



Sustain^{able} imagine

Sustainability Report 2009



Significance of the report

This report is the second sustainability report published by KT&G. It contains KT&G's sustainable efforts and performance in economy, society and environment. As for the performance of each sector, the reliability of the report was enhanced by independent assurance statements.

Scope of the report and reporting period

This report covers the major status and performance of KT&G's sustainability management from January 1, 2008 to December 31, 2009, and the unit of currency in this report is Korean Won. This report covers the management activities of the head office, facilities (4 tobacco manufacturing plants, 1 leaf tobacco processing plant, 1 printing plant), regional sales headquarters, branch offices, sales offices (including overseas sales activities), but does not cover the management activities of the companies KT&G owns and invested in. (As far as the Namwon leaf tobacco processing plant, which was closed in May 2008, is concerned, however, it only covers the data between January 1, 2008 and May 28, 2008.) If data collection is impossible as of the date when this report is prepared, the reason is specified. This report is published biennially, and the most recent is Sustainability Management Report 2007.

Guideline

Items included in KT&G Sustainability Management Report 2009 were selected on the basis of the GRI G3 guideline. Those GRI-recommended items which pertain to KT&G are listed in the GRI indicators in the appendix.

Inquiry about the report

If you have any questions or need additional information about KT&G Sustainability Report 2009, please contact the Department of Social Contribution of the KT&G Sustainability Management Office (Phone: 02-3404-4581, Fax: 02-3404-4589).

How this report is different from previous reports

Reinforced the balance and reliability of the report

This report ensured the balance of the contents by covering the vulnerabilities and improvement efforts of KT&G as well as the outstanding performance of KT&G. Also, to provide detailed information on issues stakeholders think of as important, the materiality test was conducted, and the report items were selected on the basis of the result of the materiality test.

Mid-to long-term strategic tasks of 2015 linked to the table of contents of the report

As the table of contents were selected with focus on the 24 mid-to long-term strategic tasks of 2015, the process of implementing the development roadmap of KT&G's sustainability management was reflected in the report.

Securing the objectivity of stakeholder analysis

As stakeholder questionnaires and interviews, and key outcomes were reflected in the report, the objectivity of the stakeholder analysis was increased.



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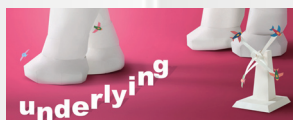
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CEO Message



KT&G CEO | Young-Jin Min

Dear stakeholders,

I find it a great pleasure to meet all of you who love and patronize KT&G through 'Sustainability Management Report 2009', the second such report since 2007. When KT&G published Sustainability Management Report 2007, there was a weak consensus among the employees and stakeholders of KT&G about the meaning of sustainability management, but now sustainability management are regarded as so important issues that they became important keywords of corporate management. I believe that KT&G's energetic sustainability management activities contributed a great deal to the promotion of this social atmosphere.

KT&G has been part of the economic development of the country for 110 years. The award we received in 2009 for paying KRW200 billion in national taxes proves that. KT&G is well aware that environmental and social performance is as important as economic performance, i.e. contributing to the country and society, and to this end we will create economic, environmental and social performance in a balanced way by faithfully carrying out mid-to long-term sustainability management strategy, corporate governance, management innovation, ethical management, risk management, and environmental management.

Righteousness, Enlightenment and Companionship



[Righteous KT&G]

KT&G is aiming at corporate governance that will lay the foundation for raising shareholder values by giving priority to the benefits of all shareholders, not to the benefits of specific controlling shareholders, and securing the trust of shareholders and investors by reflecting KT&G's will to establish upright management and advanced corporate governance.

As a result, KT&G was commended for excellence in corporate governance in 2003, has been chosen as one of the best companies in corporate governance for three years in a row from 2004 to 2006, won the title of an honored company in corporate governance for three years in a row from 2007 to 2009, and was named the best company in the industry by DJSI Korea and won the transparent accounting grand prize in 2009.

On this basis KT&G will faithfully abide by the social norms and duties as a "righteous company," and realize the future-oriented 'Right Way' in management.

[Enlightened KT&G]

KT&G was recognized by many domestic and overseas organizations as an exemplary company for our transparent and efficient management activities in the ever changing business environment and in the global market where competition among corporations is getting stiffer. However, KT&G was never complacent with this performance, and initiated management innovation activities to diversify and improve our business portfolio by penetrating the red ginseng, bio, pharmaceutical and real estate business. We are trying our best to reinforce the foundation for the continued growth of the company.

Through endless change and innovation, KT&G will set an example in the industry as an "enlightened company," and stand tall as a global enterprise.

[KT&G pursuing companionship]

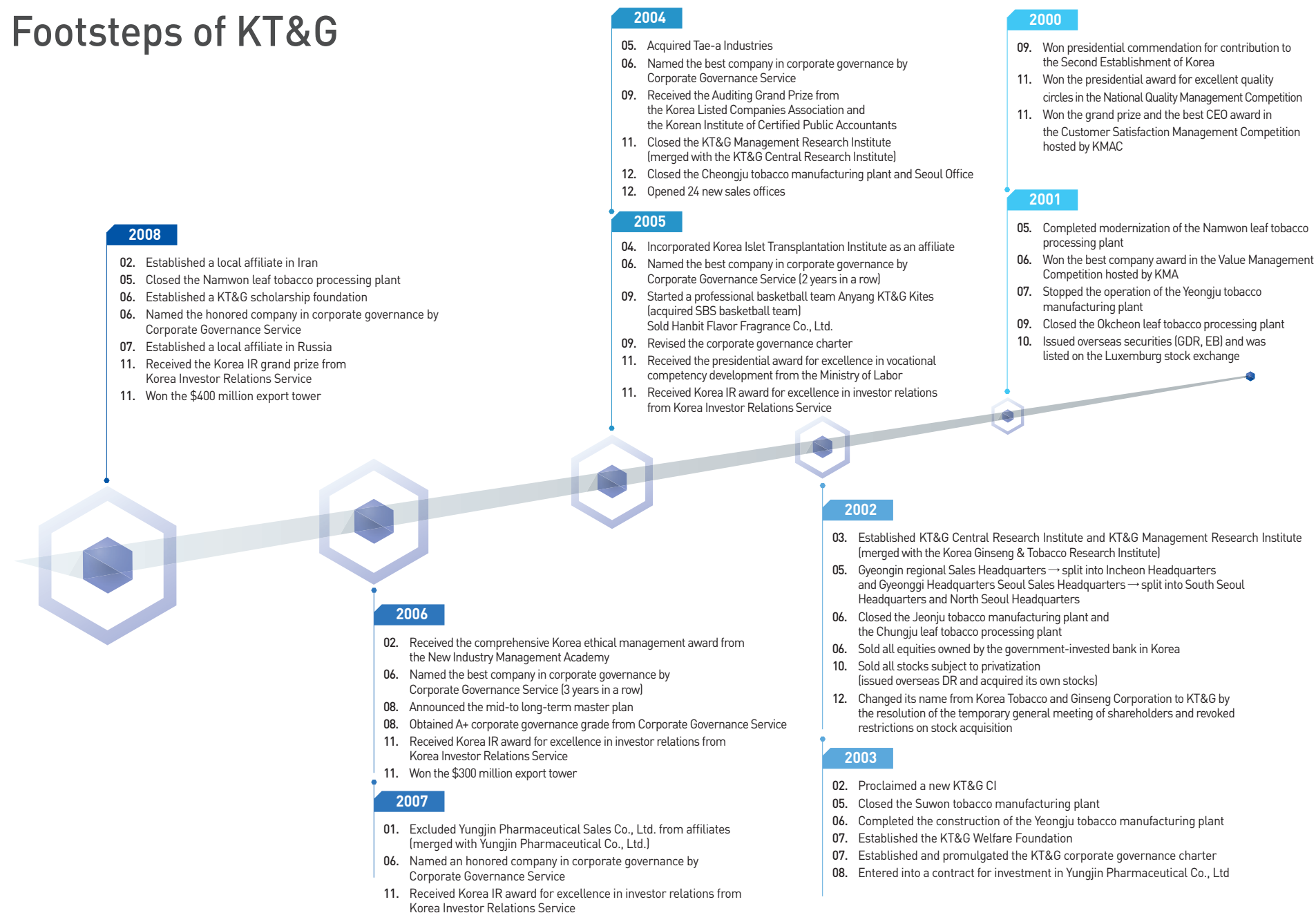
To fulfill our social responsibilities becoming a global blue-chip company that we are, KT&G is faithfully carrying out social contribution activities as exemplified by the KT&G Welfare Foundation, Scholarship Foundation, and KT&G volunteer groups.

As a "company pursuing companionship", KT&G will faithfully fulfill our social and environmental responsibilities by always creating new values for customers, shareholders, employees and local communities, promoting the win-win relationship with suppliers, and reinforcing eco-friendly management practices.

'KT&G Sustainability Management Report 2009,' which will be a medium of binding stakeholders and KT&G together, will faithfully cover the details of our diverse sustainability management activities, and your valuable opinions will become an important driving force behind KT&G's future sustainability management. I promise that we will pay closer attention to the interests and needs of stakeholders, communicate more effectively with stakeholders, and grow into a truly 'righteous company,' an 'enlightened company,' and a 'company pursuing companionship.'

Thank you.

Footsteps of KT&G



Commendations

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Sustainable

SU

Value-Creating
KT&G

As the **depth** of imagination grows...

KT&G's dream is endless.

A successful future for a better tomorrow continues.

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KT&G Sustainability Report 2009

Corporate VISION

To become a global blue-chip company by maximizing corporate values and the values of our employee

Management PHILOSOPHY

Righteous KT&G Enlightened KT&G KT&G pursuing companionship

Mid-to-long term Management GOALS

To reinforce unshakable No. 1 position in the domestic market.
To pursue balanced qualitative change and innovation of revenues and growth in overseas markets.
To attain top-level competency in R&D and marketing.
To secure growth potential and profitability by building a balanced business structure.

Value-Creating KT&G ►

About KT&G



Outline of the company

In KT&G's corporate, governance ownership and management has been divided since its privatization. As of 2009, treasury stocks account for 7.4%, Industrial Bank of Korea has 6.9% of the equities, and foreigners account for 51.5% of the equities. Also, since its privatization KT&G has been taking the initiative in stabilizing the domestic market and expanding exports in the cigarette business, its main business domain, and is diversifying its business, penetrating into red ginseng with focus on Cheongkwangjang, and bio and pharmaceutical, and real estate business.

Company outline (as of 2009)

Company name	KT&G
Location of the head office	100, Pyeongchon-dong, Daedeok, Daejeon
Date of establishment	April 1, 1987
Type	Private
Total assets	KRW4,787.8 billion
Sales	KRW2,776.4 billion
Number of employees	4,721 (4,534 regular employees and 187 contract workers)
Subsidiaries	Korea Ginseng Corporation, KT&G Turkey, Yungjin Pharmaceutical, Tae-a Industries, KT&G Bio, KT&G Pars, KT&G Rus LLC.
Key institutional shareholders	Industrial Bank of Korea (6.9%), ESOP (4.1%), Foreign shareholders(51.5%)

Subsidiaries (as of 2009)

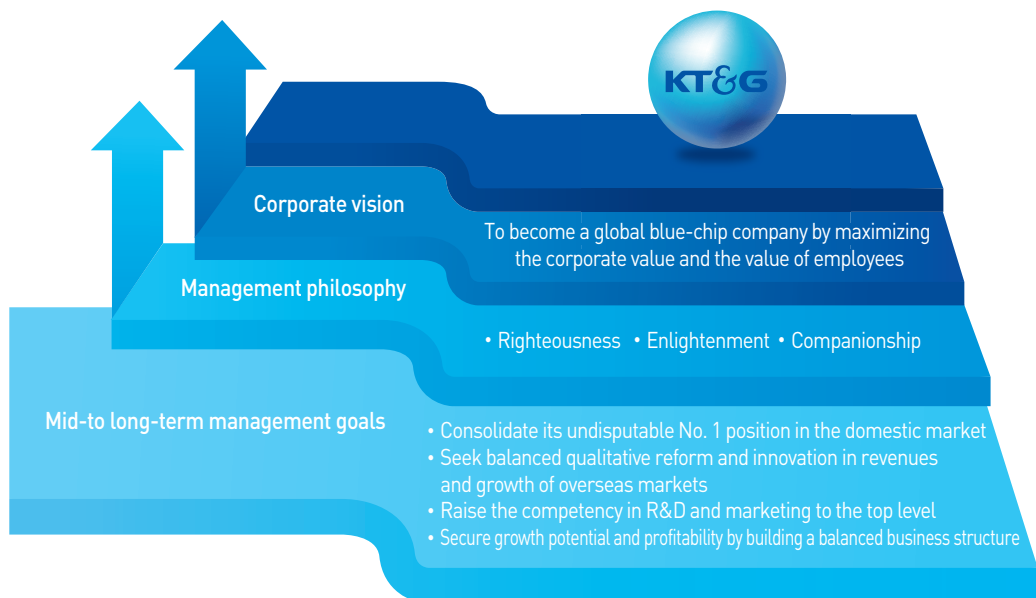
Company name	Location	No of stocks	Equity ratio (%)
Korea Ginseng Corporation	Daejeon	12,985,851	100
Yungjin Pharmaceutical	Seoul	65,655,051	55.5
Tae-a Industries	Daejeon	150,000	100
KT&G Bio	Seoul	180,000	100
KT&G Tutun Mamulleri Sanayive Ticaret A.S.	Turkey	13,727,736	99.9
KT&G Pars	Iran	5,570,487	99.9
KT&G Rus LLC	Russia	-	100

KT&G Value System

For the sake of a better tomorrow and a happy world, we respect people, who are our core competency of the future, create values for employees and the company, and intend to transform into a growing company by innovating the business structure continuously.

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

Vision and management philosophy



Organizational structure

KT&G consists of 4 Groups, 7 Headquarters and 1 Central Research Institute. Also, the Marketing Group includes 14 Regional Sales Headquarters, whereas the Production Group includes 4 tobacco manufacturing plants, 1 leaf tobacco processing plant, and 1 printing plant.

*As of 2009



Corporate Governance

The Board of Directors

KT&G's corporate governance

KT&G conducts business in accordance with the decision-making of the board of directors and under the responsibility of the CEO, and intends to become a global blue-chip company by maximizing the corporate value and the values of employees. KT&G complies with relevant laws and regulations, built a core professional management system centered around the independent board of directors, and discloses information transparently in an effort to establish transparent and efficient corporate governance.

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

Appointment of the CEO

CEO Candidate Nomination Committee consisted of non-executive directors and incumbent CEO shall recommend a candidate at the shareholder meeting if the incumbent CEO does not declare candidacy for another term. Nomination of candidate shall follow election rules and standard formed by the Board of Directors. On the other hand, if the incumbent CEO declares to run for the position, the CEO Candidate Nomination Committee shall be composed with non-executive directors only. Then, the nominated CEO nominee is appointed at the general meeting of shareholders, and enters into a management contract with the chairperson of the CEO Candidate Nomination Committee with regard to the mid-to long-term management goals he or she must accomplish during his tenure. CEO's term of office is 3 years.

Composition of the Board of Directors

KT&G's Board of Directors consists of 9 non-executive outside directors and 3 executive directors. The Board of Directors, as the decision-making body at the highest level, deals with what is stipulated by laws and ordinances, and what is stipulated in the articles of incorporation as the authorities of the board of directors, and general matters included in the rules of the board of directors.

Among the committees in the Board of Directors, the audit committee consists of four non-executive outside directors. The chairperson of the audit committee must be a non-executive outside director, and KT&G ensures transparency and independence by making sure that the audit committee consists entirely of non-executive outside directors.

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

The non-executive outside director nomination committee will search for and screen outside director nominees, and recommends the best candidates with proven independence and expertise to the general meeting of shareholders for appointment. Only if the nominees recommended by shareholders meet the qualifications of relevant laws, however, they will be recommended as non-executive outside director nominees. Also, KT&G adopted the code of ethics for non-executive outside directors in December 2005, and specified the roles and duties of the board of non-executive outside directors and stipulates that the non-executive outside directors should comply with the basic ethics for non-executive outside directors.

Reinforced role of non-executive outside directors

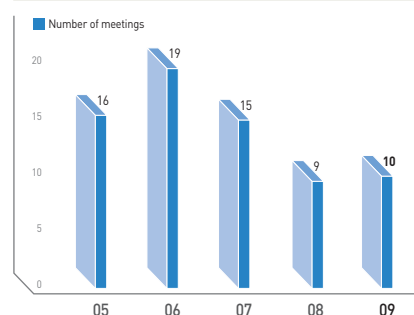
KT&G promptly provides non-executive outside directors with information necessary for them to carry out their duties so that they can correctly understand management status. In particular, when the BOD is convened, KT&G notifies the non-executive outside directors at least 3 days in advance so that they can preview the agendas sufficiently.

The non-executive outside directors can visit workplaces at least twice a year independently without the presence of high-ranking management. KT&G also allows them to own stocks to encourage them to take part in management and ensure they fulfill their duties more responsibly. On top of that, the board of non-executive outside directors meeting is held at least twice a year.

Current directors (as of 2009)

Executive /non-executive	Name	Current position	Specialization	Sex	Age (birth year)
Executive director	Young-kyoon Kwak	CEO/Chairman of the management committee	-	male	1951
	Kwang-youll Lee	Senior managing director/Chief Marketing Officer/Management committee member	-	"	1956
	Young-jin Min	Senior Managing Director/Chief Production Officer/Management committee member	-	"	1958
Outside director	Kyeong-jae Lee	Performance/risk management committee member/senior outside director	Finance and risk management	"	1939
	Yoon-jae Lee	Chairman of the Performance Committee/Audit committee member/CEO of KorEl	Policy and business consulting	"	1950
	Chang-woo Lee	Performance Committee member/Chairman of the Audit Committee/Professor of the College of Business, Seoul National University	Accounting and corporate management	"	1954
	Yong-chan An	Public interest and steering Committee member/Vice-chairman of Aekyung Group	Corporate management	"	1959
	Kiu-won Kim	Audit Committee/Professor of College of Natural Resources, Yeungnam University	Agriculture and floriculture	"	1945
	Jong-hoon Kim	Public- interest committee member/CEO of Hanmi Parsons	Construction and corporate management	"	1949
	Jin-moo Lee	Performance Committee/Audit Committee/Vice-chairman of Don Adcom	global corporate management	"	1953
	Jin-ho Jang	Public- interest committee member/Professor of College of Business, Yonsei University	Accounting and corporate management	"	1965
	Won-yong Kim	Public- interest committee member/Professor of Division of Digital Media, Ewha Womans University	Marketing	"	1954

Number of BOD meetings



Dates of BOD meetings in 2009 and key activities of non-executive outside directors

No.	Date	Key activities
1	1.14	• Nothing special
2	1.21	• Requested that the profits of subsidiaries be separated when profits are reported next time
3	2.11	• Requested opportunities to understand competency through workshops related to key project and direct reporting from executives • Amendment (draft) of the Board of Directors operating regulations of the Board of Directors, including the executive director qualification screening committee operating method
4	3.1	• Amendment (draft) of the regulations concerning the payment of remuneration and activity expenses for non-executive outside directors
5	3.18	• Appointment of a senior non-executive outside (directors Kyung-jae Lee)
6	4.22	• Requested detailed reports on the management plan and progress of each business when quarterly financial statements are reported
7	7.22	• Requested detailed reports on the Ginseng Corporation, and if necessary, the attendance of persons in charge at the Ginseng Corporation • Requested a modified management plan according to changes in business environment
8	9.4	• Requested a comprehensive marketing plan for higher M/S be reported • Requested prior meetings with non-executive outside directors in relation to the consulting for the improvement of the executive performance management system
9	10.21	• Nothing special
10	12.2	• Requested a comprehensive review and improvement (draft) of corporate governance

Corporate Governance

Committees inside the Board of Directors

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

Committees inside the Board of Directors (as of 2009)

Public interest and steering committee

- **Composition**
 - 4 non-executive outside directors and 2 executive directors
- **Roles**
 - Ethical policy
 - Operations of the Board of Directors
 - Identification of public-interest projects
 - Key issues of stakeholders
 - Issues related to inside trading

Performance and risk management committee

- **Composition**
 - 4 non-executive outside directors and 2 executive directors
- **Roles**
 - Issues related to evaluation and compensation of executive directors
 - Preliminary deliberation of mid-to long-term comprehensive management plans
 - Preliminary review of management risks and establishing measures
 - Issues related to inside trading

Audit Committee

- **Composition**
 - 4 non-executive outside directors
- **Roles**
 - Performing the auditing job according to the Commercial Act and related regulations

Management Committee

- **Composition**
 - 3 executive directors
- **Roles**
 - Investment and operations of an organization delegated by the Board of Directors
 - Making resolutions on business execution

Reinforcing education of directors

KT&G is providing non-executive outside directors with opportunities to receive education necessary for the performance of their duties. And we are also giving them issue briefing relating to the current management status of the company.

Evaluation of the performance of the Board of Directors

The Board of Directors and individual committees conduct annual self-evaluation and cross-evaluation of individuals. The public interest and steering committee summarizes the annual evaluation report, and announces the result every January with the assistance of external experts through the Board of Directors and committees, if necessary.

General meetings of shareholders

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

Risk management system

As the business environment has become uncertain and new risks unseen previously have arisen in recent years, they are likely to have critical impacts on corporate management. Accordingly, to identify internal and external risk factors in advance, and maximize corporate values by predicting and controlling their effects, KT&G improved its enterprise-wide risk management system covering financial risks, corruption risks and legal risks. As KT&G stabilized the risk management system, it is reducing the uncertainty of business, and implemented the internal control system to ensure transparency.

Financial risks

Reinforcing the financial risk management system

KT&G is trying to minimize financial risks and increase transparency of transactions by frequently monitoring financial transactions and operating a council of financial officers. To minimize tax risks involving national taxes and local taxes, KT&G is analyzing target tasks through tax checks and consulting, and providing related training. The tax consulting service ensures sufficient advance tax checks.

Foreign exchange risk management

KT&G complies with the Foreign Exchange Transactions Act to prevent financial risks, and is planning to improve the foreign exchange risk management system. It is possible because the accessibility and utility of the exchange rate management menu and the foreign exchange performance analysis system are improved. Also, outside instructors related to the Foreign Exchange Transactions Act are invited to provide education for new employees, and the foreign exchange inflow and outflow and foreign exchange market trends are analyzed on a weekly and monthly basis. KT&G is trying its best to manage foreign exchange risks.

Foreign exchange risk management

Reflecting important issues and amendments of the Foreign Exchange Transaction Regulation in 2009

- Information on cases in current transactions and capital transactions and how to handle them

Inviting outside instructors (Korea Exchange Bank) related to the Foreign Exchange Transactions Act to provide education

- Education for new employees in regard to payment and receipt of foreign currencies, and foreign direct investment

Analysis of weekly and monthly inflow and outflow, and the current status of foreign exchange risk management

Analysis of the current trends in the foreign exchange market and the current status of foreign exchange risk management

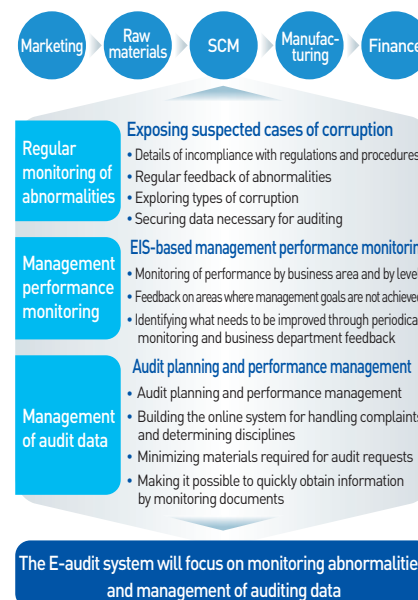
- Weekly reporting on foreign currency inflow and outflow
- Monthly analysis of the current status of foreign exchange risk management
- Analysis of issues and review of escrow fund exchange risk management plans

Corruption risks

KT&G is planning to manage corruption risk through the E-audit system. This system is under construction now. Large quantities of data occurring in the existing business system according to predefined criteria for detecting abnormalities are extracted and go through the monitoring process. This way, cases similar to the types of corruptions that already took place can be identified and utilized. We are also planning to computerize audit planning and performance-related tasks. We will use the audit performance DB to computerize the incident reporting process and the disciplinary process. As far as unsatisfactory matters in the management process are concerned, the trends in the detailed factors related to the achievement of management goals plan to be analyzed to find remedies. KT&G will enhance our competitiveness by reinforcing the advance control of the auditing processes including corruption risk management and coming up with appropriate measures.

Direction of the implementation of the E-audit system 2009

- Reinforcing the regular monitoring of major risks
- Adjusting jobs and reinforcing roles across the organization
- Advance control of abnormalities in management environment



Number of cases of corruption (as of 2009)

Classification	Actions taken against people concerned	Count
2008	suspension, reprimand, warning, caution	2
	Reporting to the police and taking actions, such as suspension, according to internal regulations	2
	Dismissing people concerned	2
2009	Dismissing or reducing salaries of people concerned and supervisors	2
	Taking actions against contract workers and people concerned, such as dismissal and reprimand, and having them compensate for damages	1
Total		9

Corporate Governance

Human risks

KT&G is building the Human Resources Management System (E-HRM) for management of employees' personal data, personnel appointments, and job grades. We will use this system to manage not only personnel affairs, but also data concerning compensations for employees, their welfare, and information on labor unions, such as the organization of labor unions and manpower status.

To minimize human risks, KT&G has come up with ways to manage the health of employees, including health checkups. Individual facilities are planning to have health checkups at a time they choose between March and November 2010. Employees will pick one medical institution from among 80 or so across the country for the medical checkup. All employees, their spouses and seasonal workers will benefit from the health checkup program, and the per-person cost will be increased by 50% from KRW200,000.

Information security risk

As cyber crimes continue to increase due to the development of the Internet, the necessity of information protection is rising day after day. To cope with this situation, KT&G is raising the employees' awareness of security through education and PR programs. We also established the information security policy, and concretized company rules and guidelines, and we are auditing security through monitoring. We also applied the latest security technology and used such methods as vaccines, encryption and intrusion prevention. We are trying our best to protect information.

KT&G is building an information protection system against intrusion from the outside and internal leaks. We set up firewalls and blocking rules for hacking, and analyze patterns to automatically block hacking attempts. We use SPAM mail blocking tools against mail attacks like SPAM mails or mail bombs. As for viruses, we use virus vaccines to check, block and disinfect viruses. To prevent leaks of internal data, we use the DB access control system to allow only authorized users access the DB, and the personal information is protected by DB encryption.

There has been no petition relating to breach of customers' personal information security, loss of customer data since KT&G has been managing the information security risks thoroughly.

11 rules for information protection

- 01/ Download and install security patches for major software programs like Windows.
- 02/ Use a combination of 8 or more English alphabets or numbers to set up the password, and periodically change it.
- 03/ When logged into Windows, use a password for the network shared folder.
- 04/ Never open an e-mail whose sender is uncertain.
- 05/ Install a vaccine program, and set up the automatic search and update.
- 06/ Set a password for and back up important document files (to prevent data leaks, avoid using a USB and external hard drive, and use the D drive for backup.)
- 07/ Use legal software.
- 08/ Turn off and on the computer once a day, and power off the computer when not using it.
- 09/ Never give out personal and banking information on the Internet.
- 10/ Check files downloaded from the messenger and Internet for viruses.
- 11/ Install programs only from reliable websites.

Legal risks

To remove potential business risks and systematize measures against them, KT&G built the legal information system. We put various types of counseling online in an effort to check and minimize legal risk in advance, and databased counseling data to utilize it for internal risk management. KT&G databased litigation data and intellectual property rights and integratively manages them for efficient risk management.

As far as personal legal issues like money borrowing and lending and family relations are concerned, we are providing personal legal counseling service so that employees can benefit from free online legal counseling. In addition, we are providing, online, various data, such as the latest company rules, the Tobacco Business Act, and fair trading information, to meet the information needs with regard to management of legal risks.

Meanwhile, no legal action was filed against KT&G with regard to smoking in 2008 and 2009.

Regulatory risks

In April 2009, in relation to the specification of carcinogenic substances on cigarette packs, KT&G began to do so 4 months earlier than the legal deadline in order to cooperate with the government policy, and there has been no violation at all. KT&G is actively cooperating with government policies concerning the FCTC Convention (Framework Convention on Tobacco Control) and the government's legislation efforts to comply with the Convention, and we are planning to actively support the government's policy-making efforts so that the government will make rational policies.

Gist of the Framework Convention on Tobacco Control (FCTC)

- A complete ban on all tobacco advertising, sales promotion and sponsorship in the signatories to the convention within 5 years of the effectuation thereof
- Mandatory insertion of warnings or illustrations about lung cancer on at least 30% of the area of the cigarette packs
- A ban on the use of expressions likely to mislead consumers like 'low tar,' 'mild,' and 'light' on the surface of the cigarette packs
- Measures to protect non-smokers from indirect smoking in public places
- Prevention of youth from accessing cigarettes and prohibition of cigarette promotion to youths
- Raising international funds to support developing countries
- Establishment of the tobacco smuggling prohibition strategy
- In tobacco control, expansion of research plans at the national level, and technical cooperation for programs, and promotion of information exchange

Sustainability Management Strategy

Sustainability Management System

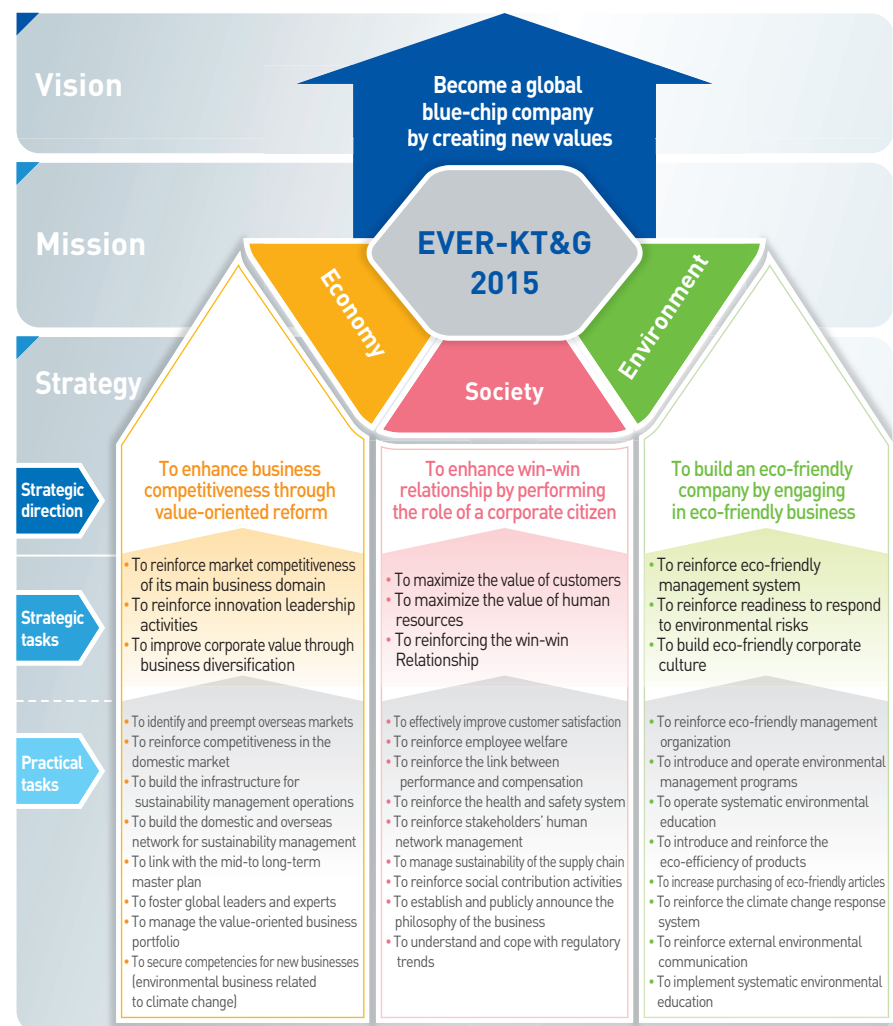
Sustainability management vision

Seeking to 'become a global blue-chip company by creating new values', KT&G recognized the necessity of sustainability management for the sustainable growth of the company and the sustainable development of society, and selected strategic tasks. The goal of KT&G's sustainability management is 'EVER-KT&G 2015'. E stands for 'Excellent', meaning excellent economic performance. V stands for 'Value-Creating', meaning creation of economic, social and environmental values. E stands for 'Eco-Friendly', meaning the image of an eco-friendly enterprise. R stands for 'Responsible', growth into a company fulfilling its social responsibility. This is KT&G's will to accomplish the goal of its Sustainability Management in the economic, social and environmental sector by 2015.

The concept of sustainability management



Sustainability management vision and strategy map



Sustainability Management Strategy

Basic sustainability management system

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

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

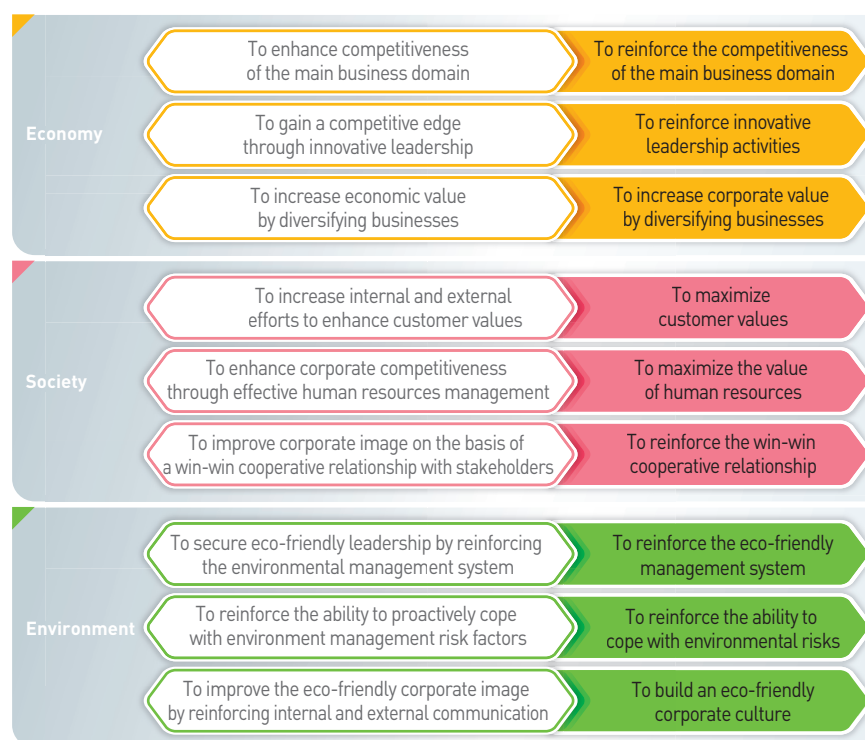
In particular, to accomplish the vision of sustainability management, KT&G derived 9 strategic tasks, 24 practical tasks, and related KPIs, and added new social and environmental strategies. To ensure that key economic, social and environmental practical tasks are connected to sustainability management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

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

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

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

Strategic tasks and Expected Effect of sustainability management



Direction of sustainability management

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

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

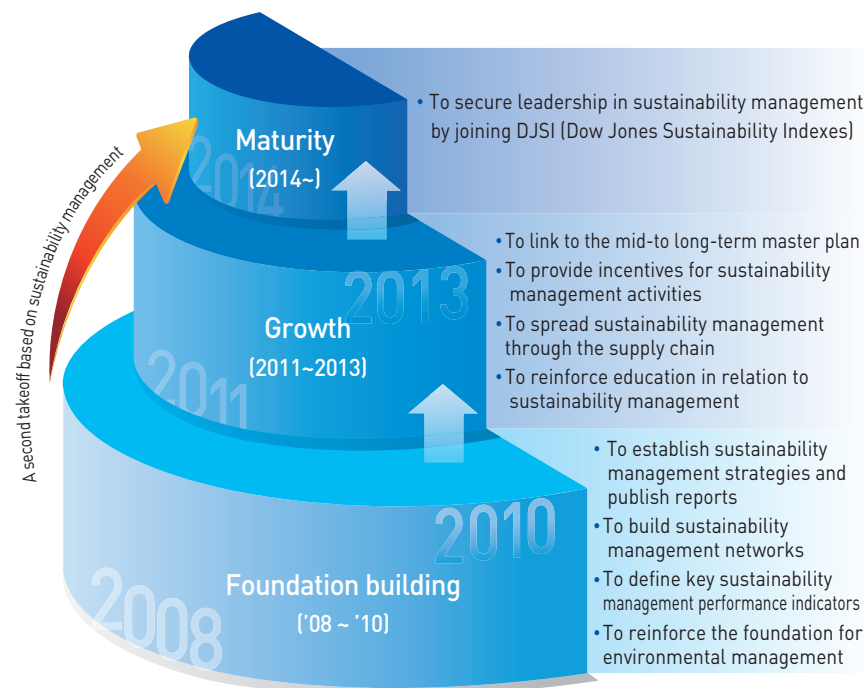
From 2014 and onward KT&G's sustainability management will be more mature, and KT&G will accomplish its quantitative goals, including the entry into the Dow Jones Sustainability Indexes (DJSI).

As a result of these efforts, KT&G was named the best company in the industry by the Dow Jones Sustainability Indexes, referred to as DJSI Korea hereinafter) in 2009. As KT&G was rated highly in all categories, i.e. economy (corporate governance, risk management, code of ethics, etc.), environment (environmental report, etc.) and society (development and ownership of human resources, labor indexes, corporate citizenship, etc.), As a leader of sustainability management, KT&G is now able to meet global standards, and grow into a global corporation fulfilling its social responsibilities.

Plan for key sustainability management activities



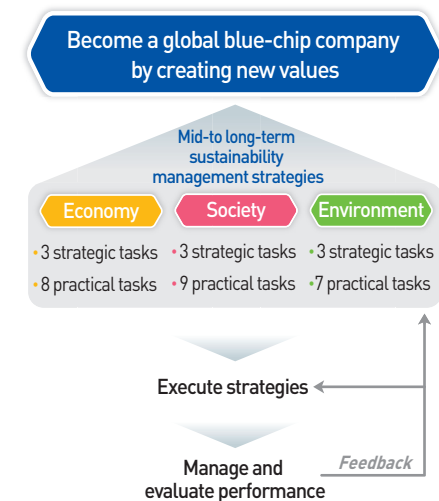
Sustainability management roadmap



Implementation of sustainability management plan

KT&G established sustainability management strategies in terms of economy, society and environment, and sought ways to execute them at the organizational and departmental level. We are also planning to engage in internal and external activities, such as joining the UN Global Compact. To make sure that these activities lead to concrete outcomes, we will closely consult with related departments, and manage and evaluate performance, thereby establishing sustainability management as the corporate culture of KT&G.

Process of reflecting elements of sustainability management and providing feedback



Stakeholder Management

KT&G's stakeholders

KT&G has a close social relationship with our stakeholders, i.e. the government, shareholders, customers, local communities and employees. As the owners, users and controllers of KT&G, our stakeholders share special social sustainability issues with KT&G, and KT&G continuously talks with each stakeholder and provides feedback.

Customers

It is customers who give values to the enterprise. When we are selected by customers for our excellent products and services, our corporate values are created. KT&G, producing cigarettes that are items of personal preference, has a limited customer base, and we are trying to increase customer satisfaction by continuously communicating with customers.

Shareholders

The management activities of the enterprise are possible because of the shareholders and investors who invested in the company as they believed in the value and possibility of the company. Major shareholders participate in the key decision-making process of KT&G, and in turn KT&G pays dividends based on our business performance. KT&G is trying to implement efficient and balanced corporate governance by continuously enhancing our competitiveness, and providing stakeholders with timely and right information.

Employees

It is employees who are creating values for the enterprise. Employees' competency is KT&G's competency, and when efforts are made to increase employee satisfaction, employees will be able to realize their full potential. KT&G is contributing to the happy life of employees by providing them with a healthy working environment where they can continuously develop their competency.

Suppliers

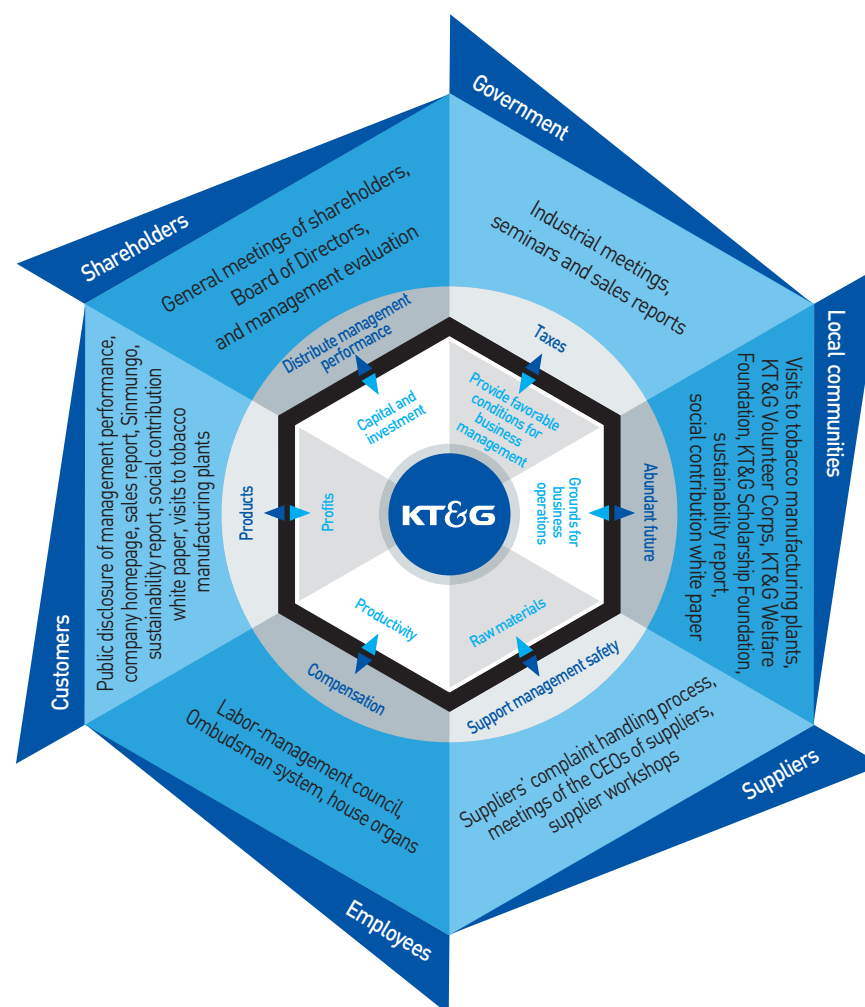
Building a close cooperative system with the leaf tobacco farmers, who are the foundation of the tobacco industry, plays an important role in keeping KT&G competitive. Accordingly, KT&G will make efforts to provide sufficient support for a fair relationship can be built and the sustainable development of the supply chain.

Local communities

Local communities include local residents, local governments and NGO's like local environmental organizations. In particular, NGOs have been paying attention to the environmental and social issues of the enterprise, and actively offering their opinions. KT&G is revitalizing the local economy by communicating with local communities, employing locally and providing infrastructure. This way we are establishing ourselves as a trusted company.

Government

KT&G is contributing to the country by creating jobs and paying taxes faithfully. We are also contributing to the sustainable development of the country by participating in and supporting the establishment of related policies.



Communication with stakeholders

The interests of stakeholders, shared through communication with the government, shareholders, customers, local communities and employees, have great impacts on management activities. KT&G complies with the laws of the country, creates jobs and faithfully pays taxes, and in return the country provides stable conditions for corporate management. To maintain a close relationship with suppliers, we are operating a process for handling the complaints of suppliers, and provides technical assistance for them. The high-quality raw materials we receive are the driving force behind supplying customers with high-quality products. KT&G is growing into a company trusted by local communities by contributing to local communities, the grounds for business operations, and by trying to minimize environmental impacts.

Stakeholder analysis

Reflecting stakeholders' opinions

To sufficiently reflect the opinions of stakeholders, KT&G interviewed and surveyed internal and external stakeholders from the report planning stage, and the results and analysis are included in the report. Also, third-party reviews were done by external experts on sustainability management. KT&G is well aware that it is most important to maintain a close relationship with stakeholders and build mutual trust for us to keep growing over the long run. So we are trying our level best to live up to stakeholders' expectations.



Working-level taskforce teams for sustainability management strategies

Each department has a working-level taskforce team. The taskforce team diagnosed current status of sustainability management, and maximally reflected the opinions of internal stakeholders in establishing strategies and preparing the report. We also referred to the business report and strategy report as to the economic, social and environmental performance.

External stakeholder survey and interview

To systematically reflect the expectations and interests of external stakeholders, KT&G reviewed news reports, domestic and overseas regulations and laws, and external evaluation data. Also, we interviewed various stakeholders, such as the government, suppliers, and NGOs, and closely analyzed their expectations and their interests in future directions. On this basis we tried to present the direction of KT&G's roles and responsibilities desired by stakeholders, and included KT&G's plan in the report along with the contents of stakeholder interviews.

Internal stakeholder interview and survey

To diagnose KT&G's understanding and level of sustainability management, we interviewed and surveyed internal stakeholders from November to December 2009.

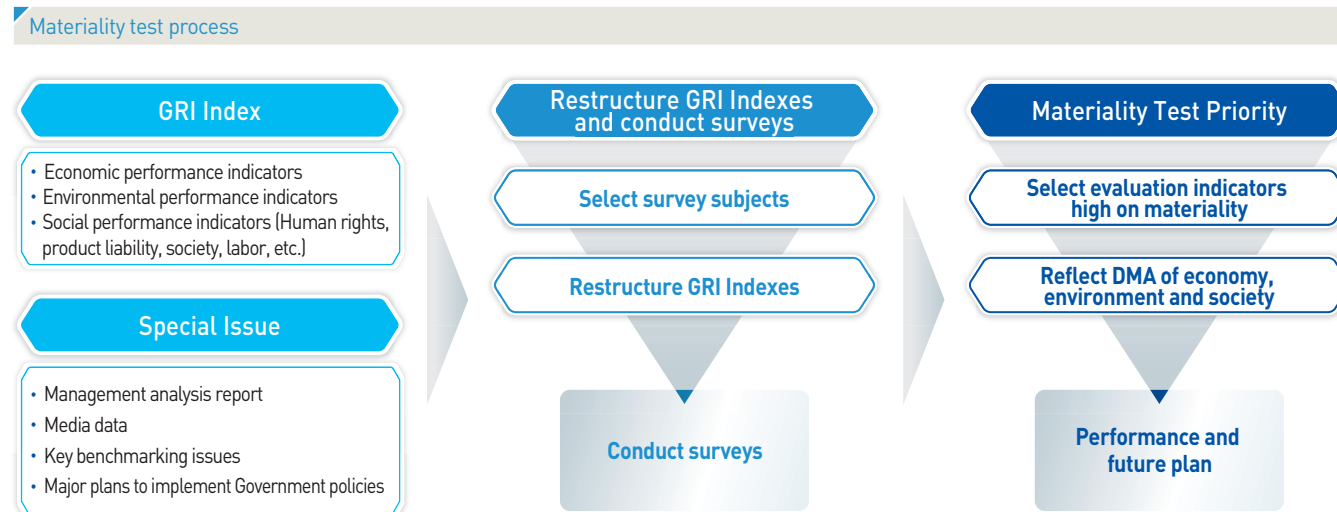
Third-party reviews by external experts

KT&G appointed experts in sustainability management as third-party reviewers, and collected review opinions as much as possible. In particular, the third-party reviewers focused on whether the direction of KT&G's sustainability management is appropriate, and whether the report reflected stakeholders' opinions sufficiently.

Stakeholder Management

Materiality test

GRI (Global Reporting Initiative), a global guideline for sustainability reports, recommends that the information that stakeholders want be reported first. The methodology used for this purpose is the materiality test. This report reorganized the 79 performance indicators of the GRI Indexes in a way to enhance stakeholders' understanding, and internal and external stakeholders were surveyed.



Special Issue		
Classification	References	Meaning
Management analysis report	• Management strategy report • Internal analysis data • Sustainability management report	Analyze important internal issues of KT&G
Media data	• Media coverage in 2008~2009	Analyze key issues covered by the media
Benchmarking of overseas companies	• Sustainability report • Corporate homepages	Analyze key issues of companies in the same industry
Government policies	• 5-year green growth plan • Framework Convention on Tobacco Control (FCTC), and related laws like the National Health promotion Act and the Tobacco Business Act	Analyze major government policies and directions



KT&G's Materiality Test

Who were interviewed

Interview methods: visits and e-mail

Kang Bo-hyeong, Department of Investment Management,
Treasury Bureau, Ministry of Strategy and Finance

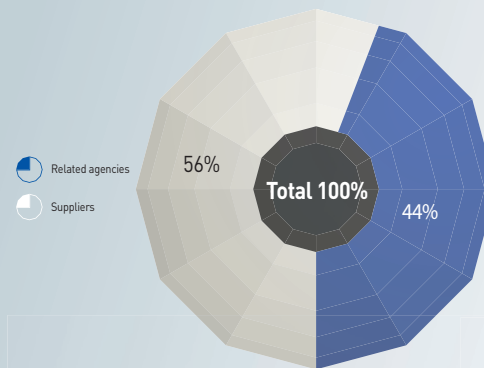
Hong Seong-yong, Head of the Business Division,
Korea Smoker's Association

Ha Jong-cheol, PR manager,
Korea Tobacco Retailer Association

Park Nok-je, Head of the Planning Office,
National Federation of Leaf Tobacco Production Cooperatives

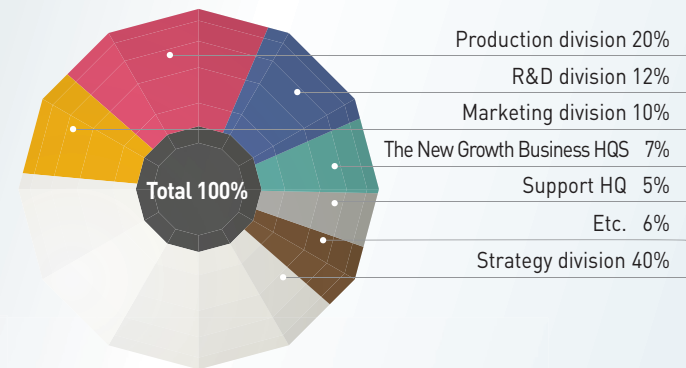
Who were surveyed

Composition of surveyed external stakeholders



〈Survey methods〉
Visits and e-mail

Composition of surveyed internal stakeholders



〈Number of people surveyed〉
• External stakeholders: 25 • Internal stakeholders: 40

Stakeholder Management

Results of the materiality test

GRI performance indicators high on materiality are covered in the section on economic, environmental and social DMA (Disclosure on Management Approach) as key sustainability management issues. DMA covers key issues recommended by GRI. The management status of the company and future plans should be reported in such a way that stakeholders can understand them easily. The results of KT&G's materiality test are shown in the following table:

Priority performance indicators (those GRI performance indicators which stakeholders consider important)

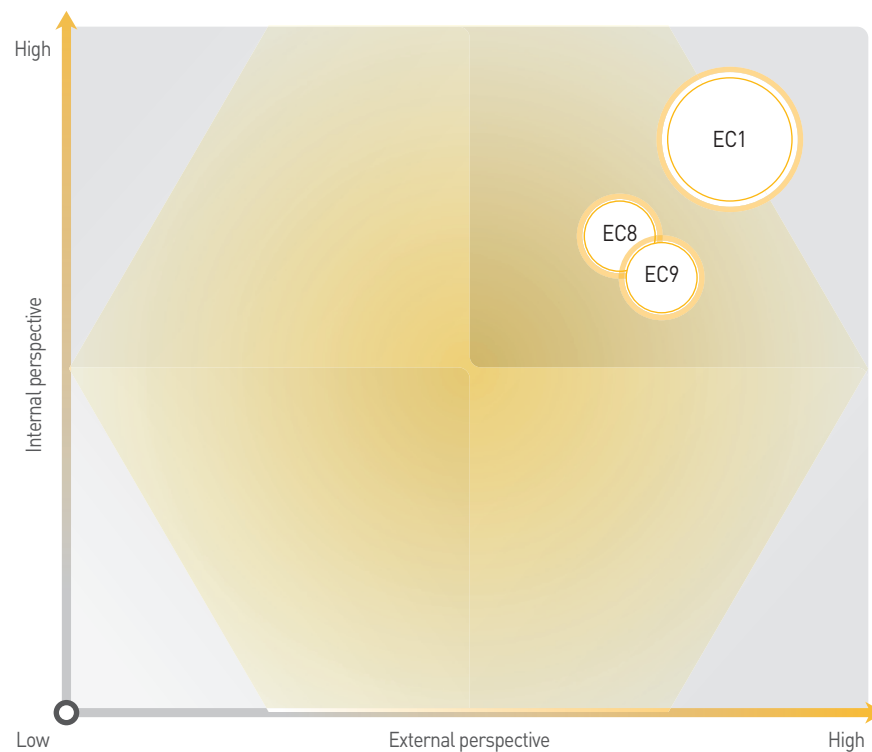
GRI Index		Description	Page
Economy	EC1	Key management performance, key financial statements, details of social contribution activity expenses, created economic value and distributed value, KT&G's economic and financial contribution to the country	33-35
	EC8	Social responsibility linked to the main business, social welfare, employees' volunteer service, environmental protection, reinforcement of national competitiveness, cultural, arts and sports sponsorship	46, 48, 51
	EC9	KT&G's economic and financial contribution to the country	75-76
Society	LA1	Employee information, number of employees by year	53
	LA8	Employee welfare system, social welfare and safety management education	56, 61
	LA10	Education and training hours per person	59
	LA11	Outcomes of and plans for job training for fostering professional manpower, and programs for life plan support for employees about to retire	58-59
	HR9	Operations and key outcomes of the program for managing residents near tobacco manufacturing plants and leaf tobacco processing plants, And outcomes of social contribution activities for local communities	48-52, 74-76
	S01	Social responsibilities and environmental protection linked to the main business	45-47, 50
	S02/S04	Names of facilities for which the necessity of reinforcing anti-corruption measures has been raised, and number of dismissals and disciplinary actions due to corruption	15
	S03	Ethical management process and key contents	45
	S05	Understanding and responding to trends in FCTC regulations	16
	S07	Cases of unfair trading and actions taken against them, establishment of marketing standards	41, 43
	S08	Resolution of unfair labor practices	15, 53
	PR1	Outcomes of R&D for reduction of the harm of smoking	42
	PR2	Legal actions filed in relation to the harm of smoking and key results	16
	PR5	Results of the national customer satisfaction survey and its own customer satisfaction survey	41
Environ-ment	EN1	Quantity of raw materials used (quantity of local and foreign leaf tobacco used)	73
	EN2	Quantity of leaf tobacco byproducts and % recycled	73
	EN5/EN7	Energy saved by efficiently operating facilities like boilers, freezers and air-conditioners, and expanded use of highly energy-efficient machines	70-71
	EN11/EN12	Contamination of surrounding environment due to the operation of the tobacco manufacturing plants and the leaf tobacco processing plant and the printing plant, and improvements	10-11
	EN13/14/15	Efforts to protect the ecosystem near the operation of the tobacco manufacturing plants and the leaf tobacco processing plant and the printing plant (protection of biodiversity, etc.)	67
	EN16	Improvement of annual CO2 emissions and basic unit	70
	EN18	Initiatives to reduce greenhouse gas emission and reductions achieved	70
	EN19	Emissions of ozone depletion materials	71
	EN20	Emissions of air pollutants like NOx, Sox and dust	71
	EN21/EN25	Sewage discharged, Concentration of water pollutants as compared to legal standards	73
	EN23	Cases of soil and marine contamination due to the discharge of harmful substances (fuel, waste, chemicals, etc.) / results of disposal of them, or preventive measures	72
	EN24	Current status of management of waste like PCBs that are not allowed to be taken out of the country	72
	EN26	Major improvements of manufacturing facilities due to the environmental impact assessment of the tobacco manufacturing plants and the leaf tobacco processing plant and the printing plant	69, 72-74

Disclosure on Management Approach by Sector

Economy

DMA (Disclosure on Management Approach)

Priorities and strategies



Vision

KT&G is realizing sustainability by enhancing the economic value from the long-term perspective on the basis of the actions plans for the mid-to long-term master plan. We are also planning to become a global blue-chip company by securing global competitiveness.

Outcomes and plans

	Economic performance indicators	Classification	2008 outcome	2009 outcome	2010 goal (future plan)
EC1	Key management performance, key financial statements, details of social contribution activity expenses, created economic value and distributed value, KT&G's economic and financial contribution to the country	Sales	KRW2,573.1 billion	KRW2,776.4 billion	KRW2,372.6 billion
		Dividends	KRW360.4 billion	KRW356.2 billion	TBD
EC8	Social responsibility linked to the main business, social welfare, employees' volunteer service, environmental protection, reinforcement of national competitiveness, cultural, arts and sports sponsorship	Social contribution expenses	KRW53.0 billion	KRW62.6 billion	Maintain current level
EC9	KT&G's economic and financial contribution to the country	Taxes paid	KRW3,976.7 billion	KRW3,749 billion	TBD

Disclosure on Management Approach by Sector

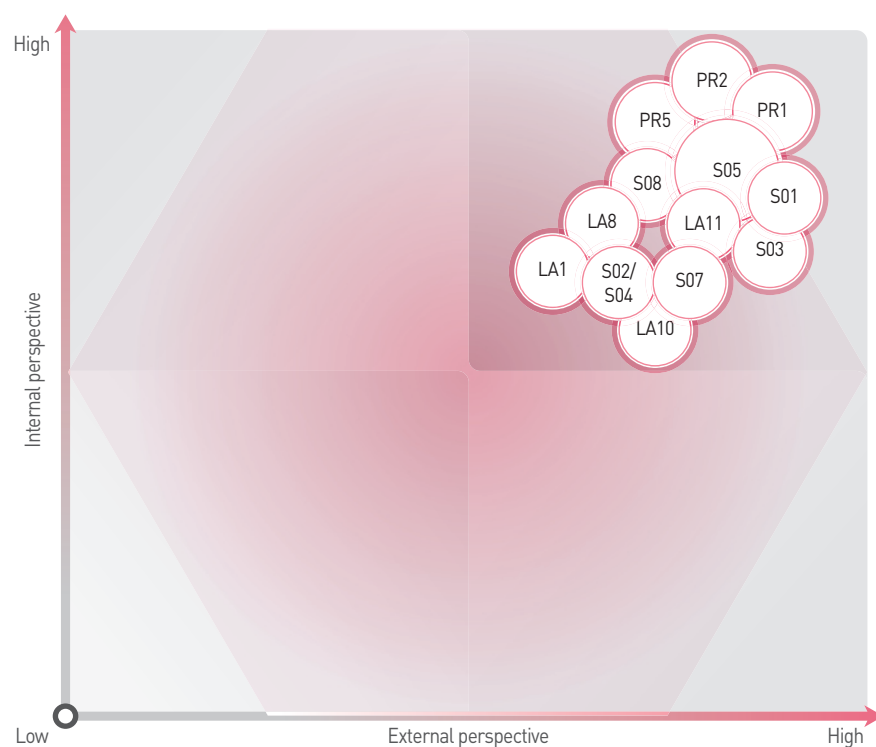
Society

DMA (Disclosure on Management Approach)

Vision

KT&G is seeking mutual development through continuous communication with local communities and public institutions. We are also engaged in social contribution activities in various fields, such as education, culture, arts and sports, and provide substantial support and redistributes economic values to out partners with primary focus on win-win management. We are trying to lay down the foundation for sustainable mutual growth and become a global blue-chip company by faithfully carrying out these socially responsible activities.

Priorities and strategies



Outcomes and plans

Social performance indicators		Classification	2008 outcome	2009 outcome	2010 goal (future plan)
LA1	Employee information, number of employees by year	Number of employees	4,959	4,721	4,565 (changes in the maximum number of people and new hires are not reflected)
	% of contract types (regular/contract)		4,714/245	4,534/187	Maintain current level
LA8	Employee welfare system, and safety management education	Operating program	Health management center, health checkup support, provision of health education information		Maintain current level
LA10	Education and training hours per person	Education hours per person	121.5 hours	104.8 hours	411 courses are planned (Maintain current level)
LA11	Outcomes of and plans for job training for fostering professional manpower, and programs for life plan support for employees about to retire	Education programs for fostering professional manpower	leadership education, cyber education, document security and information protection education, safety management education, etc.		Maintain current level
		Life plan support education program	Education for financial planning and preparation for old age, and introduction of the defined contribution (DC) retirement pension system		Maintain current level
S01	Social responsibilities and environmental protection linked to the main business	Programs for protecting the surrounding environment of facilities	Meetings of odor monitoring staff members, bowling games, Clean Cheonan campaign, etc.		Maintain current level
S02 /S04	Names of facilities for which the necessity of reinforcing anti-corruption measures has been raised, and number of dismissals and disciplinary actions due to corruption	Number of disciplinary actions	6 cases	3 cases	0 case
S03	Ethical management process and key contents	Participation in ethics education	186 people who joined KT&G in 2006-2008 participated	0 person	Cyber education for new hires and employees
S05	Understanding and responding to trends in FCTC regulations	Disclosure of product information to customers	Disclosure of warnings, tar and nicotine contents, etc.		Maintain current level
		Regulation monitoring program	FCTC (Framework Convention on Tobacco Control) and cooperation with government policies, including government legislation for the fulfillment of FCTC		Proactive responses to the effects of The Tobacco Control Act and FCTC
S07	Cases of unfair trading and actions taken against them, establishment of marketing standards	Number of cases of unfair trades	Corrective actions taken against unfair trades in 2007 and fines imposed	0 case	0 case
S08	Resolution of unfair labor practices	Number of cases of unfair labor practices	2 cases	0 case	0 case
PR1	Outcomes of R&D for reduction of the harm of smoking	Researches on products to lower the harm of smoking	First developed a product with 0.1mg tar in Korea		Continuous R&D
PR2	Legal actions filed in relation to smoking and key results	Number of legal actions	0 case	0 case	0 case
PR5	Results of the national customer satisfaction survey and its own customer satisfaction survey	Result of national customer satisfaction survey (out of possible 100 points)	71 points	69 points	Achieve more than current level
		Result of its own customer satisfaction survey	67.2%	70.2%	Achieve more than current level

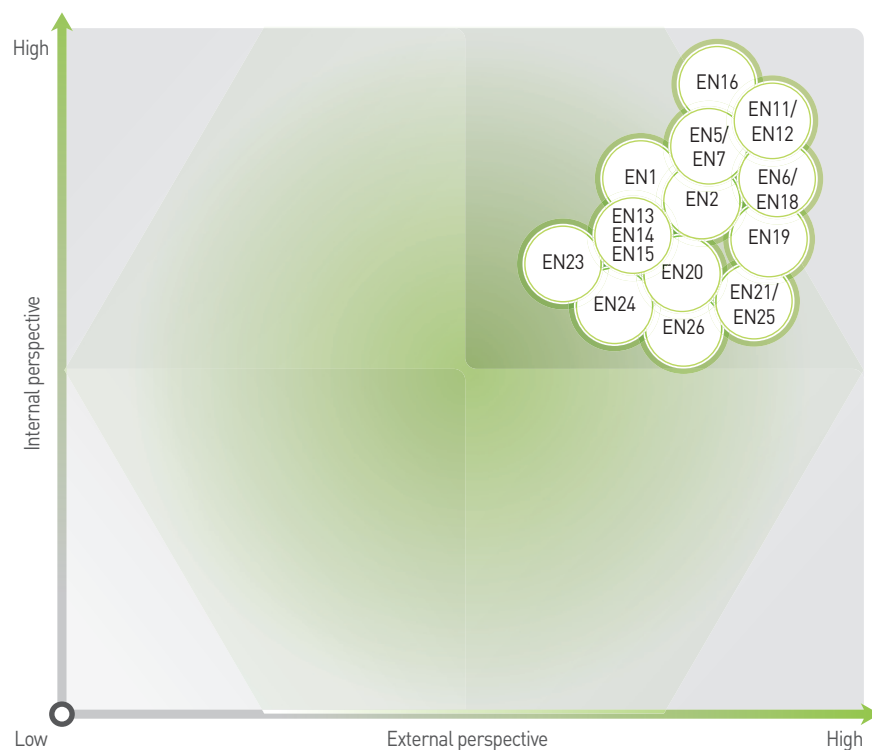
Environment

DMA (Disclosure on Management Approach)

Vision

Aware that environment, health and safety are the basic values of sustainability management, KT&G is managing our business in a safe and clean environment. We are also taking an active part in climate change responses, which have become important issues in recent years, and investing intensively in development of eco-friendly products in an effort to provide the best values for our stakeholders, including the government and customers.

Priorities and strategies



Outcomes and plans

	Social performance indicators	Classification	2008 outcome	2009 outcome	2010 goal (future plan)
EN1	Quantity of raw materials used (quantity of local and foreign leaf tobacco used)	Quantity consumed	59,957 tons	54,928 tons	52,800 tons
EN2	Quantity of leaf tobacco byproducts and % recycled	% recycled	100%	100%	100%
EN5 / EN7	Energy saved by efficiently operating facilities like boilers, freezers and air-conditioners, and expanded use of highly energy-efficient machines	Improvement of energy consumption and basic unit	33,810TOE, 0.336TOE/ 1 million cigarettes	32,271TOE, 0.344TOE/ 1 million cigarettes	30,500TOE, 0.304TOE/1 million cigarettes
EN11 / EN12	Contamination of surrounding environment due to the operation of the tobacco manufacturing plants and the leaf tobacco processing plant and the printing plant, and improvements	Cases of environmental pollution	0 case	0 case	0 case
EN13 / EN14 / EN15	Efforts to protect the ecosystem near the operation of the tobacco manufacturing plants and the leaf tobacco processing plant and the printing plant (protection of biodiversity, etc.)	Management plans	Environment purification activities, and one-company one-mountain Campaign		Environment purification activities linked to local communities
EN16	Improvement of annual CO ₂ emissions and basic unit	Improvement of annual CO ₂ emissions and basic unit	69,812CO ₂ tons, 0.69CO ₂ tons/ 1 million cigarettes	66,429CO ₂ tons, 0.69CO ₂ tons/ 1 million cigarettes	63,657CO ₂ tons, 0.63CO ₂ tons/ 1 million cigarettes
EN18	Initiatives to reduce greenhouse gas emission and reductions achieved	Contents of climate change responses	Use of highly energy-efficient machines, replacement of energy-reduction facilities, etc.		Review of introduction of new technology for energy saving
EN19	Emissions of ozone depletion materials	Emissions of ozone depletion materials	None	None	None
EN20	Emissions of air pollutants like NO _x , SO _x and dust	Concentration of NO _x , SO _x emissions (basic unit)	No case of emission	No case of emission	No case of emission
EN21 / EN25	Sewage discharged, Concentration of water pollutants as compared to legal standards	Quantity of discharged sewage	261,176 tons	243,560 tons	226,000 tons
		Concentration of water pollutants	9.9(COD) 4.9(BOD) 6.5(SS) 0.5(T-P) 7.6(T-N)	11.9(COD) 5.7(BOD) 8.4(SS) 0.5(T-P) 9.1(T-N)	11.4(COD) 5.4(BOD) 8.0(SS) 0.5(T-P) 7.8(T-N)
EN23	Cases of soil and marine contamination due to the discharge of harmful substances (fuel, waste, chemicals, etc.) / results of disposal of them, or preventive measures	Management plans Cases of contamination	Education based on MSDS (Materials Safety Data Sheets) None	Maintain current level None	None
EN24	Current status of management of waste like PCBs that are not allowed to be taken out of the country	Cases of PCBs taken out of the country	None	None	None
EN26	Major improvements of manufacturing facilities due to the environmental impact assessment of the tobacco manufacturing plants and the leaf tobacco processing plant and the printing plant	Improvement of eco-friendliness	Installing sound-proof and odor-prevention facilities in the Sintangjin tobacco manufacturing plant, and preventing odor by installing a washer in the Yeongju tobacco manufacturing plants, and improving the sound-proofness by installing a window system in the Wonju tobacco manufacturing plant		Installing facilities to prevent odor and noise in the printing plant

Results of Stakeholder Interviews

KT&G's position on stakeholder interviews

Kang Bo-hyeong

Department of Investment
Management,
Treasury Bureau,
Ministry of Strategy and
Finance

Importance of KT&G's fulfillment of social and ethical responsibilities

KT&G contributes directly to the national economy by paying taxes, and contributes to local communities by creating jobs, thereby indirectly contributing to the national economy. Cigarettes are sort of a product of personal preference that consumers decide to purchase on their own, but KT&G must be more active in publicizing the danger of cigarettes in consideration of their harmful effects. In particular, KT&G needs to reinforce its efforts to publicize the harmful effects of cigarettes on the health of youths. I believe that, characteristically of the industry, KT&G must faithfully fulfill its social and ethical responsibilities as well as its economic responsibilities.

KT&G's Position

To inform consumers of the danger of smoking to health more effectively, KT&G is printing a warning as long as it does not impair the design of the pack or the product identity. Currently, as part of the effort to disclose the harm of cigarettes, KT&G guarantees customers' right to know by disclosing tar and nicotine contents. Also, in relation to the problem of smoking youths, we are conducting various campaigns, and engaged in diverse social contribution activities. We are trying our best to fulfill our social and ethical responsibilities.

Hong Seong-yong

Head of
the Business Division,
Korea Smoker's Association

An aggressive campaign to prevent the smoking of youths is needed

Recently the no-smoking zones have been expanded, the prices of cigarettes have been raised, and various cigarette-related regulations are getting stiffer. Also, there has been a constant talk about fire-safe cigarettes in public, and related regulations are being reinforced. I believe this is a reality that cigarette manufacturers must face, and a challenge that they must overcome. I believe, however, the tobacco industry is part of our society as a business creating economic profits and contributing to the country, and enough consideration should be given to customers who are the most important stakeholder of this industry. In other words, it is an important role of a cigarette company to work through conflicts between smokers, the customers of the cigarette company, and non-smokers. To this end, KT&G must join hands with appropriate organizations like Korea Smoker's Protection Association to be more aggressive with the smoking space support project, and the campaign to prevent the smoking of youths, which is a social problem these days, and to prevent indirect smoking, and the smoking etiquette campaign.

In particular, concerns about the smoking of youths, which is becoming a social issue, should not just lead to a campaign to prevent it, but a more aggressive approach must be used, i.e. shutting off the opportunity for youths to buy cigarettes, and keeping youths from becoming curious about cigarettes.

KT&G's Position

KT&G is not engaged in any marketing activity targeting youths, and we made and distributed promotional materials to prevent youths from accessing cigarettes, and train our salespeople to continuously provide information for vendors. KT&G is planning to maintain a close cooperative relationship with related departments and agencies to prevent the smoking of youths.

Ha Jong-cheol

PR manager,
Korea Tobacco Retailer Association

Taking the initiative in carrying out business for smokers and providing training in smoking etiquette

A pack of cigarettes contributes a great deal to the national and local coffins. Cigarettes account for close to 70% of various taxes including the national tax and local taxes. It is true that cigarettes' contribution to the national finance is not well known to the public. KT&G needs to take the initiative not only in making economic contributions, but also in improving the social perception. To make a society where both smokers and non-smokers can coexist, KT&G must help establish the smoking etiquette to make smokers and non-smokers be considerate of each other. Both the cigarette manufacturer and cigarette vendors must keep in mind that they have the social responsibility for shutting off the opportunity for youths to buy cigarettes to prevent them from smoking.

KT&G's Position

KT&G installed and maintains 15 smoking rooms in large public facilities (airports, etc.). They all have a smoke control system. We installed about 5,700 public trash cans in service areas on highways to improve smoking environment. Right now we are distributing portable ashtrays. As part of the smoking etiquette campaign, KT&G has been hosting the "Let's make a better tomorrow contents festival" every year since 2007. We are taking the lead in establishing a right smoking culture.

Park Nok-je

Head of
the Planning Office,
National Federation of
Leaf Tobacco Production
Cooperatives

A strategy is required to increase the domestic market share.

Foreign cigarettes market share of the domestic cigarette market continues to rise. In particular, 77% of smoking college students are smoking foreign cigarettes. It is true that the picture is not rosy for domestic cigarettes in the long run as far as their market share is concerned. They may choose foreign cigarettes over local cigarettes because of the taste, but other factors may be paying a role too. The large presence of foreign cigarettes in the cigarette market may result in the collapse of the leaf tobacco farmers closely related to the domestic tobacco industry. So I believe appropriate actions must be taken urgently.

KT&G's Position

KT&G is well aware of the crisis of the domestic tobacco industry, and trying to find various ways to overcome this crisis. First of all, KT&G conducts various market researches and analyses and launches new products reflecting the preference of consumers every year. We systematically researched customer demands to create new market, i.e. the ultra low tar market. We are also actively engaged in R&D activities to develop innovative products using cigar leaves and functional filters. Our effort to expand overseas business and make inroads into wider overseas markets continues. KT&G will concentrate all its energies on developing products differentiated from foreign cigarettes, continuously penetrating into new markets, and thus increasing its influence in the domestic cigarette market.

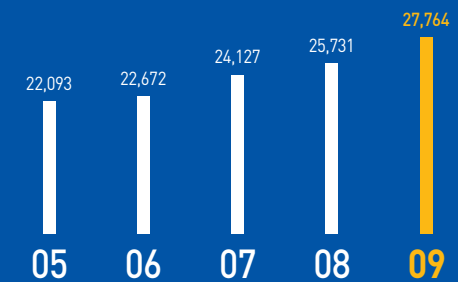
**Excellent
KT&G**

Gr**w**

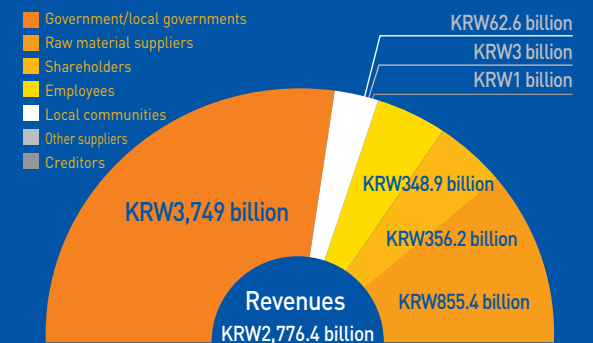
As imagination grows bigger...

We are getting a step closer to Global KT&G.
We will create greater values, become more competitive
and realize the potential.

Sales 6.6%
27,764 KRW/100million



KT&G's Social Contribution VALUE



Market Competitiveness in Our Main Business Domain

Management Processes

Roadmap for the mid-to long-term management plan

Based on its mid-to long-term roadmap, i.e. "1. reinforcing the fundamentals of the company, 2. drastically increasing the economic value of the company from the long-term perspective, and 3. "realizing sustainability management", KT&G is trying to continuously create business values, and we are working hard to bring about enterprise-wide change and innovation.

Strategies of the mid-to long-term management plan

KT&G's mid-to long-term management plan consists of three core strategies. To accomplish the mid-to long-term vision, we presented detailed goals for each year, and the performance on goal is managed through continuous reviews and checks. The three core strategies are:

- First, to push ahead with fundamentally innovative strategies for existing businesses;
- second, to re-establish the direction and basic principle of growth investment; and
- third, to push ahead with stable financial strategies in consideration of management uncertainties.

Also, we restructured the organization according to the business portfolio of the mid-to long-term management plan, and reinforced the organizational competency of core areas, such as brands, marketing, finance, strategy and R&D, and relocated the manpower in non-core areas.

Enterprise-wide suggestion system

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

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

Mid-to long-term vision and core strategies

Continuously creating the corporate value of KT&G

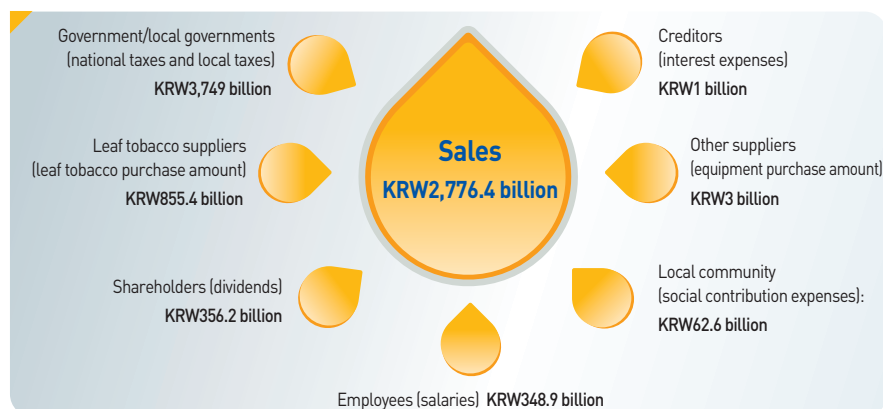


Creating Economic Values

KT&G is disclosing its financial performance according to the transparent and standardized accounting standards. By applying IFRS (International Financial Reporting Standards), which is scheduled to be mandatory in 2011, earlier than others, we reinforced the reliability of our financial information, and we are transforming the country into a global blue-chip company by redistributing assets, improving the quality of assets, and reducing costs. KT&G's sales in 2009 was KRW2,776.4 billion, our net profit was KRW744.9 billion, and our ROA was 15.9%, and ROE 20.4%.

This economic value was distributed to diverse stakeholders, such as the government, shareholders, investors, local communities, employees and suppliers, thereby contributing to increasing the profits of stakeholders.

Created economic value and distributed value



Comprehensive income statement (Unit : KRW1 million)

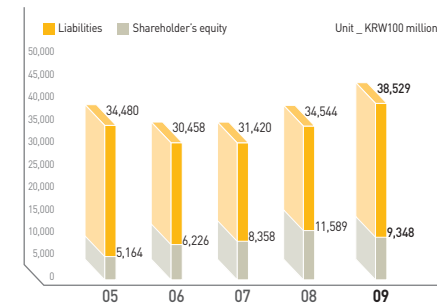
Classification	2008	2009
Sales	2,573,142	2,776,403
Cost of sales	965,318	1,154,944
Gross margin	1,607,824	1,621,459
Operating expenses	561,404	669,966
Operating profit	1,046,420	951,493
Net financial income	68,300	33,855
Earnings before taxes	1,114,719	985,348
Income tax expenses	265,233	240,406
Net profit	849,486	744,942
Earnings per share	KRW6,527	KRW5,803
Other comprehensive income	-5,408	117,981
Comprehensive income	844,078	862,923

* IFRS(International Financial Reporting Standards)

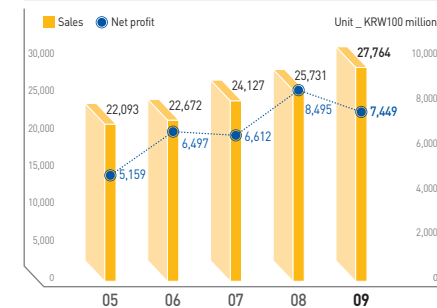
Financial position (Unit : KRW1 million)

Classification	2008	2009
Noncurrent assets	2,631,498	2,751,984
Current assets	1,981,887	2,035,821
Total assets	4,613,385	4,787,805
Capital stock	954,959	954,959
Treasury stock	-226,945	-226,945
Gains on sale of treasury stock	468,275	468,275
Other capital surplus	338	2,630
Reserve	1,821,347	2,074,108
Earned surplus	436,452	579,964
Total stockholder's equity	3,454,426	3,852,991
Noncurrent liabilities	154,973	165,242
Current liabilities	1,003,986	769,572
Total liabilities	1,158,959	934,814
Total stockholder's equity and liabilities	4,613,385	4,787,805

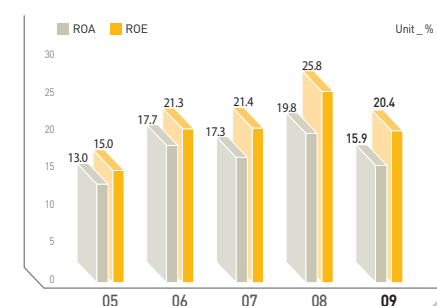
Stockholder's equity / liabilities



Sales / net profit



ROA / ROE



Market Competitiveness in Our Main Business Domain

Shareholder status

As for KT&G's corporate governance, ownership and management have been separated since its privatization. As of 2009, Industrial bank of Korea has 6.9% of the equities, including 7.4% in treasury stock, and foreigners own 51.5% of the total equities. KT&G's earnings per share is KRW5,803.

Profits returned to shareholders

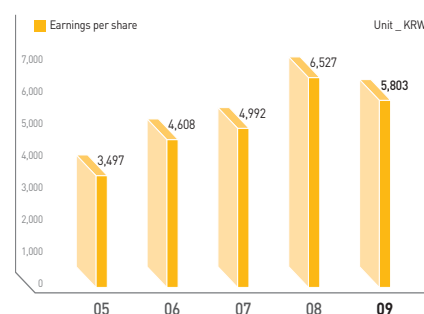
Classification	2005	2006	2007	2008	2009
Total dividends (KRW100 million)	2,497.0	3,197.1	3,404.5	3,603.6	3,561.6
Cash dividends per share (KRW)	1,700	2,400	2,600	2,800	2,800
Cash dividend payout ratio (%)	48.4	49.2	51.5	40.3	47.5
Dividend yield (based on year-end closing price)(%)	3.77	4.25	3.26	3.54	4.35
Stock repurchase(KRW100 million)	1,150	8,578	2,694	1,700	1,040
Rate of profit return (%)	70.7	181.2	92.2	59.3	61.4

Investors management

Aware of the synergistic effects of management performance and IR (Investor Relations), KT&G conducts IR to publicize its value and management performance. To continuously attract quality and new investors, we are conducting regular and irregular IR activities, including IR sessions, road shows, conferences, forums. We revise the IR data according to IFRS (International Financial Reporting Standards) and prepare key investor Q&A data and publish annual reports. Also, we are trying to disclose management information in a transparent and timely fashion through regular and irregular disclosures. KT&G's investor relations are finding a greater number of venues by attending conferences not only in Korea, but also in Hong Kong, Singapore and London.

These IR activities will help KT&G to raise funds more stably and minimize costs of funds.

Earnings per share



Key IR activities

Give presentations on management performance and prepare data

- IR sessions, IR data (Korean/English), and Q&A for key investors
- Materials explaining the agenda of the general meeting of shareholders and shareholder communication
- Annual reports (Korean/English)
- Analyst group meetings

Road shows

- Road shows at home and abroad

Participate in conferences and forums

- JP Morgan CEO conference, Citi Group conference, RBS Securities conference, Woori Investment & Securities conference, Korea Investment & Securities conference, Deutsche Bank conference, Merrill Lynch Securities conference
- Eugene Securities forum

Reinforcing Competitiveness in the Domestic and Overseas Market

KT&G's contribution to the national economy and finance

As KT&G pays taxes faithfully, we are contributing to the promotion of a sound climate for tax payment and to the national finance. In 2009 KT&G paid about KRW3,749 billion in national and local taxes.

Product-related intellectual properties

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

Meanwhile, KT&G holds various intellectual properties related to efficacy and process improvement not only in cigarettes, but also in ginseng products.

R&D activities

KT&G's Central Research Institute was opened when the Korea Ginseng and Tobacco Research Institute was merged with KT&G in March 2002. In 2009, the Central Research Institute consists of the R&D Planning Office and the Tobacco Research Center. It continues to conduct R&D activities. KT&G is involved in research projects to improve technological competitiveness and profitability. And we also enhance corporate value by developing new products and optimize process steps with the aim of improving the competitiveness of the company.

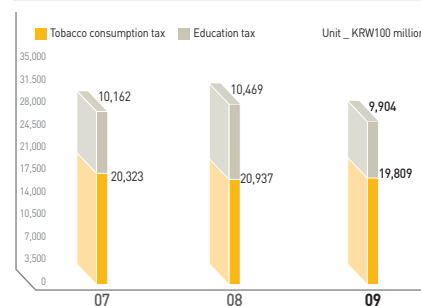
Securing the ultra low tar market

KT&G reflects the tastes of consumers in a timely fashion by means of various market researches and analyses. On this basis KT&G continues to release new products every year. In particular, the ultra low tar market, a new market KT&G created through systematic analysis of customer demands, can be said to be a business area that can redefine the cigarette market.

Government subsidies

KT&G receives economic incentives through government subsidies.

Contribution to the national economy: Taxes



Representative ultra low tar brands, ESSE and THE ONE



Government subsidies

(Unit : KRW1 million)

Classification	2005	2006	2007	2008	2009
Tax credit for temporary investment	4,049	4,433	4,369	2,158	2,077
Tax credit for research manpower & development facilities investment	255	213	218	261	70
Tax credit for productivity improvement/specific facilities investment	102	61	117	85	76
Tax credit for environmental conservation facility investment	-	-	-	185	14
Tax credit for energy-saving investment	107	108	137	4	151
Tax credit for research manpower & development costs	-	-	3,143	2,654	340

Market Competitiveness in Our Main Business Domain

Reinforcing competitiveness in overseas markets

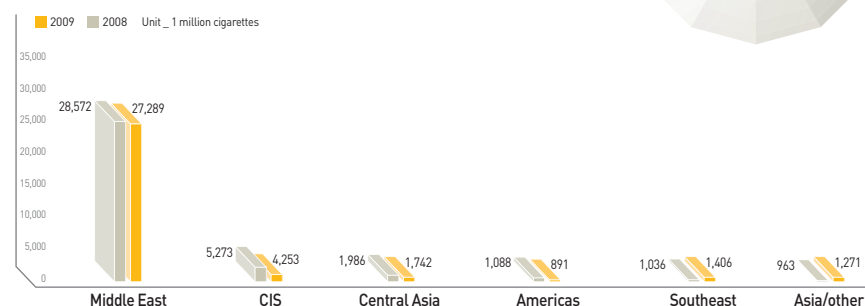
Stabilization of the economic value is the foundation and requirement for the sustainable management. To stabilize and further improve the economic value, KT&G is planning to reinforce profitability and push ahead with our forward-looking business strategy.

The market conditions have continued to worsen. Tobacco demands have declined due to the world-wide craze for health, government regulations have stiffened, and competition has become tougher. Accordingly, we are trying to improve our performance by reducing costs and developing high-quality products meeting the needs of customers. In overseas business divisions sales volume decreased by 5.3% from the previous year, but exports increased by 10.2% over the previous year, amounting to KRW552.8 billion. As far as profits are concerned, operating profits rose by 15.1% over the previous year to KRW 198.3 billions. This resulted from the increased sale of expensive products enabled by focusing on profit-oriented businesses, such as the release of new products like ESSE King Size/Mini, and the increased exports to the Asia-Pacific market, a highly profitable market. In particular, the export volume of "ESSE," being promoted as a global strategic brand, increased by 18.6% over the previous year, from 947 billion cigarettes in 2008 to 1,123.3 billion cigarettes in 2009.

Meanwhile, to lay down the foundation for continuous growth of the overseas business, KT&G actively invested in markets with growth potential. As part of its investment initiatives, KT&G opened local affiliates in major business locations like Turkey, Iran and Russia.

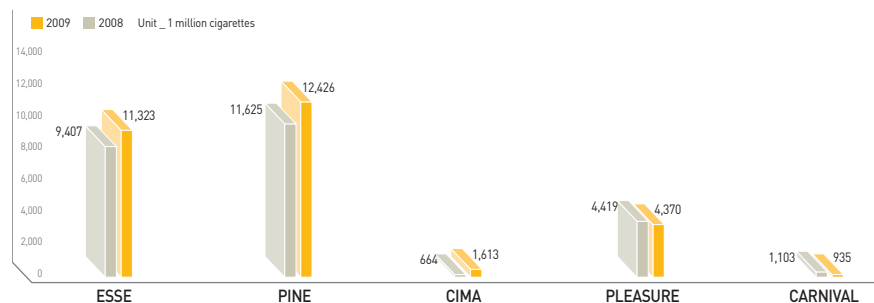
To increase markets and brands for stronger sales and profitability, and to reinforce direct investments, we are seeking to set up the goals and strategies for our overseas business.

The ratio of sales by region (as of 2009)



*CIS :Commonwealth of Independent States: Independent countries which used to be part of the Soviet Union until 1991

Exports of major brands (as of 2009)



Enhancing Corporate Values by Diversifying Businesses

Current status of each business domain and competency for new businesses

In the manufacturing sector, to supply products meeting customer needs, KT&G is concentrating on gaining a competitive edge in quality by reinforcing the infrastructure and through continuous improvement. We are also reinforcing to improve the competitiveness of manufacturing by redesigning working processes, and improving the production and management system.

When it comes to raw materials, to rationalize the leaf tobacco inventory, we are trying to reduce the cultivation area, and improve the quality and utility of raw materials.

As far as the real estate business is concerned, KT&G earned KRW235.5 billion in sale in lots income (KRW215.6 billion from the Jeonju manufacturing plant development project and KRW19.9 billion from the Daejeon dormitory development project). In case assets for rental income, the improved efficiency of rental management increased revenues by about 5.2% over the previous year. We will continue to improve the value of assets by improving the effectiveness of operation and management of the real estate we own, and by making sure that our assets are clean.

Meanwhile, the uncertainty of the market due to the stiffer competition of the tobacco market, the shrinking domestic market and stronger regulations is a challenge that KT&G must overcome. We will try our best to escape the red ocean where growth is stymied owing to the fierce competition for survival, and to identify a blue ocean, i.e. unexplored markets where there is no competition, and eventually to continuously grow.

To secure a second growth engine other than the tobacco business, KT&G is planning to keep growing by making diverse attempts in various fields, including the bio industry and the pharmaceutical industry.



Creating New Value



Become a
Global Blue-chip Company



Responsible KT&G underlying

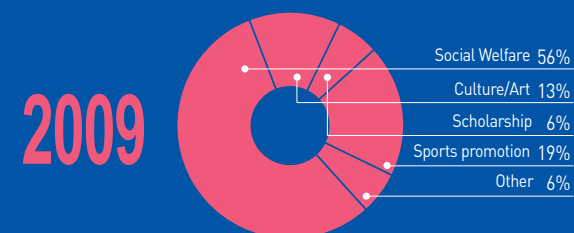
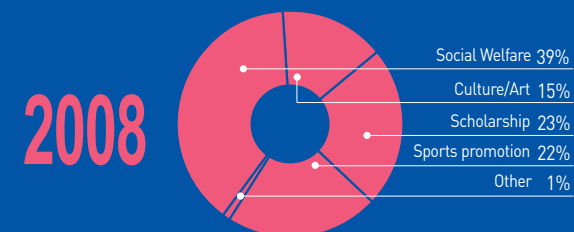


Strong imagination...

The joy of sharing while thinking of people and society. We are creating a joyful imagination about sharing.

KT&G Sustainability Report 2009

Ratio of Social Contribution



Social Contribution 626KRW100million



Maximizing the Value of Customers

Effective Improvement of Customer Satisfaction

Communication with customers

To make it easy for customers to ask questions about products, make suggestions, propose ideas, and access a variety of information on product purchasing, KT&G is offering the Q&A service through its homepage. Also, through its 'Sinmungo' corner KT&G recommends exemplary cases and employees, and allows customers to post customer suggestions and opinions as well as wrongdoings and acceptance of bribes using their dominant position in relation to business, any violation of KT&G code of ethics, and unfair practices in handling customer grievances. All information about users of the 'Sinmungo' system is thoroughly protected.

Revitalization of customer counseling and product claim process

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

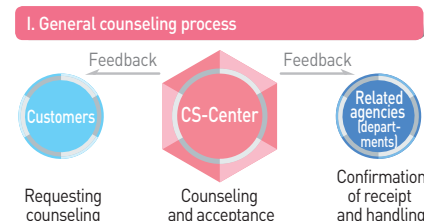
The CS-Center prepares weekly and monthly reports to share the contents of counseling, and reinforces communication with brand managers (BM) and continuously communicates with customers to improve quality. The counseling process is monitored on a real-time basis, and problems identified in this process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

Meanwhile, product claims are mostly related to subjective and relative complaints of consumers about the taste and absorption force of cigarettes. KT&G reflects customers' opinions as much as possible through diverse improvement activities.

For frequently occurring claims, such as pack packaging defects and insufficient quantity, we installed sensor-type detectors, reduced the diameter of the loose end detector of the packaging machine, and installed the cigarette track side-guide activation sensor. We found appropriate solutions for these problems. As for the falling of a cigarette spark during smoking, we changed the width of the expanded cut tobacco and applied the flat-type cigarette trimmer disk. Also, to improve on the off-flavor of cigarettes, we reduced the residual solvent in the packaging paper, and the size of the areas not needing any adhesion so that the smell of the adhesive could be decreased.



General counseling and product claim handling process

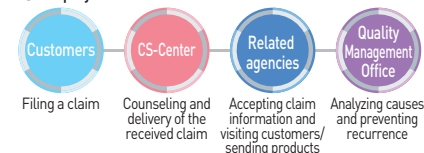


II. Product claim handling process

① Product claim handling process



② Employee visit



Number of cases received by the CS-Center

Classification	Area	Count
General counseling	Products	2,353
	General matters about the company	2,532
	Marketing, sales and approval	3,389
	Cigarettes	611
	Laws and regulations related to tobacco policies and business	488
	Latest issues	350
	Health	124
	Claim handling	44
	Other	3,604
	Other (quality complaints)	309
Product claim	Processing of ingredients and raw materials	47
	Packaging process and distribution	314
	Total	14,165

Cases of product claims handled

Claim	How they were handled
Pack packaging defect	• Installation of a sensor-type detector
Insufficient quantity	• Reduction of the diameter of the loose end detector of the packaging machine • Installation of the cigarette track side-guide activation sensor
The falling of cigarette sparks during smoking	• Changing the width of the expanded cut tobacco • Application of a flat-type cigarette trimmer disk
Improvement of the off-flavor of cigarettes	• Reduction of the residual solvent in packaging paper • Reduction of the areas not needing any adhesion

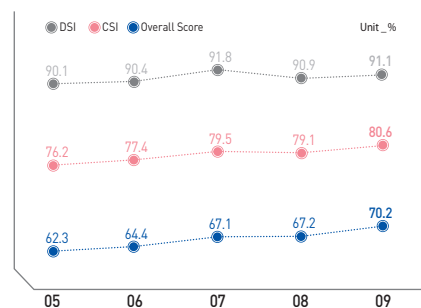
Customer satisfaction management

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

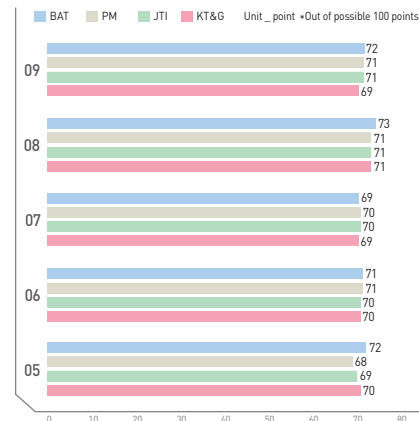
In 2009 the overall customer satisfaction score increased by 3% over the previous year, and KT&G got good scores in the corporate image (trustworthiness) and 'cost performance' category of the CSI survey, meaning that KT&G has customers with high brand loyalty. When it comes to intermediate customer satisfaction, KT&G got good scores in the 'service of salespeople' category, meaning that the company is excellent in product supply, number of visits and kindness.

Meanwhile, in case of the National Customer Satisfaction Index (NCSI) survey, which evaluated the level of satisfaction with products and services offered to the end users in Korea, its scores were lower in 2009 than the previous year, but to improve this score, KT&G continues to listen to the voice of customers by revitalizing the customer counseling and product claim process. As a result, we will improve customer satisfaction.

KT&G Customers satisfaction survey



National Customer Satisfaction Index (NCSI)



Disclosure

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

Establishing the basic framework for marketing activities

KT&G has continued to provide education for salespeople in areas like legal sales activities, prohibition of unfair practices and establishment of a fair market order. Internally, KT&G made the 'marketing guidelines,' established a new framework of marketing, and has been trying to apply it.

Compliance Efforts Related to Marketing

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

Maximizing the Value of Customers

Disclosing product information to customers

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

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

Product researches to lower the harm of smoking

Developing and researching products that minimize the harm of smoking is an obligation of all tobacco companies including KT&G. To this end, we have continued researches on products with total or individual smoke components reduced, or new types of products, such as products with a filter better able to eliminate specific harmful substances.

Development of and researches on products to reduce the harm of smoking

Development of less harmful products

- First in Korea to develop tar 0.1mg products : THE ONE 0.1, ESSE D 0.1
- Development of products with a filter better able to eliminate harmful substances : Esse Special Gold 1mg, Esse Edge 1/5mg

R&D activities to make less harmful products

- Researches to reinforce the safety of raw materials
- R&D on cigarettes with low side-stream smoke
- R&D on materials with less carbon monoxide (CO)
- R&D on reconstituted tobacco sheets with less harmful substances
- R&D on leaf tobacco breeding with less harmful substances

Development of high-quality products

Development and characteristics of high-quality products

- HOOPA : Blended with 100% pure innovation only, enhancing the inherent taste and flavor of tobacco
- Simple Ace 1mg : Containing aged leaf tobacco of outstanding quality, and first slim cigarettes to have solid triple tube filters
- Simple Ace 5mg : Containing aged leaf tobacco of outstanding quality, and first slim cigarettes to have solid double tube filters
- Bohem No.5 : Containing high-quality Cuban cigar leaves. As the cigar leaves are treated with heat, it has a deep and rich taste with added softness.

Sustainable Management of the Supply Chain

Building win-win cooperative partnership

Since its privatization KT&G has raised funds and continued to support farmers. While raising the funds, KT&G entered into an agreement with the Federation of Leaf Tobacco Production Cooperatives and provided KRW20 billion annually for farmers and cooperatives. Since fundraising was completed in 2007, KT&G has been trying to provide a stable sales channel for existing farmers.

Currently the only buyer of leaf tobacco is KT&G. Though domestic leaf tobacco is more expensive than its foreign counterparts, we are maintaining the contract so that the farmers can continue farming. We are planning to breed and disseminate new varieties and provide assistance with cultivation technology R&D.

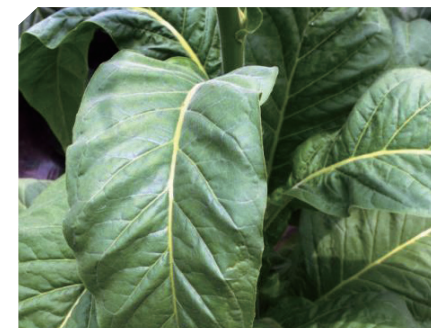
KT&G monitors aspects of human rights and environment within various activities such as investment or supply chain management by using 'Quality Control Manual'.

To improve quality and reduce costs, KT&G is constantly talking with organizations of farmers and producers, and they share in taking care of important issues. Meanwhile, supplier complaint handling process, we collect the opinions of suppliers through meetings of CEOs of suppliers and KT&G supplier workshops, and reflect them in supply chain management.

Support for tobacco farmers



Tobacco leaf



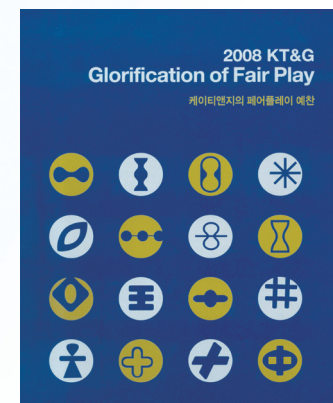
Establishing policies to prevent impediments to fair competition

In 2002 KT&G adopted the Compliance Program (CP: fair trade compliance program within the company) at the 'KT&G CP Declaration Ceremony'. This program promotes the establishment of market order through self-compliance with the Fair Trade Act as a righteous company, and is greatly contributing to preventing enormous tangible and intangible losses in case of violations of the law. For systematic operation of the program, KT&G raised the employees' awareness about unfair trade practices through the Fair Trade Act compliance education, simulation inspection, the CP handbook, and the amendment of related bylaws. KT&G is recently concentrating on continuously developing programs and operating them by building the monitoring system and improving the documentation system. In 2007 the company further revitalized the fair trade compliance program and established the 7 core elements of CP and disclosed related data to the Korea Exchange. Also, in 2008, we published "2008 KT&G Glorification of Fair Play" that contained KT&G's will with regard to fair trade and related information.

As a result of faithful implementation of the fair trade compliance program, no case of unfair trade occurred in 2008 and 2009.

Meanwhile, KT&G is planning to operate the program, and concentrate on raising the awareness of employees so that we will lay the foundation for the Compliance Program.

2008 KT&G Glorification of Fair Play



Reinforcing the Win-win Relationship

Ethical Management

Reinforcing the foundation for ethical management

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

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

Moreover, the audit office continuously conducted post evaluation, and as a result, in 2006, KT&G was awarded the Grand Prize at the Fourth Korea Ethical Management Award Ceremony hosted by the Korea Ethical Management Award Committee.

KT&G aggressively pushed ahead with transparent management and ethical management until 2009, and showed how to become a model corporation in ethical management characterized by the coexistence between business and society.

KT&G ethical management system



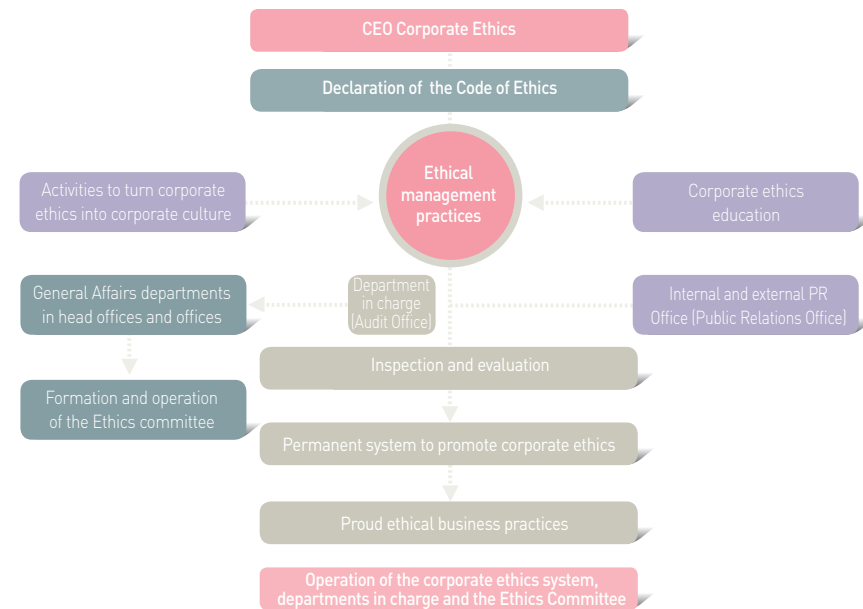
KT&G will continue to practice transparency in management and strengthen corporate governance. To this end, we will pursue enhanced transparency and professionalism, so that we may reinforce ethical management practices within and throughout our organization.

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

Reinforcing the strategic ethical management system

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

KT&G's ethical management organization and operational map (as of 2009)



Code of ethics

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

Chapter 1 General Provisions

1. Scope of application
2. Purpose
3. Definition of terms

Chapter 2 Pledge to Customers

1. Respecting customers
2. Creating values
3. Providing values

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

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

Chapter 4 Basic Ethics of Employees

1. Basic ethics
2. Successful execution of the mission
3. Self-improvement
4. Fair execution of duties
5. Avoiding conflicts of interest with the company
6. Protection of the company's properties
7. Prohibition of the leakage of customer and internal information

8. Mutual respect among employees
9. Prohibition of employees' giving and receiving bribes to and from other employees
10. Prohibition of employees' lending and borrowing money to and from other employees
11. Prevention of sexual harassment at work
12. Prohibition of improper use of the information system
13. Prohibition of insider trading

Chapter 5 The Company's Basic Responsibilities to Employees

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

Chapter 6 Right Relationship with Suppliers

1. Fair trade
2. Pursuit of mutual development
3. Prohibition of unethical behavior toward suppliers

Chapter 7 Responsibility to Shareholders and Society

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

Practical Business Ethics Guideline

1) Scope of Application

2) Purpose

3) Avoiding Conflicts of Interest with the Company

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

4) Prohibition of Giving and Receiving Bribes

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

5) Prohibition of Giving and Receiving Entertainment and Benefits

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

6) Pledge of the Code of Ethics

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

7) Disposition of Violations

Ethical management education process

To induce employees to voluntarily practice ethical management, KT&G developed the cyber ethical management course, and provides cases of various situations likely to occur in reality.

The cyber ethical education was first given in 2007, and in 2008 186 new employees, who joined the company between 2006 and 2008, took the cyber ethics course.

Description of the course for practice of 'KT&G ethical management' and its length

Classification	Course for practice of KT&G ethical management	Length
General ethical management	1. What is ethical management?	20 hours for 11 sections (1-month course)
	2. Background of the introduction of ethical management and its necessity	
	3. 3Cs for the practice of ethical management	
	4. Direction of ethical management – work and ethics	
	5. History of KT&G ethical management	
KT&G Code of Ethics and Practical Guidelines	6. Compliance with laws, free competition and respect for market order	
	7. Basic ethics of employees 1	
	8. Basic ethics of employees 2	
	9. Basic ethics of employees 3	
	10. Basic responsibilities for employees/appropriate relationship with suppliers	
	11. Guidelines for the practice of ethics	

Reinforcing the Win-win Relationship

Social Contribution Activities



Establishing mid-to long-term social contribution strategies

To systematically perform social contribution activities related to the industry, and to develop a continuous program, KT&G established a mid-to long-term social contribution strategy. Mid-to long-term social contributions strategy consists of basic activities related to the industry and special activities unique to KT&G, and KT&G aims to continue its social contributions by building a partnership with external stakeholders like NGOs. We are also planning to enhance and encourage interest in social contributions by means of the integrated social contribution management system (www.ktngether.com).

Social responsibility linked to the main business domain

KT&G are conducting the basic order campaign and the youth smoking prevention campaign, and trying to improve the environment for smoking to be considerate of non-smokers and establish an advanced smoking culture as part of the social responsibility program linked to the main business of KT&G.

Youth smoking prevention campaign

KT&G is well aware that the smoking of youths is one of the serious problems of the modern society, and to prevent it we have come up with concrete plans. For starters, we are not conducting any marketing activity targeted at youths, and made 150,000 promotional materials related to the "age limit and carding tips" and distributed them to cigarette vendors to prevent youths from accessing cigarettes. We also continue to provide information for vendors by training salespeople. KT&G is planning to maintain a close cooperative relationship with related departments and agencies to prevent the smoking of youths.

Promotional materials related to age limit and carding tips



Youth smoking prevention campaign leaflet



Educational program for preventing youth smoking

The attitude of the youths is more important than anything else to the prevention of the smoking of youths. In this sense, KT&G decided to develop the youth smoking prevention program that includes the promotion of values. Accordingly, in order to prevent the smoking of youths and improve their mental health, KT&G joined hands with the Medical School of Seoul National University and Seoul Child and Adolescent Mental Health Center to develop diverse educational programs through the "GreenNR" site. "GreenNR" prepared a comprehensive and integrated educational program for mental health and took the leadership in preventing the smoking of youths, and is concentrating its energies on continuously improving the effects of the program by linking the systematic diagnosis program to the online service, and on providing youths with correct information on the smoking of youths and mental health through efficient linked projects.

Establishing the right smoking etiquette and culture

As part of the smoking etiquette campaign, KT&G has been hosting the "Let's make a better tomorrow contents festival" every year since 2007. In this event various contents, such as images, photographs, designs and ideals related to the smoking etiquette and the establishment of the right smoking etiquette are submitted for a contest, and effective ways to prevent youth smoking are shared. This event is establishing itself as a smoking etiquette and culture campaign.

KT&G used banners on Internet portal sites to conduct smoking etiquette campaigns, and wants to join forces with local governments and civic groups to establish a right smoking culture.

Improving the environment for non-smokers

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

In 2007 KT&G installed and maintains 15 smoking rooms with smoke control systems in large public places like airports, and installed about 5,700 public waste baskets in places like highway rest areas in an effort to improve smoking environment. Currently, KT&G made and distributed portable ash trays to aid in making an advanced culture considerate of others. Well aware of the value of creating a mature civil society in which people care for and understand each other, KT&G is fulfilling its responsibilities.

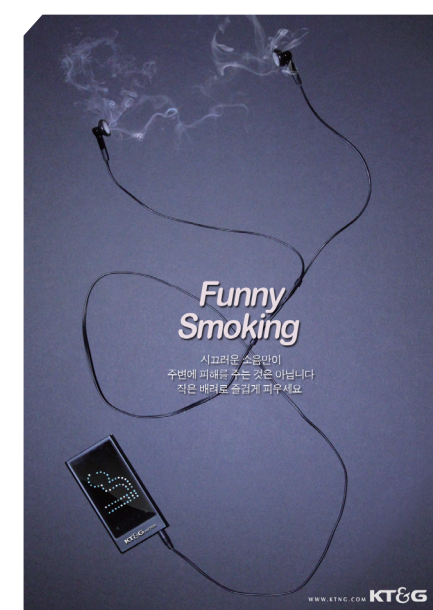
GreenNR site (<http://green.primeit.com>)



Let's Make a Better Tomorrow Contents Festival 2009



A prize-winner



Reinforcing the Win-win Relationship

The KT&G Welfare Foundation

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

In particular, the "Social Welfare Compact Car Support Project" for the realization of on-the-spot welfare work began in 2004, and KT&G has since been donating 100 vehicles every year. Until now we a total of over 600 compact cars have been donated and are used by social welfare workers.

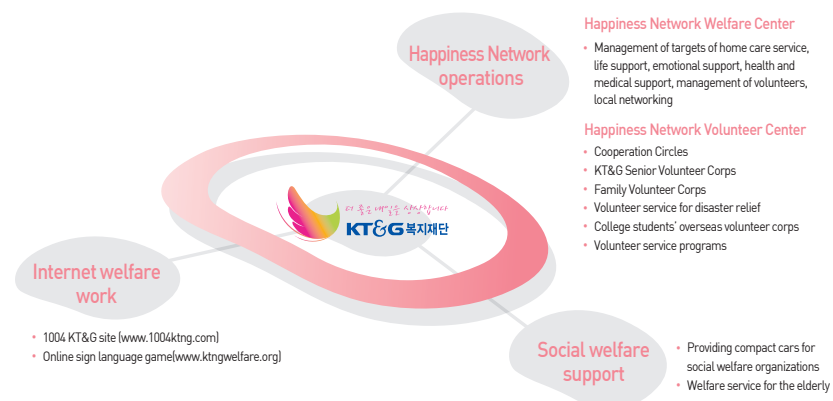
KT&G delivers compact cars to a social welfare organization



Sharing newly harvested rice of love



KT&G Welfare Foundation activities



Happiness Network Welfare Center

To protect local communities, the Happiness Network Welfare Center is networking with diverse local service systems and providing professional service for the needy neighbors in local communities who desperately need social welfare service.

Happiness Network Volunteer Center

The KT&G Volunteer Center combined the volunteer service circles in universities in the metropolitan area as one collaborative volunteer service circle, and has become the cradle of the improvement of the university volunteer service culture. The Volunteer Center also teamed up with the Senior Volunteer Corps, the only such organization in Korea consisting of KT&G retirees, to practice community service and love for mankind. They plan various types of services and thus experience the true meaning of life.

Internet welfare work

The KT&G Welfare Foundation provides various Internet welfare services, such as Internet fundraising for the heads of households in the low-income bracket and their guardians in need of assistance with hospital bills. Voluntarily raising funds on the Internet contributes what it can to the establishment of the autonomous sponsorship culture.

Logo of the Happiness Network Volunteer Center



1004 KT&G site



KT&G volunteer groups

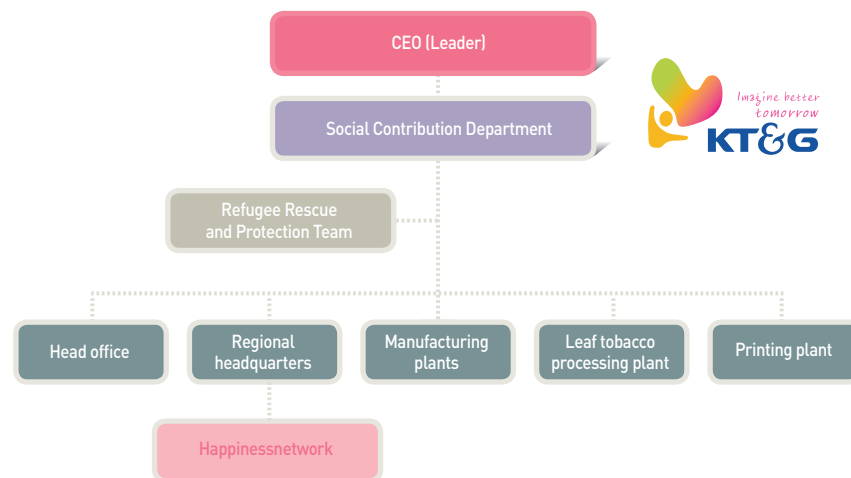
KT&G is trying to raise the internal and external will to participate, their impacts and set up the contribution culture in the organization through community-based participatory volunteer work.

Since 2008 a total of 182 employees volunteer groups have been volunteering their time. They provide a helping hand in remote farm villages in mountains, visit senior citizens living alone, dysfunctional families and social welfare facilities, and engage in environmental volunteer work and overseas relief activities.

Volunteer service performance

Year	No of participants	Hours
2008	6,534	27,475
2009	10,622	41,889

KT&G Employees Welfare Service Corps



KT&G Volunteer Groups



Reinforcing the Win-win Relationship

Environmental protection

Supporting environmental organizations and research activities

It behooves the present generation to bequeath a clean environment to the descendants. As the importance of environmental protection grows day after day, KT&G continues to support the research activities of environmental organizations regarding environmental issues, and conduct environmental cleanup campaigns linked to local governments and environmental organizations.

The regional sales headquarters, tobacco manufacturing plants, and leaf tobacco processing plant of KT&G cooperate with local governments and local environment organizations and supports their research activities.

Annual performance evaluation for greater eco-friendliness

KT&G established mid-to long-term energy management goals, and conducts annual performance evaluation. We try and reduce manufacturing costs by replacing old facilities and installing energy-saving facilities. We also prepared the environmental management manual and the detailed management guidebook to improve work efficiency, and reduced energy consumption and CO2 emissions by improving facilities and preventing idling.

KT&G Scholarship Foundation

Fostering outstanding creative talents in the global age is directly related to the sustainable development of the country. Accordingly, KT&G established the KT&G Scholarship Foundation to foster leaders for future growth by means of a systematic and continuous talent fostering program. In particular, the KT&G Scholarship Foundation gives out scholarships and supports researches in special areas, such as basic studies forming the foundation of social values. We will fulfill our social responsibilities to contribute to reinforcing the national competitiveness by fostering young core manpower who understand the history of Korea and have humanistic refinement.

Scholarship programs

KT&G continues to foster next-generation leaders by providing scholarships for graduate students in Korea, graduate students out of Korea, and to provide scholarships for foreign students in Korea for the purpose of building a wide human network in the global age. In particular, KT&G is making efforts to create social values by fostering talents in basic studies which have relatively less support than other disciplines.

- Scholarship program for graduate students in Korea
- Scholarship program for graduate students out of Korea
- Scholarship program for foreign students in Korea

KT&G Scholarship Foundation Scholarship Student Camp



KT&G Scholarship Foundation scholarship awarding ceremony



Research support program

The KT&G Scholarship Foundation tries to identify mid-to long-term humanistic tasks of the future, and systematically conducts researches to revive humanities and help develop academic researches in Korea. The Foundation is hosting the "Humanities Contest" to encourage domestic scholars and induce the youths to take interest and participate in humanities.

- Supporting research activities
- College student and graduate school student paper competition

Sponsoring culture, arts and sports

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

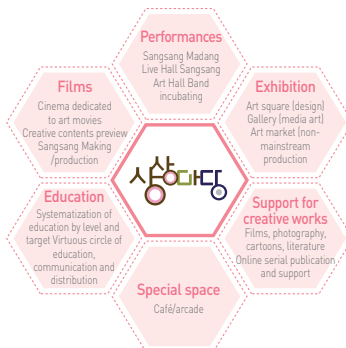
Sangsang Madang – birthplace of diverse performances and openness

KT&G Sangsang Madang is a cultural brand that creates a new culture with 'Sangsang (imagination)' being the keyword. As a sponsor of culture and arts discovering and promoting Sangsang, as a venue of cultural sharing open to everyone where they can see, hear and experience, and as a channel of communication bringing culture and the public together, Sangsang Madang contributes to the creation of a new culture.

Sangsang Madang – supporting the creative imagination of young artists

Since its online debut in 2005, Sangsang Madang has been providing young amateur artists in films, cartoons, photography and literature with an opportunity to present their creations and an arena for education and communication. In September 2007, KT&G opened a multi cultural space in front of Hongik University. This building has 4 floors underground and 7 floors above ground. The completion of this on-offline integrated cultural brand 'Cultural Planet Sangsang Madang' made it possible to provide open stages, such as a cinema for short films, a theater, a studio, a gallery, an art square, an academy and an art market. As a result, KT&G produces creative artists by leading the production, consumption and exchange activities of non-mainstream artists, and contributes to increasing the depth and diversity of culture.

Sangsang Madang support



Sangsang Madang



Sangsang Art Hall – a reliable supporter of pure art performances

KT&G Sangsang Art Hall was opened in November 2006 in Cosmo Tower at Daechi-dong, Gangnam-gu, Seoul. It is a dedicated theater with 420 seats. It serves as a multi-theater for musicals, dramas, concerts and classical music. Aiming to share the space with many people who love performing arts, and popularize high culture, and turn popular culture into high culture, Based on the existing respect for the 'imagination of artists,' KT&G Sangsang Art Hall is faithfully playing the role of an 'open theater.'

Major performances of 2009

2008. 06 ~ 2009. 01	Musical <Hedwig>
2009. 03 ~ 2009. 09	Musical <I love you>
2009. 09. 18 ~ 20	Peppertones' Concert
2009. 10 ~ 2009. 11	Concert <Sangsang prelude takes a walk in the fall> (8eight, Park Hye-gyeong, Goh Yu-jin, Wax)
2009. 11 ~ 2010. 2	Musical <Hedwig returns>

Sangsang Madang - Band incubating



Further realizing that socially responsible management is as important as the economic activities of an enterprise these days, KT&G is planning to strive to concentrate on social contribution activities. Moreover, we will make a network that will make the entire society happier and shed light on the society.

Reinforcing the Win-win Relationship

KT&G sports teams – real pros knowing how to win together

KT&G has 4 sports teams: a men's professional basketball team, a women's professional basketball team, a men's table tennis team, and a women's badminton team. These four sports teams discover and foster rising sports stars, and promote harmony in local communities, thereby contributing to the development of domestic sports. We will operate basketball camps, sponsor athletic organizations like Korea Football Association, and host hometown amateur athletic meets. We will continue to contribute to sports by providing support in sports. KT&G sports teams will make efforts to make a harmonious society where a sound body and mind are fostered by expanding the base of various sports, and thus contribute to prompting sports at the national level.

KT&G Sports teams



KT&G pro basketball team and pro volleyball team



Social contribution programs jointly with external organizations

Support plan for families in crisis

As the recent global recession resulted in a rapid increase of lost jobs, owner-operators going out of business, and families with their livelihood threatened. As a result, psychological panic is also spreading. Accordingly, KT&G froze salaries, had executives return part of their annual salaries, and improved work efficiency in various areas in 2009. We raised funds by reducing costs, and are using the money for 'job-sharing and supporting families in crisis'.

KT&G works with the Central Self-support Center to support the self-reliance of unemployed women in the low-income bracket, and provide the child protection dispatch service for underprivileged children. We also join forces with the Korean Alliance for Rare Diseases to pay the medical expenses for the cure of underprivileged patients with rare diseases, and to provide diagnosis service. KT&G will continue the Hope Project to help the current beneficiaries overcome the current crisis, and plans to support the projects of the government and public organizations.

Outline of assistance programs

Program name	Cooperator	Required budget	Remarks
Child protection dispatch service	Central Self-support Center	KRW15 billion	Money returned by executives and KT&G budget
Rare disease cure support	Korean Alliance for Rare Diseases	KRW5 billion	KT&G budget
Total		KRW20 billion	

Maximizing the Value of Human Resources

Current Status of Employees

As of 2009 KT&G has a total of 4,721 employees. 4,534 out of 4,721 employees in total are full-time employees, and 187 are contract workers. The average length of continuous service of full-time employees is about 18 years. By type of work, production workers and salespeople account for the majority, about 32% and 38% respectively. KT&G has tried to change from contract workers to full-time employees to create jobs and improve productivity. To this end, the number of contract workers in 2009 was declined by 76% from that in 2007. The number of retirees in 2009 was declined by half from the previous year. At the same time, total turnover rate was 0.3%, reduced by 50%. In 2009, the rate of turnover for male worker was 0.25% and for female worker was 0.05%, and the turnover rate of the thirties was the highest among the rates of other ages.

KT&G guarantees that the monthly wage for a new employee is 206.4% of the statutory minimum wage. We also recruit outstanding talents through public recruiting, and when we hire salespeople, we give first priority to local candidates.

Efforts to protect human rights

KT&G prohibits discrimination on account of race, skin color, sex, religion, political views and nationality in the performance of all management activities, and particularly discrimination in treatment, e.g. hiring, basic pay, positions, promotion and training, is strictly prohibited. In 2009, female workers accounted for 10.3% of all employees at 486, and there is no difference in rate of basic salary of men to women.

In addition, KT&G has continued to employ an increasing number of the disabled as well as females to protect their rights, and has maintained over 2%, which is the mandatory disabled employment rate. As of 2009 170 disabled employees are working at KT&G, accounting for 3.6%. We are also making efforts to improve the convenience facilities for the disabled, and enhance their job satisfaction.

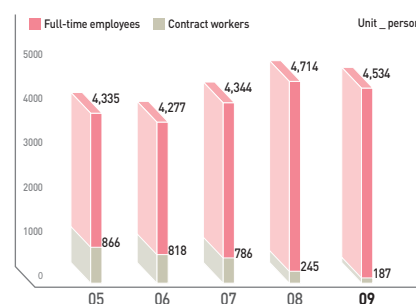
To increase the awareness of sexual harassment at work, KT&G provides an hour-long awareness enhancement session for all employees. Also, a professional education program for prevention of sexual harassment is provided for grievance counselors.

A total of 2 unfair labor practices were reported from 2008 to 2009. One case is ongoing, and the other was settled. There was no violation of the law.

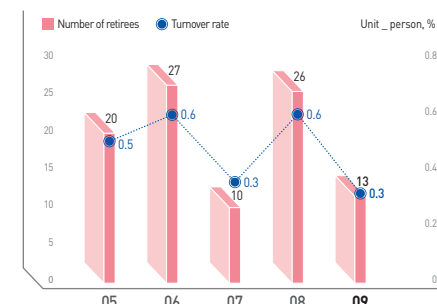
Prohibition of child labor and forced labor

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

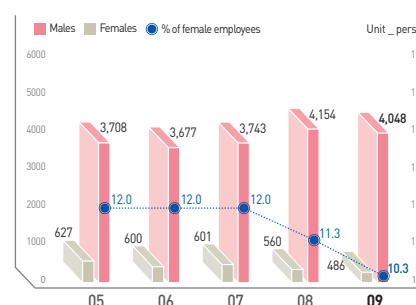
Number of employees by year



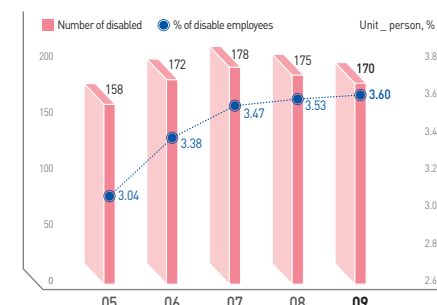
Number of retirees and turnover rate



Female employees and % by Year



Employment of the disabled



How unfair labor practices were handled

Year	Type	Result	Remarks
2008	Unfair dismissal	In progress	Seocho Sales Office, Chungnam Headquarters (1 person)
2008	Unfair dismissal	Settled out of court	Namwon leaf tobacco processing plant (1 person)

Maximizing the Value of Human Resources

Reinforcing the Link Between Performance and Compensation

Performance management and compensation system

Fairness of hiring

KT&G sets up the hiring plan based on who think are the right people for the company, and designs the employment screening accordingly. For employment screening we conduct blind evaluation and a number of diverse interviews to ensure the fairness of evaluation, and measure the in-depth competency of the applicant. Also, to maintain the rationality and transparency of evaluation, we provide evaluation training for evaluators, and isolate them from outside.

Changing the evaluation and compensation criteria for regional sales headquarters and other subordinate offices

In 2008, according to the individual absolute evaluation and compensation for regional sales-headquarters, and the sliding compensation system based on the links between subordinate organizations and higher-level organizations, the gap was 20% in sales, and 15% in other areas. In 2009 we reinforce the direct link between compensation and management performance of higher-level organizations, and in case of regional sales headquarters and subordinate offices, we are linking the payment rate with the scores of each organization within the size of compensation determined by the management performance of higher-level organizations.

Performance management based on periodical performance monitoring and diagnosis

KT&G assigned evaluation and goals focused on controllability to individual organizations, and makes sure that evaluation is done with focus on performance. We created indexes for core management tasks of the strategies included in the business plan, and periodically monitors management performance. We reflect the results of diagnosis in management evaluation.

Fair job evaluation

KT&G assigns appropriate jobs and goals fit for the personal competencies of employees, and enforces the job performance-oriented personnel system based on fair performance-based evaluation. The evaluator and the evaluatee set the goal by agreement from start to finish, thereby securing the fairness and acceptability of evaluation. Job evaluation is divided into MBO-based performance evaluation and competency evaluation (leadership competency and job competency) based on the KT&G leadership competency system. The result of this evaluation is utilized in personnel management, i.e. promotion, relocation, education and training, and compensation. We will try our best to ensure that all KT&G employees can display their ability the best way they can through fair job evaluation.

Reinforcing the Health/Safety System

Implementing the industrial safety and health system

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

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

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

Industrial and health safety issues contained in the collective bargaining

- | | |
|--|--|
| • Safety inspection | • Safety and health education |
| • Appointment and designation of safety and health managers, etc | • Wearing safety gear |
| • Honorary industrial safety supervisor | • Measuring working environment |
| • Safety and health management regulations | • Operating health management offices |
| • Guaranteeing industrial safety and health activities | • Health examination (including temporary health examination) and post measure |
| • Right to stop work | |

Classification of safety inspections

Special safety checkup	<ul style="list-style-type: none"> • Safety Inspection Day: on the 4th day of each month • Holiday inspection: on New Year's Day and the day before Chuseok (Korean Thanksgiving Day) • If the workplace is closed for more than 5 days or if necessary (in preparation for the rainy season)
Regular safety inspection	<ul style="list-style-type: none"> • Method: inspection according to the semi-annual self-inspection plan • Inspection team composition: 2 from labor and management respectively / 2 from frontline workforce (1 from machinery, and 1 from electricity) • Frequency: 2 times/year • Inspection result: giving instructions for correcting the problems at the site and notifying heads of related departments • Actions taken: Identification of problems, putting them on the agenda of the industrial safety and health committee, and improving on them
Safety inspection along with Back-to-Basics inspection	<ul style="list-style-type: none"> • Operating the Back-to-Basics inspection team to realize a desirable plant • Cycle: 14:00~ every Thursday • Inspection result: giving instruction for correcting and improving on problems

Safety inspection at Sintanjin tobacco manufacturing plant



Participants in the industrial safety and health committee

Labor		Management	
Chairman	Chapter manager	Chairman	Plant manager
Member	Vice branch manager	Member	Production manager
Member	Head of the General Affairs Dept.	Member	leaf tobacco processing manager
Member	Head of the Planning Dept.	Member	Product manager
Member	Honorary superintendent	Member	Manager of the General Affairs Dept.
Member	Head of the Manufacturing Dept.	Member	Safety manager
Member	Head of the Education and Propaganda Dept.	Member	Health manager

Maximizing the Value of Human Resources

Safety management education

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

Classification of safety management education

Classification	Contents	Participant	Goal	Outcome	Remarks
Internal education	Regular safety and health training	All employees	2 hours/month	All employees	Self
	Special safety and health training	New employees Employees working with dangerous machines and tools	16 hours	None	Self
	New employee education	New employees	8 hours	4 persons	Self
	Education for those with changed work	Those with changed work	2 hours	12 persons	Self
	Outsourced construction safety education	Outsourcing construction company	1 hours	34 times	Self
External education	Supervisor education	Supervisors	16 hours	11 persons	Safety Association
	Legal education for people in charge of fire prevention	People in charge of fire prevention	4 hours	1 time	Korea Fire Safety Association
	Legal education for people in charge of electric security	People in charge of electric security	4 hours	1 time	Electric Safety Association
	Legal education for people handling dangerous articles	People handling dangerous articles	4 hours	1 time	Korea Fire Safety Association
	Legal education for people handling gas	People handling gas	4 hours	1 time	Gas Safety Association
	Monthly safety manager training	Safety managers	2 hours/month	12 times	Safety Association
	Proper drinking culture education	All employees	1 hours	All employees	Professional instructor

Anti-terror/life-saving drills

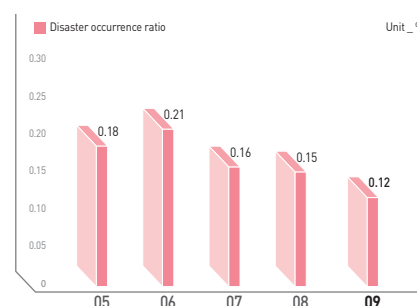


Publication of industrial accident casebook

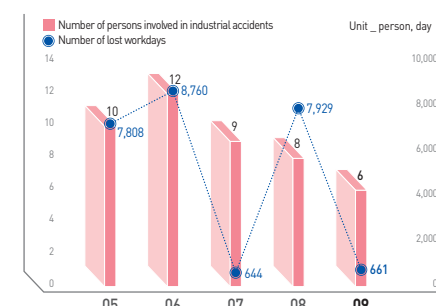
To prevent industrial accidents and ensure that all employees comply with safety rules, KT&G published the industrial accident casebook. This casebook analyzed the industrial accidents over the past five years by type. This casebook will be updated with new cases every 5 years. We are working hard to prevent similar industrial accidents and contribute to improvement of productivity.

Meanwhile, KT&G built the industrial safety and health system, provided safety management education, and published the industrial accident casebook. As a result of these proactive efforts, the number of people involved in industrial accidents was 77 over the 7-year period from 2003 to 2009, and the accident rates for 2008 and 2009 were 0.15% and 0.12% respectively, showing a continuous downward trend. In addition, as the number of people involved in industrial accidents dropped from the previous year and there was no death related to industrial accidents in 2009, we were able to cut down on the number of lost workdays substantially.

Disaster occurrence ratio



Number of lost workdays and persons involved in industrial accidents



Use of harmful chemical substances and health management

To systematically manage harmful chemical substances, the printing plant posted the materials safety data sheets (MSDS) for departments handling harmful chemical substances, and provides education. The education is conducted once a year along with the study on the present situation of substances handled, and information, such as cautions, tips on handling them, places where they must be handled, and departments in charge of handling them, is posted. Also, KT&G conducts the regular inspection twice a year and visits the workplaces handling harmful chemical substances, and checking whether the exposure criteria are exceeded to improve working conditions. For instance, a local ventilation system was installed at the inlet for reconstituted tobacco sheets to reduce the occurrence of dust. We also have employees handling harmful chemical substances undergo special health examinations every year to prevent accidents from taking place due to their handling of them.

Special health examination

• Major items of the special health examination

Classification	Number of people	Frequency
Noise	107	1 time/2 years
Dust	4	1 time/year
Noise + radiation	2	1 time/year

• Result of the special health examination

Classification	Persons requiring observation in terms of hearing (C1)	Persons suspected of a diseases (D1)
Count	22 persons	0

Seeking to relieve the mental and physical stress of employees

Ombudsman system

With the Ombudsman system KT&G listens to what employees have to say, and presents them with solutions, or deliberates on suggestions about relocation made by employees for career development. The "Ombudsman Committee", consisting of the same number of people from labor and management, is installed at each workplace, and matters deliberated on by the Ombudsman Committee are referred to the personnel office.



Maximizing the Value of Human Resources

Fostering Global Leaders and Experts

KT&G runs customized education programs to reinforce leadership training and achieve business goals. For group training on leadership, we built the Leadership Pipeline to enable leaders at various levels to keep growing, and are reinforcing their awareness of roles and their mindset. When it comes to e-Learning, we continuously provide education on new management techniques and innovation techniques, such as BSC (Balanced Score Card), MBO (Management by Objectives), Clientship, meeting management innovation, and change management leadership.

2008~ 2009 leadership training programs			
Year	Course name	Participants	No of people who completed
2008	ELA (Executive Leadership Academy)	Level 1 or higher (including affiliates)	72(22)
	TLC (Team Leadership Course)	Newly appointed level 2	13
	ILC (Innovating Leadership Course)	Newly appointed level 3	80
	NLC (Networking Leadership Course)	Newly appointed level 4	168
	GS! GK! (Good Start! Great KT&G!)	New employees	104
	Level 3 ACE	Level 3 (excluding frontline workers)	433
2009	TLC (Team Leadership Course)	Newly appointed level 2	13
	ILC (Innovating Leadership Course)	Newly appointed level 3	102
	NLC (Networking Leadership Course)	Newly appointed level 4	122
	GS! GK! (Good Start! Great KT&G)	New employees	45
	Level 2 ACE (Pilot)	Level 2 head of departments	23
	Level 4 ACE	People who were promoted 3 or more years (excluding frontline workers)	256
	Jr. ACE	People who joined KT&G 3-5 years ago	102

Strategic development of human resources

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

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

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

As of 2009 the average length of job training per person was 46.6 hours, and that of leadership training was 8.5 hours. The total hours spent on all training and education per person were 104.8 hours.

Basic direction of education development for 2009

- Laying down the foundation for raising employees' awareness in response to the changing business environment of the organization and reinforcing the knowledge required by the organization
- Reinforcing employees' awareness of roles and their mindset at various levels by building the Leadership Pipeline /reinforcing site-based job competency tied to strategies
- Building the efficient full-time worksite learning environment by reinforcing internal HRD competency and providing human and physical support

Value sharing

- Building the infrastructure for creative and proactive change of awareness
- Reinforcing common and required knowledge of the organization

Reform & innovation

- Laying down the foundation for the sustainability management of leaders at various levels
- Reinforcing site-based job competency tied to the strategies of business divisions

Learning assistance

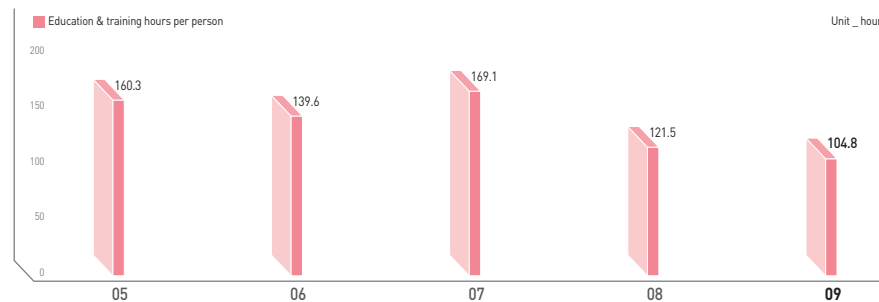
- Laying down the foundation for efficient full-time learning
- Continuously reinforcing the internal competency of HRD officials

Effectively supporting management by establishing the brand identity of fostering talents

Reinforcing 'Cyber education (e-Learning)'

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

Education & training hours per person



Providing education programs for life plan support

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

Education on document security and information protection

KT&G holds seminars for those in charge of security in each workplace to publicize the importance of corporate security, and is improving its security readiness. In 2009, 41 people participated in the education, and exchanged diverse opinions about the importance of industrial security, how to improve security, and what needs to be improved.

Development of Strategic Human Resources



Maximizing the Value of Human Resources

Reinforcing Welfare Benefits for Employees

Establishing the win-win labor-management culture

KT&G's labor union has a union-shop system: i.e. all employees level 3 or below, seasonal hands working in the leaf tobacco processing plants and delivery people must join. As of 2009, 4,156 employees are members of the labor union. As far as major operational issues are concerned, KT&G resorts to the labor-management conference and collective bargaining. Delivery employees who used to be classified as non-regular employees were turned into regular employees in October 2008.

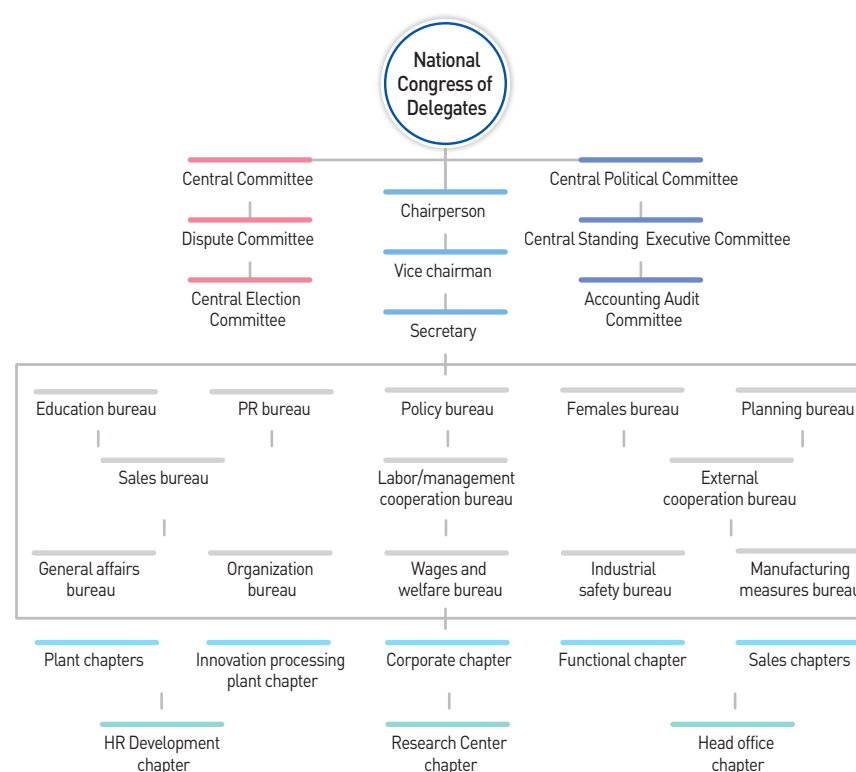
Also, KT&G encouraged employees to express diverse opinions and take an active part, and as a result there has been no labor dispute for the past 10 years.

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

Current status of the labor union (as of 2009)

Who joins the labor union?	<ul style="list-style-type: none"> Employees level 3 or below (excluding auditors, persons in charge of personnel and labor and drivers for employees level 1 or above, athletes, persons in charge of emergency planning and head of sales offices) Including the seasonal workers of the leaf tobacco processing plant, and delivery people 	
Number of members	<ul style="list-style-type: none"> Total: 4,156 Clerks: 4,059 Seasonal workers: 97 	
Full-time members	<ul style="list-style-type: none"> HQ labor union: 9 	
Affiliation	<ul style="list-style-type: none"> Federation of Korean Trade Unions 	
Organizational structure	HQ organization	Chairperson, Vice-chairperson, Secretariat, 12 bureaus except the general affairs bureau, 16 departments except the department of organization
	Chapter organization	23 chapters
	Functional chapter	Seasonal workers' chapter

Organization chart of the labor union



Employee welfare system

To improve the quality of life of employees and maximize the corporate value, KT&G established the mid-to long-term welfare vision. The company provides employees with many welfare benefits, such as allowances for infant care, kindergarten expenses, middle school and high school expenses, college scholarships, expenses for athletic meets, allowances for congratulations and condolences, disaster subsidies, housing loans, health examination, medical expenses, and use of recreational facilities. These welfare benefits for employees are provided for both regular employees and contract workers without any discrimination. Also, KT&G contributed to the formation of trust and cooperation between labor and management by introducing the ESOP system. And the flexible benefit plan allows employees to choose from various items and benefits, thereby increasing employee satisfaction with welfare and benefits.

Expansion of the employee healthcare support system

KT&G runs a health management center for employees. We have health management centers in 5 manufacturing plants as well as in the head office. Full-time health managers take care of emergency patients, administer medications, provide health advice, improve working environment, and conduct health inspections. As for health examination, each year thorough health examination and special health examination including general examination items are conducted, and from 2010 the medical checkup expenses per person are scheduled to be raised from KRW200,000 to KRW300,000. In addition, KT&G has many health promotion programs. For example, we operate employee health promotion programs, such as the cerebrovascular and cardiovascular disease prevention program, the stress management program, and the drinking habit improvement program. Also, we also use the computer system (EIP) to provide health information, and information related to health education, such as health management rules. KT&G will provide full support to manage the health of employees, the biggest assets of the company.

Improvement of the leave system and child care support program

To help employees stay healthy and give birth, KT&G never spares support to improve the leave system. We increased the 2-day maternity leave to 3 days, and the 3-day physical fitness leave to 5 days. Also, we extended the menstrual leave and parental leave, and we pay childcare allowance (KRW80,000/month, from 1 year of age to 5 years of age). By providing this improved welfare system, we will make efforts to ensure harmony between family and work, and ultimately enhance the productivity and competitiveness of employees.

Introduction of the defined contribution (DC) retirement pension system

In recent years the focus of the financial market is shifting from 'indirect financing' to 'direct financing.' Accordingly, in August 2009, KT&G introduced the defined contribution (DC) retirement pension system so that employees can choose how their money is managed in consideration of profitability in the management of their retirement pay, which is long-term financial assets. Those employees with the defined benefit retirement pension system who want to switch to the defined contribution retirement pension could subscribe to this system, and employees, and as of 2009 146 participated in this program.

With the defined contribution retirement pension system, the level of the company's contribution to the retirement pension is predetermined, and the retirement pay that employees will receive will vary depending on the performance of the accumulated fund for retirement. The accumulated fund for retirement is independent from the employer, and accumulated in the name of employees. So even if the company goes bankrupt, employees can receive the pension, and when they move to another company, it can be easily aggregated.

Maximizing the Value of Human Resources

Survey of the Internal Awareness of Management Status

Prior to the publication of Sustainability Report 2009, KT&G conducted a survey of employees' awareness of management status. 4,548 people, about 96% of all KT&G employees, were asked 33 questions with regard to the organizational culture, organizational satisfaction, vision and strategy, ability to cope with external environment, business competency, PR and marketing, education and training system, evaluation and compensation and 9 priority tasks.

KT&G will regularly conduct a survey of internal awareness, and become a company in which employees, the foundation of KT&G's sustainability management, can be satisfied.

Result of the management status awareness survey

Organizational culture

KT&G employees thought that the organization is stable, challenging and goal-oriented. They were well aware of ethical management and had a high sense of ownership.

Organizational satisfaction

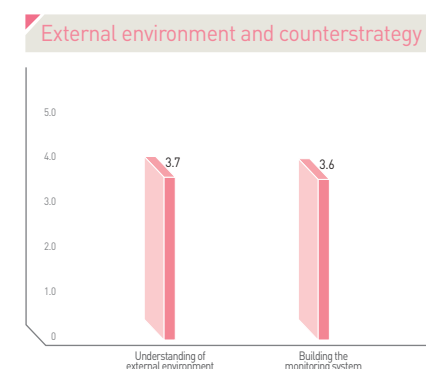
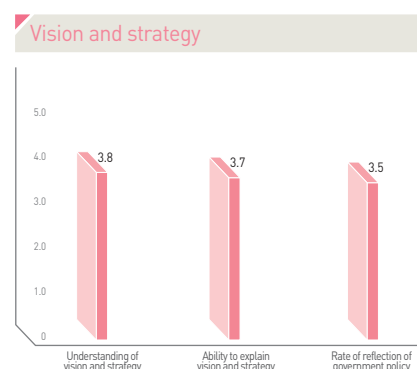
They were quite satisfied with their relationship with their jobs, superiors and coworkers. In contrast, their satisfaction with compensation was relatively low.

Vision and strategy

KT&G employees' understanding of vision and strategy was better than average, and thought that currently the vision and strategy system appropriately reflects the direction of the environmental policy.

Ability to cope with external environment

They had a good understanding of external environment, and thought that the system of monitoring the external environment and reflecting it in KT&G's business and strategy was quite all right.



Business competency

They responded that there are great needs for development of new businesses, and experts who will efficiently run these businesses will be needed. To secure identity and foster business professionals, strategic judgment based on prioritization will be required.

PR and marketing

The result showed a relatively high response rate for such competencies as local networks and reputation, and a low response rate for overseas networks and it turned out that external PR efforts are insufficient.

Education and training system

The level of overall satisfaction with education, i.e. the education system and improvement of competencies due to the education system, was quite high, but they gave a relatively poor rating to reflection of educational performance in performance assessment.

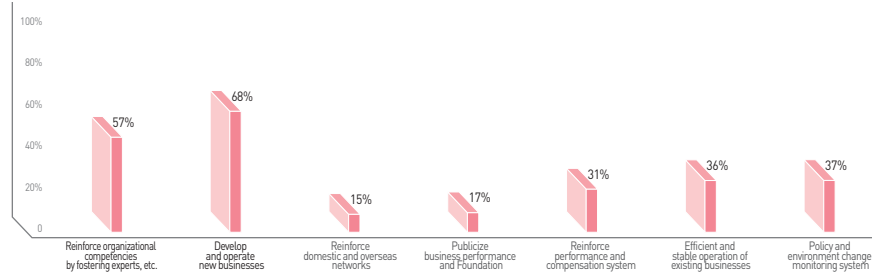
Evaluation and compensation

The level of satisfaction with the link of the performance system to the management strategy, and differentiation of evaluation and compensation was better than average.

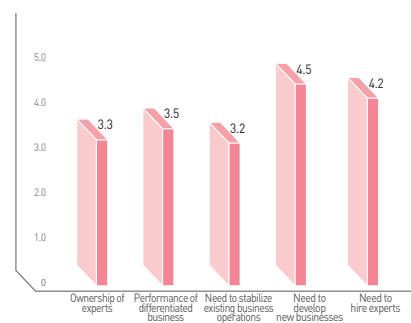
Important tasks of sustainability management

The priority tasks for KT&G's sustainability management turned out to be reinforcement of organizational competencies, and development and operation of new businesses.

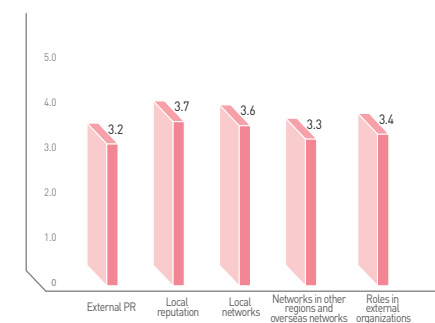
Priorities of sustainability management



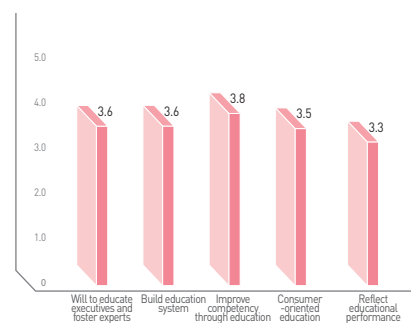
Business competency



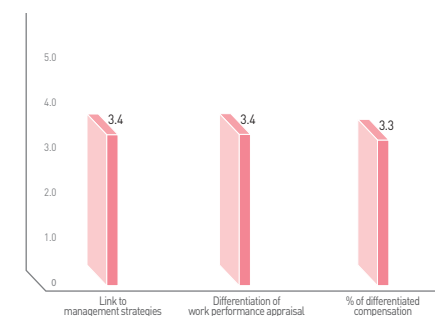
PR and marketing



Education and training system



Evaluation and compensation



Eco-Friendly KT&G

Imagination is getting wider...

We are thinking about where we must go together.

Our imagination is getting greener as we understand the value of nature and translate this understanding into reality.

Wide Green





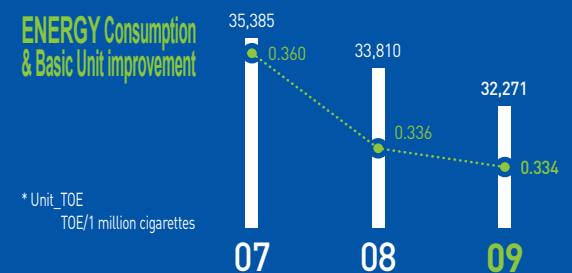
Operation of the Eco-friendly Management System **66**

Reinforcement of the Ability to Cope with Environmental Risks **69** Building an Eco-friendly Corporate Culture **75**

KT&G Sustainability Report 2009

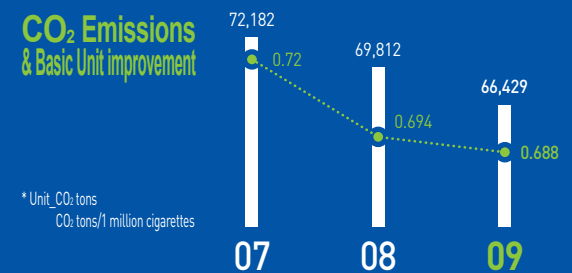
Energy 4.5%
32,271_{TOE} ↓

ENERGY Consumption
& Basic Unit improvement



CO₂ 4.9%
66,429_{CO₂ tons} ↓

CO₂ Emissions
& Basic Unit improvement

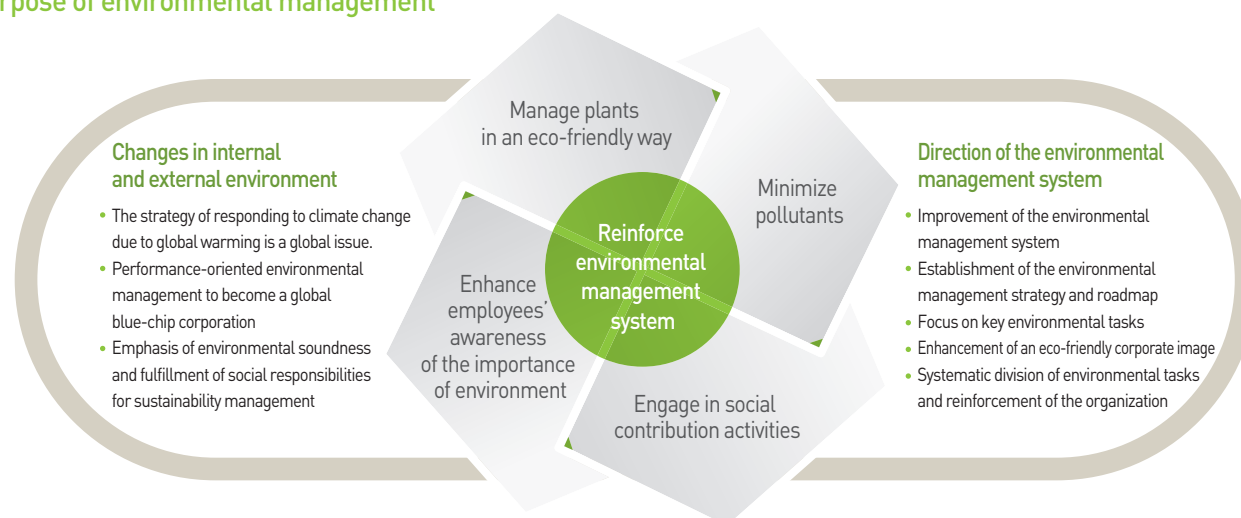


Environment_Eco-Friendly KT&G ▶

Operation of the Eco-friendly Management System

Environmental Management System

Purpose of environmental management



Environmental management plan

To establish a eco-friendly management system for sustainability management and fulfillment of social responsibilities, KT&G will manage plants in an eco-friendly way, minimize pollutants, raise employees' environmental awareness, and conduct social contribution activities. Also, we will establish an organizational mission for environmental management, and form and execute practical strategies. To this end, the head office will take charge of overall supervision of environmental management, and workplaces will remove environmental control risk factors to reinforce the ability to put environmental management into practice.



A performance-oriented environmental management system

To switch from regulation-oriented environmental management to more integrated and systematic environmental operations, KT&G has been stationing environmental management staffs in the plant management departments of the production management office under the manufacturing headquarters. since 2000, and in June 2005 installed an environmental department in each manufacturing plant. Also, we holds regular workshops for environmental staffs in a bid to share environmental management information and reinforce environmental management with focus on shop floors.

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

Currently, the 4 tobacco manufacturing plants acquired the ISO14001 certification, and run the environmental management system. The leaf tobacco processing plant and the printing plant also acquired the certification in 2008 and 2009 respectively. However, KT&G will not simply settle for compliance with regulations and guidelines. Rather, it is aiming to establish and execute strategies capable of leading eco-friendly management.

To this end, we are planning to take a step-by-step approach to introduce environmental management programs like the environmental performance evaluation system to run the performance-oriented environmental management system.

Date of certification

Sintanjin plant	Yeongju plant	Wonju plant	Gwangju plant	Printing plant	Leaf tobacco processing plant
June 8, 2005	June 8, 2005	September 13, 1999	June 8, 2005	November 12, 2008	July 13, 2009.07

Engage in social contribution activities

Seek mutual prosperity with local communities by developing and carrying out diverse programs for returning to society

Manage plants in an eco-friendly way

Realize a Clean Factory by providing against environmental risks and running the processes in an environment-friendly way

Eco Friendly Management Road Map

	Key short-term tasks (~2010)	Key long-term tasks (~2015)
Eco-friendly plant management	<ul style="list-style-type: none"> To build an environmental management cooperation system between departments To benchmark advanced companies To make an agreement of Guidelines on Green Purchase with suppliers To monitor environmental management status, etc. 	<ul style="list-style-type: none"> To be designated as an environment-friendly enterprise To raise the level of green purchase To promote exchange with global leaders
Minimization of pollutants	<ul style="list-style-type: none"> To improve the efficiency of pollutant prevention facilities To make aggressive environmental investments for rainwater prevention facilities To monitor pollutant discharge status of workplaces To improve corporate image by eliminating grievances To decrease pollutants and processing costs by means of site-by-site management, etc. 	<ul style="list-style-type: none"> Improving and evaluating environmental management capabilities of suppliers To familiarize employees with the environmental management manual and improve their ability to practice it
Enhancement of employees' environmental awareness	<ul style="list-style-type: none"> To provide environmental education continuously To have environmental staffs attend legally required education programs and technical seminars To have environmental staffs benchmark companies excellent in environmental management, etc. 	<ul style="list-style-type: none"> To continuously enhance environmental awareness
Social contribution activities	<ul style="list-style-type: none"> To develop working items in consideration of the characteristics of the manufacturing group To cooperate with the KT&G Welfare Foundation for developing donation programs To develop a bio-diversity protection program To participate in local environmental activities and strengthen ties with stakeholders, etc. 	<ul style="list-style-type: none"> To continuously engage in social contribution activities

Operation of the Eco-friendly Management System

Environmental organization map and division of tasks

Environmental tasks are divided into environmental management, ISO management, and environmental facility operations. Environmental management involves overall management of environmental facilities, and management of budgets, expenses, environmental petitions, and ISO management involves ISO 9001 documents and management of establishment and revision of department operating standards. Environmental facility operations include operation and management of waste treatment facilities performed by environmental engineers, and operation and maintenance of air pollution prevention facilities. We will take advantage of the performance-oriented environmental task system based on efficient division of tasks systematic to take the lead in environmental management.

Division of environmental management tasks and description

Task	Description	Organization
Overall management	<ul style="list-style-type: none"> Environmental management, ISO operations, overall management of environmental equipment operations 	Manager of the Manufacturing Plant
Environmental management	<ul style="list-style-type: none"> Establishing and carrying out plans to install, reinforce, replace, inspect and improve environmental facilities Establishing and carrying out environment facility management plans and managing outcomes Outsourcing service and permits/inspection by external agencies Managing the ISO 14001 system Managing budgets and expenses Managing the purchase of chemicals, tools and service contracts related to environment Managing environmental petitions Managing supply and demand of emergency stocks of environmental facilities Managing articles in disuse and waste 	Head of the department of environment
ISO operation	<ul style="list-style-type: none"> Managing ISO 9001 documents Managing establishment and revision of department operating standards 	
Operation of environmental facilities	<ul style="list-style-type: none"> Operating and maintaining waste water and sewage treatment facilities Operating a legitimate waste system Operating and maintaining air pollution prevention facilities Managing warehouses for articles in disuse Managing transportation, demand and supply of articles in disuse Cleaning warehouses of articles in disuse and managing IPM activities 	Environmental engineer (waste water treatment) Environmental engineer (air quality) Management of articles in disuse

The Environmental Management System

To effectively carry out environmental tasks relating to water quality, air quality, waste and odor, and objectively manage environmental performance, KT&G is running the environmental management system. The environmental management system is a system for managing the data on environmental loads in order to minimize environmental risks likely to be generated during the operation of facilities. The production management office in the head office collects the data in real time, and makes it possible to take immediate actions if there is anything wrong

The environmental management system (Environmental management measurement result)

The screenshot displays a table with columns for 'Category', 'Item', 'Unit', 'Measurement Date', 'Measurement Value', 'Target Value', and 'Status'. The data is organized into several rows, likely representing different environmental metrics such as air quality, water quality, and waste management.

The environmental management system (Waste management log)

The screenshot displays a table with columns for 'Category', 'Item', 'Unit', 'Measurement Date', 'Measurement Value', 'Target Value', and 'Status'. The data is organized into several rows, likely representing different waste management activities such as waste collection, treatment, and disposal.

Reinforcement of the Ability to Cope with Environmental Risks

* Environmental data reflects the current status of the 6 workplaces (4 tobacco manufacturing plants in Sintanja, Gwangju, Yeongju and Wonju, Gimcheon leaf tobacco processing plant, and printing plant) (However, the data of the Namwon leaf tobacco processing plant, closed in May 2008, was integrated with the data of the Gimcheon leaf tobacco processing plant.)

Introduction and Reinforcement of Product Eco-efficiency

Consideration of eco-friendliness of raw materials and packing materials

KT&G established its own environmental standards and has been applying them to prevent the raw materials from containing any harmful substances. "BOHEM" uses the kraft paper for packing in consideration of eco-friendliness after scrapping.

Bohem's eco-friendly paper



Management of harmful chemicals in products

To systematically manage harmful chemical substances, the printing plant posts the materials safety data sheets (MSDS) for departments handling harmful chemical substances to reinforce management of the usage of harmful chemical substances and the way they are used.

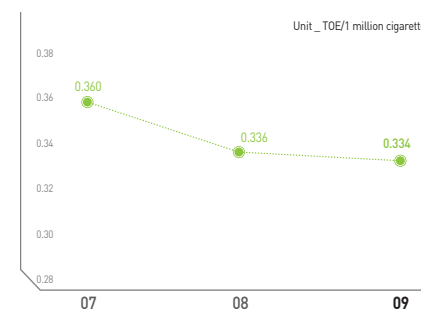
Improved management of harmful chemical substances (printing plant)



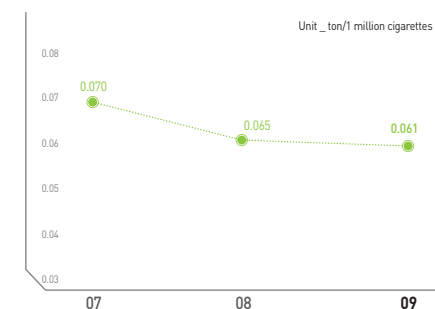
Management of the basic unit of raw materials and energy

KT&G is making efforts to minimize the amount of resources used for making the same products by improving the efficiency of raw materials and energy. To improve this eco-efficiency, KT&G is managing the basic unit of the usage of raw materials and energy, and their waste.

Basic unit of energy consumption



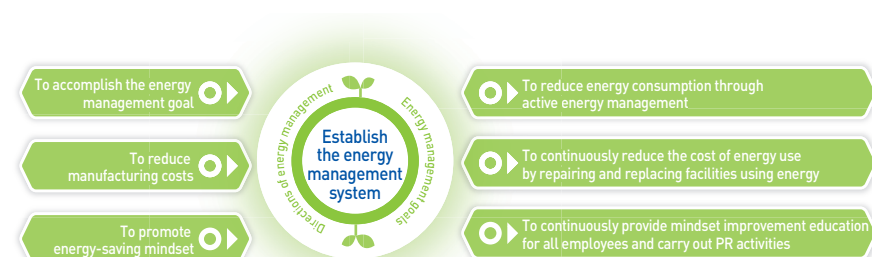
Basic unit of waste emissions



Reinforcement of the Ability to Cope with Environmental Risks

Reinforcing the Climate Change Response System

Coping with climate change



KT&G is enforcing performance management to efficiently use energy and reduce energy consumption. We are reducing manufacturing costs by replacing old facilities and installing energy-saving facilities, and we are improving work efficiency by preparing the environmental management manual and the detailed management guidelines. Also, KT&G entered into the Voluntary Agreement (VA), and is enforcing it to proactively cope with tougher environmental regulations.

Meanwhile, KT&G has a conference call system between Seoul Office and Daejeon Head Office, which minimizes the business trips of employees, thereby reducing indirect energy consumption.

KT&G efficiently operated such facilities as boilers, freezers and air-conditioners, and thus reduced their operating hours, and reduced total power consumption by about 385MWh by replacing low-efficiency facilities with high-efficiency facilities or improving them. When it comes to LNG use, KT&G minimized the non-use hours and steam leaks, and optimized facility management by recovering condensation water. As a result, we reduced LNG use by about 535,287 m³.

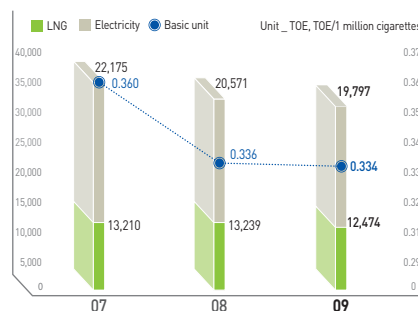
As a result, KT&G's total energy consumption in 2009 was 32,271TOE, a 4.5% drop from the previous year, and the basic unit was improved by 0.6% over the previous year since energy waste factors were identified.

CO₂ emissions were 66,429 tons, a 4.9% drop from the previous year, and the basic unit was 0.688%, a level similar to that of 2008. Meanwhile, the CO₂ emissions of the leaf tobacco processing plant in 2008 was reduced drastically due to the closing of the Namwon leaf tobacco processing plant.

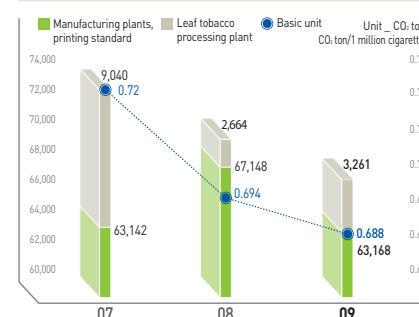
Calculation of greenhouse gas emissions

1. Energy consumption	As for fossil fuel (like LNG) and electric power, the annual energy consumption of KT&G workplaces was totaled, and the energy consumption in offices and the indirect greenhouse gas emissions are not included in the total energy consumption.
2. Caloric value by energy source	When it comes to the caloric value by energy source, 9,550kcal/Nm ³ was applied to LNG according to the Korea Energy Management Corporation data (2009).
3. Greenhouse gas emission factor	As for the greenhouse gas emission factor by energy source, 15.3kg-C/GJ was applied to LNG according to the emission factor of IPCC(Intergovernmental Panel for Climate Change). The emission factor was calculated on our own according to the electric power consumption and fuel consumption data complied by the Statistics of Electric Power in Korea (2009), and 122.0kg-C/MWh was applied to electric power.

Total energy consumption and basic unit improvement



CO₂ emissions and basic unit improvement



Air quality management

As a result of systematic improvement and management of environmental facilities, KT&G reduced the concentration of dust emissions in the leaf tobacco processing plant. The concentration of dust emissions in the tobacco manufacturing plants and printing plant was 5.6mg/Sm³ in 2009, an 11% drop from the previous year, and that of the leaf tobacco processing plant was 16mg/Sm³, a 5.9% decline from the previous year. These figures are up to 15% lower than the legal regulation, and it means that dust emissions are stably managed and maintained. KT&G strives to reduce the deviations of dust concentration occurring in the dust-emitting facilities of some workplaces, and reduce dust emissions by reinforcing or installing washers and dust collectors. We also try to reinforce environmental education for related staffs, and to find fundamental solutions to problems by increasing investment in facilities.

We installed the B.T.F. system in the Sintanjin tobacco manufacturing plant. This system is outstanding in preventing odor and does not cause any secondary pollution.

The manufacturing plants and the printing plant are using LNG as a direct source of energy, and the Gimcheon leaf tobacco processing plant replaced B-C oil with LNG in September 2006. Consequently, there are no emissions of SOx, NOx or ozone-depleting substances at KT&G plants.

Increased use of energy-efficient equipments

KT&G installed high-efficiency equipments in an effort to increase energy efficiency and reduce costs. The Yeongju plant saved electricity by 28,400KWH in 2008, and 120,121KWH in 2009, thereby reducing the total energy consumption by 0.10% and 0.47% respectively. Also, the Wonju plant replaced the oil-filled transformer with a mold transformer, thereby reducing costs. The Cheonan printing plant installed an air-conditioner fan and a high-efficiency motor (10HP) for the boiler, and thus reduced power consumption. We will make continued efforts to save energy by replacing energy-consuming equipments and introducing high-efficiency equipments.

Installation of energy-efficient equipments



Concentration of dust emissions



Installation and effect of energy-efficient equipments

• Yeongju Plant

	Description	Effect (Power savings after improvement)
2008	Metal (250W,71 lamps) ⇒ electrodeless (150W)	Reduced 28,400KWH
	Metal (250W,44 lamps) ⇒ electrodeless (200W)	Reduced 13,200KWH
2009	Metal (250W,145 lamps) ⇒ electrodeless (150W)	Reduced 64,600KWH
	Metal (250W,24lamps) ⇒ three-wavelength(75W)	Reduced 12,264KWH
	Volute pump (37KW) ⇒ CR type (30KW)	Reduced 30,057KWH

• Wonju Plant

	Description	Effect
2007	Oil-filled transformer ⇒ mold transformer (750kva*2, 300kva*2)	Saved KRW4,586,000/year
2009	Oil-filled transformer ⇒ mold transformer (1000kva*1)	Saved KRW4,586,000/year

• Printing Plant

	Description	Effect (Power savings after improvement)
2008	Air-conditioner fan (inline, plate making, cutoff) - Installation of a high-efficiency motor and inverter	15% more efficient than a general motor
2009	Installation of a high-efficiency motor for the boiler (10HP)	5% more efficient than a general motor

Reinforcement of the Ability to Cope with Environmental Risks

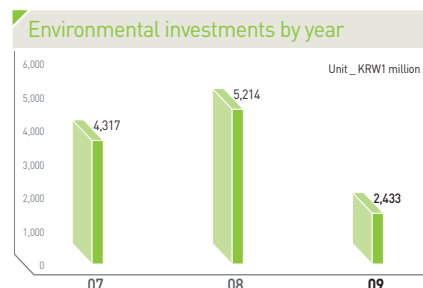
Eco-friendly Plants Management

Environmental investments

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

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

In 2008 environmental investments were concentrated on improvement of air quality, such as odor prevention facilities, central dust collectors, replacement of water supply pipes of dust collection facilities. Accordingly, environmental investments increased a great deal, and as investments in air quality control decreased in 2009, total investments declined by 53% from the previous year.



Investments by item (Unit: KRW1 million)

	2007	2008	2009
Air	2,413	4,273	1,968
Water quality	414	397	293
Waste	306	191	122
Education	6.5	1	1.6
Other	1,178	351	48

Management of soil contamination

KT&G conducts the soil contamination test once every two years, repair target facilities on a regular basis, and manages risk factors by meeting the legal requirements for waste storage. Also, we will continuously conduct contaminant leak tests for our facilities and soil. Soil contamination was measured, and there was no case of exceeding legal standards, and we will continue to conduct the facility and soil contaminant leak test to prevent soil contamination. Also, we will thoroughly manage chemical substances and harmful waste.

Waste management

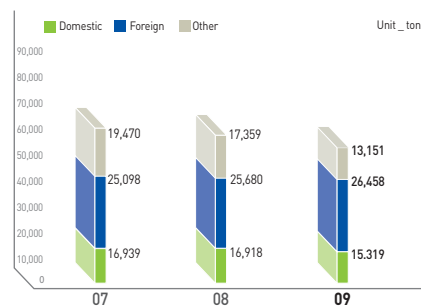
KT&G is operating an intranet system to reduce waste, increase reuse, and recycle thoroughly. And we are continuously working to improve awareness and mindset. By improving operating efficiency of facilities at the tobacco manufacturing plants and the print plant, and thoroughly analyzing and managing the production lines to reduce the percentage of damaged products, the total quantity of waste was reduced by 666 tons, a 10.1% drop from the previous year. Total waste was reduced considerably because the Sintanjin, Yeongju, Wonju and Gwangju tobacco manufacturing plants optimized the leaf tobacco processing process and improved other processes and thus reduced byproducts and because the printing plant improved the domestic waste treatment method, and recycled waste film by finding a company that would process waste film for free. The leaf tobacco processing plant is outsourcing waste processing except for byproducts. And the manufacturing plants and the printing plant are also outsourcing part of the waste, and processing it on their own as well.

KT&G is strictly controlling all waste generated at workplaces in accordance with the Waste Control Act, and the waste is separately collected and discharged. Also, when waste is taken out of the premises, we electronically enter the type and quantity of waste, transport company, vehicle number, and information of the waste treatment company in the 'All Baro system' (legal waste treatment system) operated by the Korean Environment and Resources Corporation to make it possible to view the current status of waste treatment. The transportation and treatment is outsourced to a qualified company, and KT&G checks the operating status and treatment status of the waste treatment company.

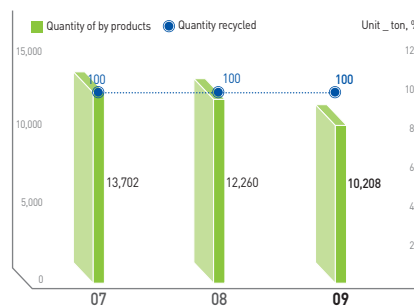
Meanwhile, no waste deemed hazardous under the terms of the Basel Convention Annex was transported, imported, exported, or treated.



Quantity of raw materials used



Quantity of byproducts and % recycled



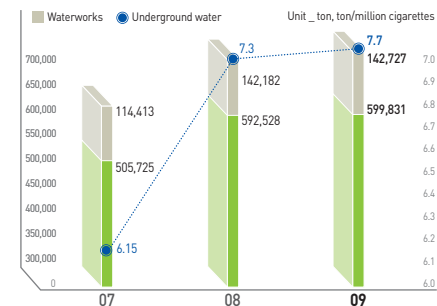
Use of raw materials

KT&G's products go through the processing process and the manufacturing process until they are shipped. The leaf tobacco processing process refers to the process of inputting several types of leaf tobacco according to product-by-product standards and processing them in a way fitting the characteristics of products. The manufacturing process refers to the process of making leaf tobacco prepared into cigarette products. In this process filters are attached and cigarettes are packaged so that values are added to the leaf tobacco. The main ingredient used in the processing and manufacturing process is leaf tobacco, and currently KT&G uses both domestic and foreign leaf tobacco. Also, all the byproducts of the leaf tobacco processing process are recycled. The byproducts are used as raw materials for expanded stem and expanded cut tobacco, and reconstituted tobacco sheets, and inputted again into tobacco production. Tobacco powder is supplied to a total of 6 companies at a cost for reuse.

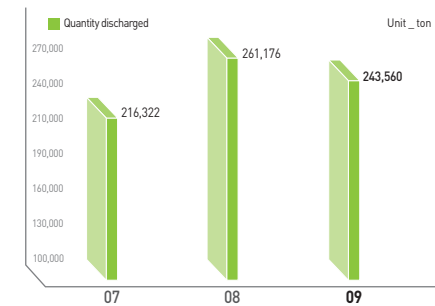
Water quality management

KT&G manages water quality within 15% of the legal standard. To stably lower BOD (Biochemical Oxygen Demand) and T-P (Total Phosphorus), which are items related to the enforcement of the total water pollution load management system, we manage sources and repairs facilities on a regular basis. The Sintangjin manufacturing plant checks water quality through the regular analysis of components, and replaced various facilities with water-saving types starting in 2007. Also, education was given to employees working in departments where a large quantity of water is used. More recently, the water consumption per million cigarettes increased due to the reinforcement of the sanitation and quality control, e.g. the shortened cleaning cycles, but support for water-saving facilities and education continue.

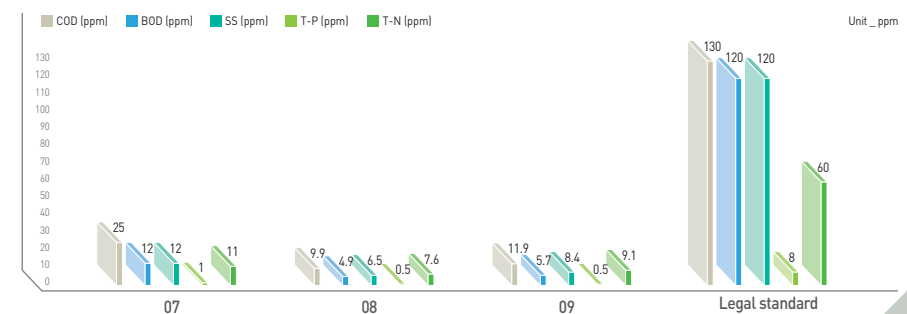
Water consumption and basic unit



Sewage discharge



Concentration of water pollutants as compared to the legal standard



Building an Eco-friendly Corporate Culture

Odor management

To prevent damages caused by the odor, KT&G is installing odor prevention systems. The Sintanjin tobacco manufacturing plant installed the odor prevention system, and the Yeongju tobacco manufacturing plant reinforced the washer. In workplaces where odor management is needed, we install appropriate prevention systems to make the working environment comfortable, and resolve the inconveniences of local residents.

Reinforced washer at the Yeongju tobacco manufacturing plant



Installation of the system for preventing toast smell in the Sintanjin tobacco manufacturing plant



Noise/vibration management

To remove the noise and vibration caused by the facilities in the plants, KT&G installed soundproof facilities, and keeps their level below the legal standards. Accordingly, in order to reduce the loud noise, the Sintanjin tobacco manufacturing plant replaced the vacuum pump with the low-noise and low-vibration Roots pump in February 2009. As a result, we reduced the noise close 90dB, the upper limit, by 4dB. Also, the Wonju tobacco manufacturing plant installed panel walls and windows in the hallway of the plant in 2008, and replaced the windows in 2009. The Gimcheon leaf tobacco processing plant made the 32 fans in the workshop soundproof in 2009, thereby reducing the noise by 1.5dB. We are continuously making a corporate-wide effort to reduce noise and vibration.

Environment-friendly Management of Plant



Building an Eco-friendly Corporate Culture

Reinforcement of External Environmental Communication

KT&G has managed the environment around the workplaces by carrying out diverse programs with local residents, local governments and NGOs. The Sintanjin, Wonju, Gwangju tobacco manufacturing plants and the printing plant prepared various programs, such as odor monitoring, visits to production sites and odor prevention facilities, sing-along classes, and environmental cleanup activities. These programs contributed a great deal not only to environmental management, but also improving the friendly image of the company among local residents.

Reinforcement of external activities

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

Cooperation with local governments

Currently the Sintanjin tobacco manufacturing plant is operating the Green E-mail system to share environmental data with the municipal government of Daejeon. The purpose of this system is for the official at the Policy department of the Environment and Greenery Bureau of Daejeon Metropolitan City to provide the environmental policies and information of the Daejeon Metropolitan government for environmental engineers and workers. Mostly, information on new and revised environment-related laws and regulations, news about Daejeon Metropolitan government, and information on major environmental guidelines and directions are provided.

Reinforcement of bonds with local communities

KT&G publicizes environmental facilities to local residents, provides local residents with an opportunity to visit our plants, holds local environmental events, and provides education. We are also reinforcing bonds with local communities by helping farmers in the busy season, engaging in volunteer services at orphanages and children centers, and participating in the Kimchi sharing events and environmental cleanup campaigns.

The Sintanjin tobacco manufacturing plants held a odor monitoring staff meeting for local residents in March and September. At these meetings local residents exchanged information about the odor monitoring status in the area. Locations vulnerable to odor could be monitored. Also, through discussions for reduction of odor, we are seeking ways to involve local residents directly in odor management.

The Wonju tobacco manufacturing plant supports welfare facilities in the local community (Gangwon-do) with a poor energy use environment. As it assists them with the renewable energy (photovoltaic, solar heat) installation costs, KT&G actively realized the philosophy of 「A Company Pursuing Companionship」 and fulfilled our social responsibilities.

Tree-planting at Naksansa Temple



Kimchi sharing



Attending environmental expos and cooperating with NGOs

The Sintanjin tobacco manufacturing plant participated in the athletic meet for environmental engineers held in May 2009, and the odor prevention education and event for the environmental engineers of Daejeon and Chungcheong-namdo.

The Yeongju tobacco manufacturing plant continuously participated in the International Environmental Technology Fair and seminars, and in June 2009 joined the 'Green Start Network' of Yeongju for low-carbon green growth.

The Wonju tobacco manufacturing plant participated in the eco-friendly management consulting meeting for 2008, discussed the analysis of corporate environment and the implementation of an eco-friendly management system, and carried out the eco-friendly management consulting. In 2009 the plant attended the general meeting of the Local Sustainability Council of Wonju. The Wonju plant also participated in the 9th Gangwon environmental engineers' athletic meet held as part of the World Environmental Day, and cleaned up the river near the Hoengseong Dam.

The printing plant is now a registered member of the NGO 'Green Cheonan 21' and took part in the Clean Cheonan campaign hosted by the 'Civic Network of Volunteers' 24 times. The printing plant cleans up around the plant twice every month, and conducts the 'Clean Cheonan Campaign' with an NGO once every month. So far we participated in the 'Earth Day' event, the 'Cheonan Well-being Food Expo' and the 'Anmyeondo International Flower Expo' twice respectively. We opened the Physical Therapy Center for the senior citizens in the local community and provide physical therapy for them. We also cleaned up the oil spill in Taejeon. We never spare support where our service was needed.

Building an Eco-friendly Corporate Culture

Environmental protection activities

As KT&G is carrying out corporate-wide environmental protection projects, the tobacco manufacturing plants, the leaf tobacco processing plant, and the printing plant are actively conducting environmental protection activities on their own. The Sintanjin tobacco manufacturing plant collected garbage and refuse and engaged in nature conservation PR activities near the Sintanjin Hyeondo Bridge of the Geumgang River and in Seo-gu, Daejeon (Suchim Bridge-Gajang Bridge-Yudeung Bridge section) in 2009 as part of the '1-company 1-river environment cleanup campaign'.

The Yeongju tobacco manufacturing plant is giving out free meals, and as part of the '1-company 1-mountain environment cleanup campaign', participated in the Mt. Cheongryangsan environmental protection activity in 2008, and the Mt. Sobaeksan nature conservation activity in 2009. The plant is continuously engaging in environmental protection activities.

In addition to the '1-company 1-river environmental cleanup campaign' and the '1-company 1-mountain environment cleanup campaign', the printing plant is engaged in various volunteer services, including cleaning the area near the Cheonan Soccer Center and cleaning the tombstones in the National Cemetery.

Besides, the Wonju tobacco manufacturing plant is volunteering to clean up major cultural assets like Mt. Chiaksan Guryongsa Temple, the stone pagoda in Buheungsa Temple, and the Memorial Monument, while the Gwangju tobacco manufacturing plant formed the Gwangju Plant Sharing Volunteer Corps, and donates sporting goods to villages or supports teen heads of households.

KT&G is planning to encourage all plants to carry out diverse environmental protection programs.

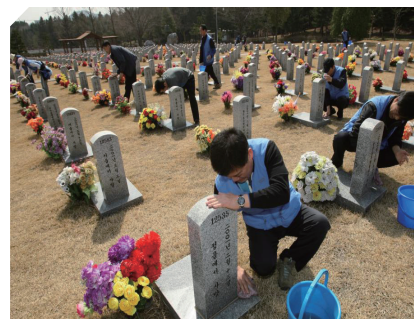
[Are you curious about the cigarette manufacturing processes?]

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

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



Tombstone cleaning



Visits to facilities



Systematic Environmental Education

KT&G holds a workshop on environmental management. During the workshop, many issues are discussed, such as the environmental status of the frontline workplaces, i.e. the tobacco manufacturing plants and the print plant and what should be done in the future. In addition, KT&G uses the current in-house education system to internalize the knowledge and information relating to the improvement of working conditions and to environment so that all employees can access them.

To share the environmental information of frontline departments, we are establishing an educational system for environmental issues, attend external training courses regarding environmental management, and provide internal training for knowledge sharing. The employees of KT&G participate in diverse programs, such as environmental mindset training, practice-based environmental education, environmental emergency training, technical seminars and workshops to improve their environmental management competencies.

*We believe in
the power of nature*

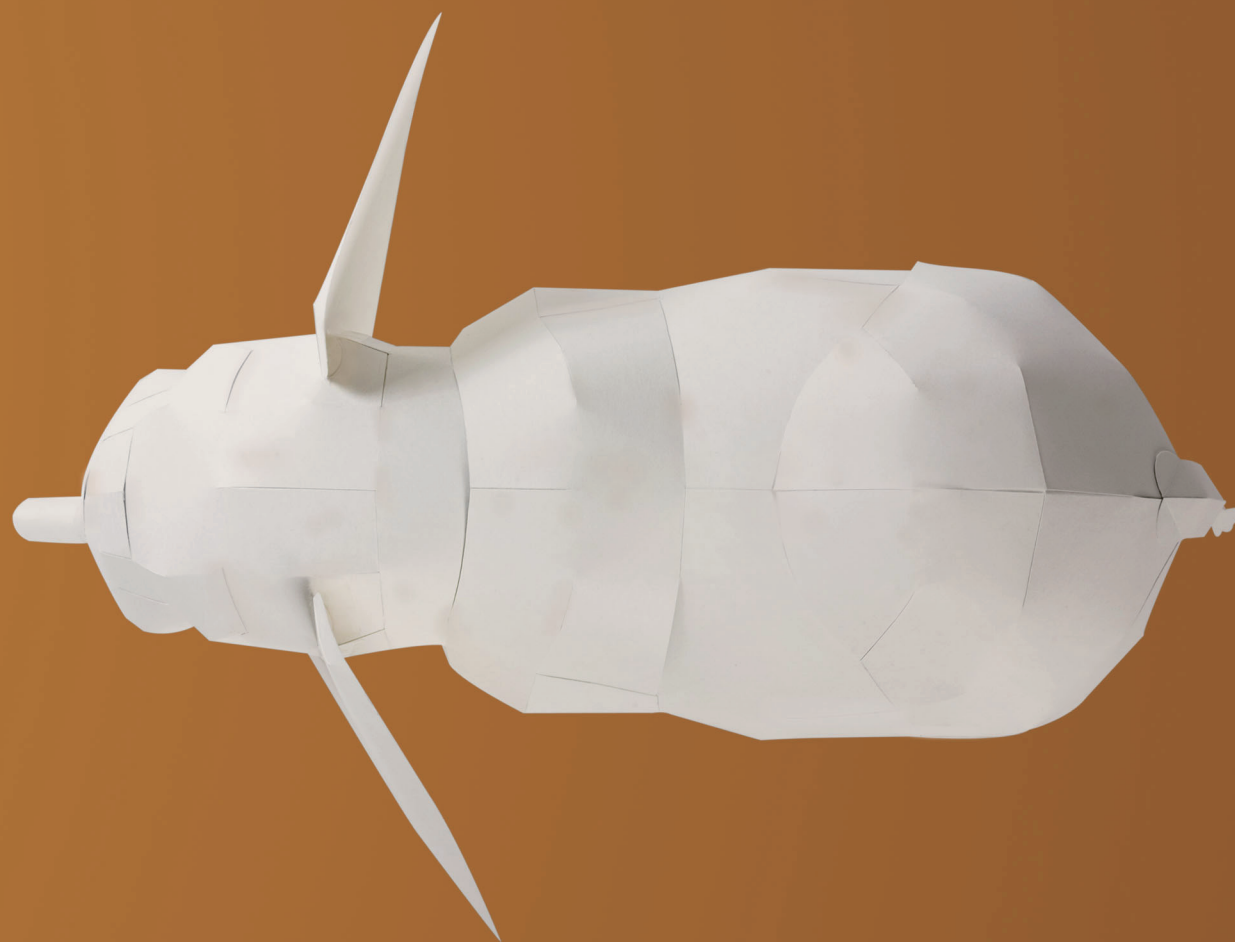


Major environmental education by plant

Classification	Year	Course name
Sintanjin tobacco manufacturing plant	2008	Education by an external instructor to enhance the mindset for environmental conservation
	2009	Special training on changes in the environmental administration, guidelines and direction of inspection in 2009 Explanation of the direction of guidance and inspection in 2009 and training on laws and regulation relating to odor Practical environmental training Legally required training for environmental engineers(noise , vibration) Explanation of laws and regulations regarding waste management and special training on administrativepractices Legally required training of 2009 for environmental engineers (air quality experts) Training for explanation of the year-end courtyard environmental guidance & inspection plan and amendedenvironmental laws and regulations Practical training on odor and VOC (volatile organic compounds)
Yeongju tobacco manufacturing plant	2008	Energy-saving mindset training Environmental management mindset training
	2009	Completion of the ISO internal auditor training Participation in the Yeongju Agenda workshop 7 training sessions relating to environment and energy Completion of the ISO internal auditor training Participation on two training sessions regarding environmental laws and regulations
Wonju tobacco manufacturing plant	2008	Training for environmental engineers Participation in training on amendment of environmental laws and technical seminars Participation in training sessions on environmental laws and technical seminars
	2009	Legally required training of 2009 for environmental engineers Participation in training on the amendment of the Environmental Conservation Act and technical seminars Participation in training on environmental laws and regulations and technical seminars
Printing plant	2008	ISO environment system Emergency drill
	2009	Basic course for ISO internal auditors Emergency drill Training for environmental engineers Training for environmental staffs



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Commendations

2005 Won the Social Contribution Grand Prize

2006 Won the Grand Prize in the 4th Korean Ethical Management Competition

2007 Named an honored company in corporate governance

2008 Won the Grand Prize in the Social Contribution Competition

2009 Dow Jones Sustainability Index Korea

Third Party Review Opinion

This is my review opinion on KT&G Sustainability Report 2009.



Reviewer

Woo Gi-Jong

The Sustainability Report of KT&G is well written in that the report is balanced and reliable, and in that its contents linked KT&G's vision with mid- to long-term strategies. I believe KT&G's management policy and performance are outstanding as well. However, I'd like to mention a few things that need improvement as far as KT&G's vision, strategies and the contents of the report are concerned.

First of all, KT&G's Sustainability management vision 2015 is to become a global blue-chip company. Rather than the definition of a global blue-chip company, KT&G would need to make its sales, market share, market capitalization and profits to shareholders available for comparison, and present a specific goal that can be verifiable in 2015.

Second, risks need to be managed because of the uncertainty of business environment and the emergence of new risks. KT&G's risk management system is quite capable of managing financial risks, human risks and information security risks. However, it would add to the reliability of KT&G's management if KT&G paid more attention to actual cases rather than listing different types of risks or presenting pre-control methods. In addition, as far as the sustainability management of the supply chain is concerned, not only management of individual suppliers, but also observation of the changes in places best for cultivating leaf tobacco according to climate changes is required from the macroscopic viewpoint.

Third, KT&G's environment-friendly management system stands out. KT&G has a management system in place for water quality, air quality, waste, soil and odor. The Gimcheon Leaf Tobacco Plant switched its fuel from Bunker C oil to LNG to eliminate SOx and NOx. KT&G installed energy-efficient equipments. It has environmental and cultural links with local communities as exemplified by Sangsang Madang. These cases added concrete substance to the report. The only thing is that KT&G needs to take a more proactive and leading role in environment-friendly management like saving energy not only in the manufacturing processes, but also in its administrative processes. For instance, KT&G needs to minimize energy consumption by using heat-insulating materials and windows, and consider using renewable energy, such as geothermal and solar energy, or rainwater. KT&G needs to be ready for the time when energy prices or water prices will be readjusted to a realistic level.

Fourth, I have mentioned a few things for the sake of the report's integrity, but I'd like to emphasize the importance of cases. For instance, the report says that the Sinmungo system is a communication channel with customers that directly connects to the e-mail of KT&G's CEO, but does not provide any case of using the Sinmungo system to solving a certain problem. That's something that could make this report more complete.

I hope that KT&G's employees and external participants will work together to accomplish EVER-KT&G 2015 and grow together with our society into an always righteous and enlightened company.

Chairman of the Green Growth Committee Woo Gi-Jong

This is my review opinion on KT&G Sustainability Report 2009.



Reviewer

Yang Chun-Seung

First of all, looking at the formal requirements of the report, it is well written in accordance with the GRI G3 Guideline in general. What stands out is the fact that KT&G dubbed the mi-to long-term goal, which seems to be the most important in a sustainability report, 'EVER-KT&G 2015,' and defined specific tasks in three aspects, i.e. society, environment and economy. KT&G's strategy was to conduct a survey of stakeholders according to the GRI indicators, evaluate the materiality of each indicator, and incorporate it with the management policy. Ultimately KT&G set up a concrete goal of incorporating DJSI. I believe it what distinguishes this report from other reports.

Then, I reviewed the contents of the report by sector. Looking at the social sector, the ethical management system, the continuous support of tobacco farmers, the low proportion of temporary employees, and the continuously lowering accident rate are highlighted as the strengths of the company. Moving on to the economic sector, I believe, the adoption of IFRS (the transparent and standardized accounting standard), the continuous expectation of high profits, and the aggressive development of overseas markets are increasing the economic competitiveness of the company. In terms of the environmental sector, the environmental management system for minimization of pollutants, the continuously lowering of the energy basic unit, and the proactive response to climate change and reduction of greenhouse gases are rated very positively. Also, considering the outside directors accounting for 75% of the Board of Directors, the presence of the independent audit committee, and the constant risk management, including finance, foreign exchange, corruption, information security and litigation, KT&G's corporate governance also seems to be transparent to a certain extent.

I think what I mention below needs to be improved. For starters, when it comes to economy, the description of R&D expenses is too superficial. It is advisable that the goal of R&D and the details of R&D expenses should be presented transparently. I also believe that it is a good idea to try dialogues in addition to surveys for communication with stakeholders. When it comes to responding to climate change, factors likely to prevent KT&G from joining DJSI, such as non-participation in the Carbon Disclosure Project (CDP), a global initiative, are found. So a firmer will and policy of the top management seem to be required.

Korea Sustainability Investing Forum
Executive director

Yang Chun-Seung

Independent Assurance Statement

To readers of KT&G Sustainability Report 2009

> Introduction

This auditor was asked to perform an independent third-party assurance of KT&G Sustainability Report 2009. The management of KT&G will be responsible for preparing this report, and this auditor's responsibility is to provide a third-party statement of assurance regarding this report.

> Scope of assurance

KT&G describes its commitment to sustainability management activities and the outcomes in the sustainability report, and the auditor presents the following third-party statement of assurance.

- Assurance of the economic sector: whether the financial performance data has been appropriately derived from the audited report on KT&G's financial statements and sales report for 2009.
- Assurance of the social and environmental sector: whether the information contained in the report is properly described without any serious error or bias

> Assurance standards

The auditor audited the report in accordance with the Institute of Social and Ethical Accountability's "AA1000 AS (Assurance Standard)*." Also, KT&G applied the Sustainability Reporting Guidelines (G3) of the GRI (Global Reporting Initiative) when preparing this sustainability report.

* AA1000AS is an assurance standard for sustainable reporting developed by the Institute of Social and Ethical Accountability in 1999, a non-profit organization based in the UK. It presents three important criteria: materiality, completeness and responsiveness.

> Independence

The auditor has no relationship with KT&G regarding any of its for-profit operations and activities other than providing an independent assurance report, and maintains independence.

> Assurance procedure

To provide the statement of assurance, the auditor did the following:

- Investigation of media reports and Internet data mentioning KT&G during the reporting period;
- Review of the systems and processes used to generate the information contained in this report;
- Interviewing related officials to evaluate sustainability management activities and processes;
- Review of internal documents and original data;
- On-site inspection by visiting the Seoul head office and the Daejeon head office; and
- Checking whether the financial data was appropriately derived from the financial statements for 2009

> Conclusions

This auditor presents the following assurance opinion from the viewpoint of materiality according to the above procedure. This auditor believes that this report does not contain any serious error or bias.

- Materiality: Does KT&G possess a systematic and rational process of identifying important issues and does the report represent important data without any omission?
-KT&G developed its own materiality test model linked with the GRI Indicators, and includes all important issues in the report without any omission by means of this model.
- Completeness: Does KT&G fully understand its own important issues, and present a complete and balanced view about these issues in the report?
-KT&G has various channels in which diverse stakeholders like customers, suppliers, local communities, employees and NGOs can participate directly, and uses these channels to present a complete and balanced view about these issues.
- Responsiveness: Does KT&G appropriately respond to important issues?
-KT&G has internal guidelines and processes in responding to important issues described in the report, and uses them to properly respond to them.

> Recommended improvements

After performing the auditing process specified in this assurance statement, the auditor recommended the following improvements, and the company agreed to comply.

- To further refine the materiality test model, I recommend that KT&G should continuously improve the model by having stakeholders participate and diversifying the test method.
- To present more complete and balanced opinions, I recommend that KT&G should reinforce the process of providing feedback about important issues to stakeholders, and be more thorough in presenting what KT&G is doing well and poorly in the report.
- In terms of efficiently responding to important issues, implementation of the environmental management system can be rated highly. However, it is true that KT&G leaves much to be desired in terms of operating the system. Accordingly, I recommend that KT&G should establish and carry out a concrete system improvement plan, including the introduction of the environmental accounting system, and the implementation of transportation-related inventory.

February 2010
Management Research Institute, Chungang University

Jang Ji-In



GRI Indicators

		GRI	Page
Strategy and Analysis	1.1	Statement from the most senior decision-maker of the organization about the relevance of sustainability to the organization and its strategy	4-5
	1.2	Organization and sustainability: key impacts, risks, and opportunities	17-19
		GRI	Page
Organizational Profile	2.1	Name of the organization	10
	2.2	Primary brands, products, and/or services	10, 35-36
	2.3	Organizational structure, including main divisions, operating companies, subsidiaries, and joint ventures.	10-11
	2.4	Location of the head office/headquarters	10, back cover flap
	2.5	Number of countries where the organization operates, and names of countries with either major operations or that are specifically relevant to the sustainability issues covered in the report	10, 36
	2.6	Nature of ownership and legal form	10
	2.7	Markets served	10, 36
	2.8	Scale of the reporting organization	10
	2.9	Significant changes during the reporting period regarding size, structure, or ownership	10, 34
	2.10	Awards received in the reporting period	7
		GRI	Page
Report Parameters	3.1	Reporting period	front cover flap
	3.2	Date of most recent previous report	front cover flap
	3.3	Reporting cycle	front cover flap
	3.4	Contact point for questions regarding the report or its contents	front cover flap, post card
	3.5	Process for defining report contents	front cover flap
	3.6	Boundary of the report	front cover flap
	3.7	State any specific limitations on the scope or boundary of the report	front cover flap
	3.8	Basis for reporting on entities that can significantly affect comparability from period to period and/or between organizations.	front cover flap
	3.9	Data measurement techniques and the bases of calculations, including assumptions and techniques underlying estimations applied to the process of data gathering	front cover flap
	3.10	Explanation of the effect of any re-statements of information provided in earlier reports, and the reasons for such re-statement	front cover flap
	3.11	Significant changes from previous reporting periods in the scope, boundary, or measurement methods applied in the report.	front cover flap
	3.12	GRI Indicators	83-86
	3.13	Assurance	82
		GRI	Page
Governance, Commitments, and Engagement	4.1	Governance structure of the organization (including committees under the board of directors responsible for specific tasks, such as setting strategy or organizational oversight)	12-14
	4.2	Indicate whether the Chair of the board of directors is also an executive officer	12
	4.3	For organizations that have a unitary board structure, state the number of members of the highest governance body that are independent and/or nonexecutive members.	12
	4.4	Mechanisms for shareholders and employees to provide recommendations or direction to the board of directors.	14
	4.5	Linkage between compensation for members of the board of directors, senior managers, and executives, and the performance of the organization	14
	4.6	Processes in place for the board of directors to ensure conflicts of interest are avoided	12
	4.7	Process for determining the qualifications and expertise of the members of the board of directors for guiding the organization's strategy on economic, environmental, and social topics	12-13

Independent Assurance Statement

		GRI	Page
Governance, Commitments, and Engagement	4.8	Internally developed statements of mission or values, codes of conduct, and principles relevant to economic, environmental, and social performance and the status of their implementation	18
	4.9	Procedures of the board of directors for overseeing the organization's identification and management of economic, environmental, and social performance	13
	4.10	Processes for evaluating the highest governance body's own performance, particularly with respect to economic, environmental, and social performance	14
	4.11	Explanation of whether and how the precautionary approach or principle is addressed by the organization	15-16
	4.12	Externally developed economic, environmental, and social charters, principles, or other initiatives to which the organization subscribes or endorses	43, 70
	4.13	Memberships in associations (such as industry associations) and/or national/international advocacy organizations	back cover flap
	4.14	List of stakeholder groups engaged by the organization.	24-25
	4.15	Basis for identification and selection of stakeholders with whom to engage	24
	4.16	Approaches to stakeholder engagement, including frequency of engagement by type and by stakeholder group	20-21
	4.17	Key topics and concerns that have been raised through stakeholder engagement, and how the organization has responded to those key topics and concerns, including through its reporting	22-24

		GRI	Relevancy to KT&G	Page
Economic Performance Indicators	Disclosure on Management Approach			25
	EC1	Direct economic value generated and distributed, including revenues, operating costs, employee compensation, donations and other community investments, retained earnings, and payments to capital providers and governments	Key business performance, key financial statements, the ratio of social contribution out of sales, economic value generated and distributed, and KT&G's contribution to the national economy and finance	33-35
	EC2	Financial implications and other risks and opportunities for the organization's activities due to climate change	Reinforcement of the basic system of sustainability management and the climate change response system	18, 70
	EC3	Coverage of the organization's defined benefit plan obligations	Introduction of the retirement pension system	61
	EC4	Significant financial assistance received from government	Government subsidies	35
	EC5	Range of ratios of standard entry level wage compared to local minimum wage at significant locations of operation	Employee information	53
	EC6	Policy, practices, and proportion of spending on locally-based suppliers at significant locations of operation	Building win-win cooperative partnership	42
	EC7	Procedures for local hiring and proportion of senior management hired from the local community at locations of significant operation	Employee information	53
	EC8	Development and impact of infrastructure investments and services provided primarily for public benefit through commercial, in-kind, or pro bono engagement.	Social responsibility linked to the business, social welfare, employees' social contribution, environmental protection, reinforcing the national competitiveness, sponsoring culture, arts and sports	46, 48, 51
	EC9	Understanding and describing significant indirect economic impacts	KT&G's economic and financial contribution to the country	75-76

Environmental Performance Indicators	Disclosure on Management Approach			27
	EN1	Materials used by weight or volume	Use of raw material (use of domestic and foreign leaf tobacco)	73
	EN2	Percentage of materials used that are recycled input materials	Quantity of leaf tobacco byproducts and % recycled	73
	EN3	Direct energy consumption by primary energy source.	Energy consumption and basic unit improvement (LNG)	70
	EN4	Indirect energy consumption by primary source	Energy consumption and basic unit improvement (electric power)	70
	EN5	Energy saved due to conservation and efficiency improvements	Savings by efficient operation of support facilities like boilers, freezers and air-conditioners, and description thereof	71
	EN6	Initiatives to provide energy-efficient or renewable energy based products and services, and reductions in energy requirements as a result of these initiatives	N/A (KT&G's products, cigarettes, do not involve any energy consumption)	-
	EN7	Initiatives to reduce indirect energy consumption and reductions achieved	Minimization of business trips by means of video conferences	70
	EN8	Total water withdrawal by source	Water use and basic unit improvement achieved	46, 48, 51
	EN9	Water sources significantly affected by withdrawal of water	N/A (Most workplaces use waterworks, and some use underground water or draws water from the river, but no water source is significantly affected as specified by GRI.)	
	EN10	Percentage and total volume of water recycled and reused	Sewage and waste water discharge	73
	EN11	Location and size of land owned, leased, managed in, or adjacent to, protected areas and areas of high biodiversity value outside protected areas	Introduction of the head office and workplaces (the manufacturing plants and the printing plant are located in the general industrial area, and the leaf tobacco processing factories are located in the semi-industrial area, not a natural ecology protection area. However, there is no case of environmental pollution due to the manufacturing plants, the leaf tobacco processing plant and the printing plant.)	10-11

		GRI	Relevancy to KT&G	Page
Environmental Performance Indicators	EN12	Description of significant impacts of activities, products, and services on biodiversity in protected areas and areas of high biodiversity value outside protected areas	N/A (The manufacturing plants and the printing plant are located in the general industrial area, and the leaf tobacco processing factories are located in the semi-industrial area, not a natural ecology protection area. However, the manufacturing plants, the leaf tobacco processing plant and the printing plant are making efforts to protect the ecosystem in the vicinities.)	-
	EN13	Habitats protected or restored	N/A (The manufacturing plants and the printing plant are located in the general industrial area, and the leaf tobacco processing factories are located in the semi-industrial area, not a natural ecology protection area.)	-
	EN14	Strategies, current actions, and future plans for managing impacts on biodiversity.	Eco-Friendly Management Map	67
	EN15	Number of habitats in areas affected by operations, by level of extinction risk of IUCN Red List species and national conservation list species with	N/A (The manufacturing plants and the printing plant are located in the general industrial area, and the leaf tobacco processing factories are located in the semi-industrial area, not a natural ecology protection area.)	-
	EN16	Total direct and indirect greenhouse gas emissions by weight	Annual CO2 emissions and basic unit improvement achieved	70
	EN17	Other relevant indirect greenhouse gas emissions by weight	No data collected (As KT&G does not have the indirect greenhouse gas inventory, related to transportation and packaging, it is impossible to gather data. KT&G is planning to build the inventory and collect data.)	-
	EN18	Initiatives to reduce greenhouse gas emissions and reductions achieved	Annual CO2 emissions and basic unit improvement, coping with climate change	70
	EN19	Emissions of ozone-depleting substances by weight	KT&G is not using substances destroying the ozone layer, and there has been no emission	71
	EN20	NOx, SOx, and other significant air emissions by type and weight	No workplace emits air pollutants.	71
	EN21	Total waste water discharge by quality and destination	Sewage and waste water discharge, concentration of water pollutants compared to the legal standards	73
	EN22	Total weight of waste by type and disposal method	Quantity of waste and basic unit improvement, waste management	72
	EN23	Total number and volume of significant spills	No spill during the report period	72
	EN24	Weight of transported, imported, exported, or treated waste deemed hazardous under the terms of the Basel Convention Annex I, II, III, and VIII, and percentage of transported waste shipped internationally	No discharge of hazardous waste and overseas export during the report period	72
	EN25	Identity, size, protected status, and biodiversity value of water bodies and related habitats significantly affected by the reporting organization's discharges of water and runoff	Waste water in most workplaces is managed primarily by the waste water treatment plant, and then discharged to the final waste water treatment plant. In the Wonju manufacturing plant waste water is directly discharged to the river, but conforms to the standards of water quality laws and regulations.	-
	EN26	Initiatives to mitigate environmental impacts of products and services, and extent of impact mitigation	Eco-friendly operations of the manufacturing plants, the leaf tobacco processing plant and the printing plant, and the eco-friendly management system	69
	EN27	Percentage of products sold and their packaging materials that are reclaimed by category	Considering the eco-friendliness of raw materials and packaging materials	72-74
	EN28	Monetary value of significant fines and total number of non-monetary sanctions for noncompliance with environmental laws and regulations	N/A (no violation)	69
	EN29	Significant environmental impacts of transporting products and other goods and materials used for the organization's operations, and transporting members of the workforce	No data (As no greenhouse gas inventory is currently available, it is impossible to get data on the environmental impacts of transports. KT&G is planning to build the greenhouse gas inventory and collect data.)	-
	EN30	Total environmental protection expenditures and investments by type	Environmental investments by year	-
Human Rights Performance Indicators	Disclosure on Management Approach			26
	HR1	Percentage and total number of significant investment agreements that include human rights clauses or that have undergone human rights screening	Sustainable management of the supply chain	42
	HR2	Percentage of significant suppliers and contractors that have undergone screening on human rights and actions taken.	Sustainable management of the supply chain	42
	HR3	Total hours of employee training on policies and procedures concerning aspects of human rights that are relevant to operations, including the percentage of employees trained	Efforts to protect human rights	53
	HR4	Total number of incidents of discrimination and actions taken	No cases of discrimination during the report period	53
	HR5	Operations identified in which the right to exercise freedom of association and collective bargaining may be at significant risk, and actions taken to support these rights.	Establishing the win-win labor-management culture	60
	HR6	Operations identified as having significant risk for incidents of child labor, and measures taken to contribute to the elimination of child labor.	Prohibition of child labor and forced labor	53
	HR7	Operations identified as having significant risk for incidents of forced or compulsory labor, and measures taken to contribute to the elimination of forced or compulsory labor.	Prohibition of child labor and forced labor	53
	HR8	Percentage of security personnel trained in the organization's policies or procedures concerning aspects of human rights that are relevant to operations.	Document security and information protection education	59
	HR9	Total number of incidents of violations involving rights of indigenous people and actions taken.	No violation during the report period (Operation of local resident management programs near the manufacturing plants and the leaf tobacco plant, and key outcomes, and social contribution activities for local communities and outcomes)	48-52, 74-76

Independent Assurance Statement

	GRI	Relevancy to KT&G	Page
Labor Performance Indicators	Disclosure on Management Approach		26
	LA1	Total manpower by employment type, employment contract, and region	Employee information, number of employees by year
	LA2	Total number and ratio of employee turnover by age group, gender, and region	Number of retirees and turnover ratio
	LA3	Benefits provided to full-time employees that are not provided to temporary or part-time employees, by major operations	Employee welfare system
	LA4	Percentage of employees covered by collective bargaining agreements	Establishing the win-win labor-management culture, information on the labor union
	LA5	Minimum notice period(s) regarding operational changes, including whether it is specified in collective agreements	Establishing the win-win labor-management culture
	LA6	Percentage of total workforce represented in formal joint management-worker health and safety committees	Number of committee members in the industrial safety and health committees accidents
	LA7	Number of injuries, occupational diseases, lost days, and absenteeism, and number of work-related accidents by region	Accident rate, number of lost work days and number of persons involved in an industrial accidents
	LA8	Education, training, counseling, prevention, and risk-control programs in place to assist workforce members, their families, or community members regarding serious diseases	Employee welfare system and safety management education
	LA9	Health and safety topics covered in formal agreements with trade unions	Industrial health and safety issues contained in the collective bargaining
	LA10	Average hours of training per year per employee by employee category	Education and training hours per person support of prospective retirees
	LA11	Programs for skills management and lifelong learning that support the continued employability of employees and assist them in managing career endings	Job training for fostering of professional manpower, and education programs for life plan support of prospective retirees
	LA12	Percentage of employees receiving regular performance and career development reviews	Performance management and compensation system (The performance of full-time employees is evaluated and reviewed.)
	LA13	Composition of governance bodies and breakdown of employees per category according to gender, age group, minority group membership, and other indicators of diversity.	The current status of the board members, number of employees by year, the ratio of female workers, and the employment of the disabled
	LA14	Ratio of basic salary of men to women by employee category.	Efforts to protect human rights
Society Performance Indicators	Disclosure on Management Approach		26
	S01	Nature, scope, and effectiveness of any programs and practices that assess and manage the impacts of operations on communities, including entering, operating, and exiting	Social responsibility linked to the business, environmental protection
	S02	Percentage and total number of business units analyzed for risks related to corruption	Names of workplaces where there is a need to reinforce anti-corruption efforts, and number of dismissals and disciplinary actions taken in response to corruption
	S03	Percentage of employees trained in organization's anti-corruption policies and procedures	Ethical management education process and contents
	S04	Actions taken in response to incidents of corruption	Names of workplaces where there is a need to reinforce anti-corruption efforts, and number of dismissals and disciplinary actions taken in response to corruption
	S05	Public policy positions and participation in public policy development and lobbying	FCTC regulations and responses
	S06	Total value of financial and in-kind contributions to political parties, politicians, and related institutions by country	N/A (KT&G does not make financial and in-kind contributions to political parties.)
	S07	Total number of legal actions for anti-competitive behavior, anti-trust, and monopoly practices and their outcomes	Cases of unfair trade practices, establishing marketing standards
	S08	Monetary value of significant fines and total number of non-monetary sanctions for non-compliance with laws and regulations	Incidents of corruption and resolution of unfair labor practices
Product Liability Performance Indicators	Disclosure on Management Approach		26
	PR1	Life cycle stages in which health and safety impacts of products and services are assessed for improvement, and percentage of significant products and services\ categories subject to such procedures	Product information disclosure for customers, product researches to lower the harm of smoking
	PR2	Total number of incidents of non-compliance with regulations and voluntary codes concerning health and safety impacts of products and services during their life cycle, by type of outcomes	Legal actions filed in relation to smoking and major results
	PR3	Type of product and service information required by procedures, and percentage of significant products and services subject to such information requirements	Product information disclosure for customers
	PR4	Total number of incidents of non-compliance with regulations and voluntary codes concerning product and service information and labeling, by type of outcomes	No case of violation during the report period
	PR5	Practices related to customer satisfaction, including results of surveys measuring customer satisfaction	Results of the national customer satisfaction survey and KT&G's own customer satisfaction survey
	PR6	Programs for adherence to laws, standards, and voluntary codes related to marketing communications, including advertising, promotion, and sponsorship	Understanding and responding to trends in regulations, and the autonomous fair trade compliance program
	PR7	Total number of incidents of non-compliance with regulations and voluntary codes concerning marketing communications, including advertising, promotion, and sponsorship by type of outcomes	No case of violation during the report period
	PR8	Total number of substantiated complaints regarding breaches of customer privacy and losses of customer data	No case of violation during the report period
	PR9	Monetary value of significant fines for noncompliance with laws and regulations concerning the provision and use of products and services	No case of violation during the report period

Glossary

> Environmental Tobacco Smoke (ETS)

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

> United Nations Framework Convention on Climate Change

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

> Green Purchasing

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

> Framework Convention on Tobacco Control (FCTC)

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

> Matching grant

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

> Flexible Benefit Plan

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

> Voluntary Agreement (VA)

A company related to production, supply and consumption of energy enters into an agreement with the government, and sets energy-saving and greenhouse gas emissions reduction goals.

Then, the government validates these goals, and gives various incentives accordingly.

> Eco Efficiency (EE)

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

It is the ratio of environmental performance to economic performance.

> Employee Stock Ownership Plan (ESOP)

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

> Union Shop

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

> Home Care Service

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

> Sustainability Management (SM)

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

> Responsible Management System

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

Glossary

> **Balanced Score Card (BSC)**

It is a new strategy management system and performance evaluation system for business.

It is a tool for transforming the mission and strategies of the organization into comprehensive metrics so that they can be measured and managed.

> **Clientship**

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

> **Compliance Program (CP)**

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

CP stage 3 is to satisfy the requirements of stages 1 and 2 and voluntarily correct relevant violations.

> **DowJones Sustainability Index (DJSI)**

It is a sustainability index jointly developed in 1999 by DowJones and SAM (Sustainable Asset Management), a Swiss-based sustainability management rating agency.

This index includes only the top 10% of those companies included in the DowJones Global Index 2500 (DJGI 2500) which were found to be excellent in sustainability through integrated evaluation based on economic, environmental and social standards.

> **Global Reporting Initiative (GRI)**

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

These are GRI guidelines for preparation of sustainability management reports.

> **ISO 14001**

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

> **Management by Objectives (MBO)**

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

> **Material Safety Data Sheets (MSDS)**

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

> **National Customer Satisfaction Index (NCSI)**

This index was made to improve the quality competitiveness of enterprises, industries and the country. It concerns the pursuit and management of customer satisfaction.

It not only offers indexes for accurate measurement of customer satisfaction, but also serves as a measurement method for analyzing business performance.

> **TOE(tonnage of oil equivalent)**

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

> **UN Global Compact**

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

KT&G

About publishing KT&G Sustainability Report..

KT&G analyzed the sustainability management activities it has performed as a corporate citizen since its privatization in 2002, and our future plans from three perspectives, i.e. economy, society and environment, in accordance with the GRI G3 Guidelines. 'KT&G Sustainability Management Report 2009', the second such report published since 2007, contains KT&G's will to build a sustainable future, and we will capitalize on this report to engage in more systematic and practical sustainability management activities. KT&G will take a step forward in meeting the expectations of stakeholders, and disclose the outcomes of sustainability management through our sustainability management reports and homepage on a regular basis. Thank you.

GRI G3 Application Levels

'KT&G Sustainability Report 2009' was prepared in a such a way as to meet the requirements of 'A+' among the 'GRI G3 Application Levels'.



GRI Application Levels Table

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

The power of the future is
sweeping across the world.
KT&G imagines a better tomorrow!



Sales_KRW100 million



Social Contribution out of Sales
_ KRW100 million



CO2 Emissions Improvement _ CO2 tons/1 million cigarettes

22,672

22,093

623

437

0.05

0.05

0.026

0.006

24,127

25,731

27,764

530

507

626

KT&G Sustainability Report 2009



Evaluation of external organizations and membership status

Membership status in related organizations		
Organization	Date joined	Prospectus
The Korea Tobacco Association	1998. 3	<ul style="list-style-type: none"> A purely civilian organization consisting of 4 major cigarette makers Aiming to ensure that the society understands the cigarette industry fairly and objectively by collecting and disseminating information about cigarettes Promoting intra-industry cooperation based on fairness, and contributing to the sound development of the domestic cigarette industry and the national economy by appropriately coping with the social atmosphere surrounding the cigarette industry
Korea Fair Competition Federation	1999. 5	<ul style="list-style-type: none"> Serving as a bridge between the Government and the industry by helping the private sector better understand the fair trade system, promoting autonomous fair competition, and making suggestions to the Government regarding fair trade policies
Federation of Korean Industries	2002. 11	<ul style="list-style-type: none"> Implementing right economic policies and globalizing the economy to promote the free market system and help the national economy grow in a sound manner
Korea International Trade Association	1989. 4	<ul style="list-style-type: none"> A trade promotion service agency that proposes trade deregulation to the government and informs the government of financial difficulties, and supports the trade cooperation in the private sector and the building of trade infrastructure Supporting small and medium-sized trading companies through the trade support team, the translation center, the trade incubator, assistance with overseas transactions, and provision of trade funds
Korea Trade-Investment Promotion Agency	2001. 1	<ul style="list-style-type: none"> A government-invested agency founded to contribute to the development of the national economy by promoting trade, supporting investments between local and overseas corporations, and promoting industrial and technological cooperation

Head Office and Workplaces

> Daejeon Head Office

100, Pyeongchon-dong, Daedeok-gu, Daejeon
Divisions : Manufacturing Headquarters, Leaf Tobacco Headquarters, R&D Headquarters, Support Headquarters are located in the Daejeon head office

> Yeongju Tobacco Manufacturing Plant

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

> Gwangju Tobacco Manufacturing Plant

330, Yangsan-dong, Buk-gu, Gwangju

> Gimcheon Leaf Tobacco Processing Plant

500, Dasu-dong, Gimcheon, Northern Gyeongsang Province

> Cheon Printing Plant

511, Seongjeong-dong, Cheonan, Southern Chungcheong Province

> Seoul Head Office

KOSMO Tower, 1002, Daechi-dong, Gangnam-gu, Seoul
Divisions : Strategy Headquarters, Marketing Headquarters, Global Headquarters, Growth Business Headquarters, Real estate business group are located in the Seoul head office

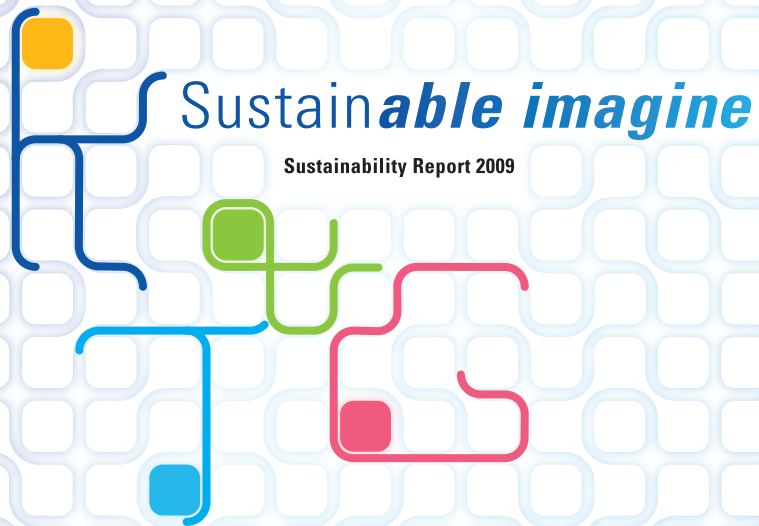
> Sintangjin Tobacco Manufacturing Plant

100, Pyeongchon-dong, Daedeok-gu, Daejeon



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Sustainable *imagine*

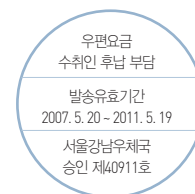
Sustainability Report 2009

KT&G

POST CARD

From

□□□□ - □□□□



KT&G

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

1 3 5 - 5 4 9

How to get additional information

If you have any opinion or suggestion as to 'KT&G Sustainability Management Report 2009', please contact us at the following address. We will reflect your opinions and suggestions to improve our next report.

Contact info

Phone: 02-3404-4581

Fax: 02-3404-4589

E-mail: godiva08@ktng.com

Address: Department of Social Contribution, 19th floor, KOSMO Tower, 1002, Daechi-dong, Gangnam-gu, Seoul

Reader survey

1. Which group do you belong to?

- ① Suppliers ② KT&G employees ③ Local residents ④ Civic and social organizations like NGO ⑤ Industries
⑥ Academics ⑦ Government ⑧ Journalists ⑨ Other ()

2. Through which channel did you become aware of the Sustainability Report of KT&G?

- ① KT&G homepage ② Seminar/lecture/exhibition ③ Newspaper/magazine
④ Another website ⑤ KT&G employees ⑥ Other ()

3. Which part of this report did you find most interesting?

- ① CEO message ② KT&G's Highlight ③ Value-creating KT&G ④ Excellent KT&G
⑤ Responsible KT&G ⑥ Eco-Friendly KT&G ⑦ Other ()

4. Which part of this report do you think need to be supplemented or improved?

- ① CEO message ② KT&G's Highlight ③ Value-creating KT&G ④ Excellent KT&G
⑤ Responsible KT&G ⑥ Eco-Friendly KT&G ⑦ Other ()

5. Please feel free to write your opinion on KT&G Sustainability Report.

* Gifts prepared by KT&G will be sent out to among those who sent valuable opinion.