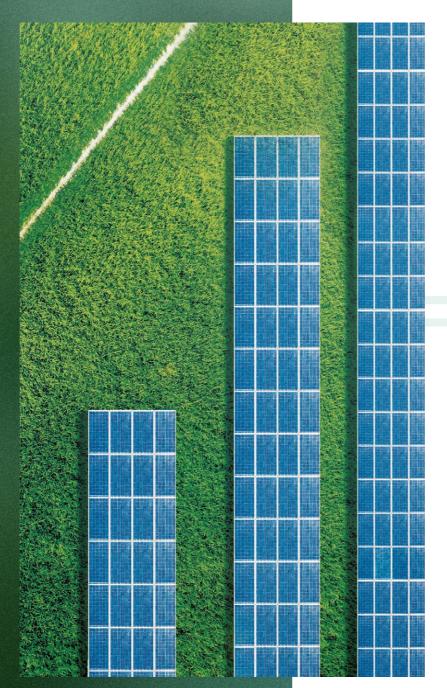


Oh, Chi-bumChief of Manufacturing Division, KT&G



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



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.



Renewable energy consumption in 2022



8.9%

71.7%



The Turkey manufacturing site has achieved RE100



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.



¹⁾ RAISON French Black

²⁾ lil SOLID 2.0 + Sticks

Accelerate Transition to Circular Economy

GREEN INFRASTRUCTURE FOR CIRCULAR WATER

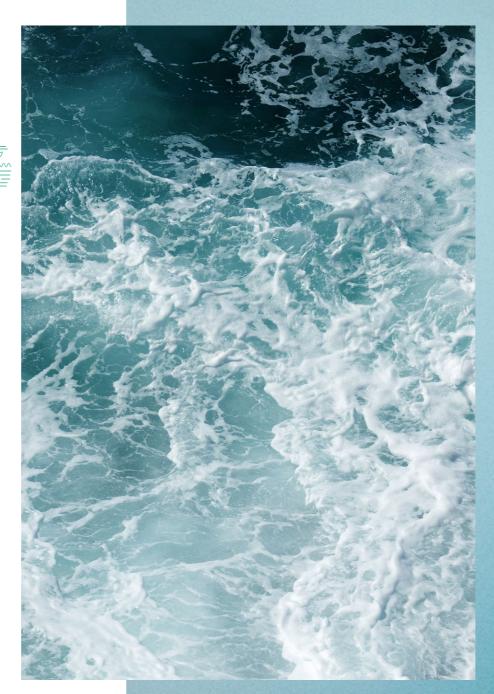
Water possesses infinite value, yet remains a finite resource. Hence, businesses must make continuous efforts to efficiently utilize and manage water resources to achieve sustainable growth. Securing the infrastructure and technologies for water reuse is also imperative, requiring dedicated endeavors.



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

1,320ton $\sqrt{}$



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

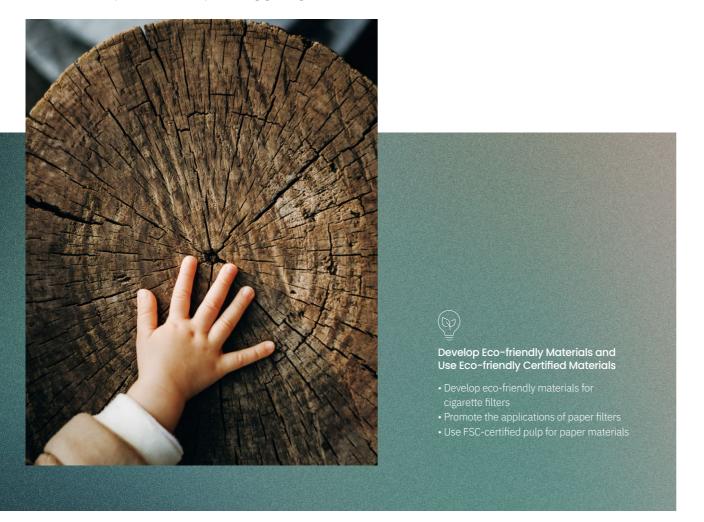
37%





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.





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 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 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 company created a platform where 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.

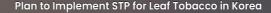
Green Brands Supported by SangSang Planet

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.



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.









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-hoChief 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

 $2,715_{\text{farmers}}$

Purchase Performance

Purchase 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 agtech¹⁾ 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.







In 2022, KT&G invested in a total of 8 companies. Among them, in collaboration with the agtech 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 Startup Camp. The cumulative revenue of the teams that have completed the program has reached approximately KRW

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.

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

