



KT&G 2010 / 11 SUSTAINABILITY REPORT

Sustainable SEED

Why a sustainability report?

This is the third sustainability report published by KT&G. This edition aims to look back on the achievements of 'EVER-KT&G 2015' outlined in the sustainability report 2009 and assess the company's sustainable business management results and further consolidate our sustainability efforts. We will be more attentive to the views and needs of our stakeholders by actively and continuously communicating with them.

Scope and period of report

This report covers the major activities and outcome of our efforts over two years from January 1, 2010 to December 31, 2011. Some qualitative achievements that are worth mentioning are covered for the period beginning from before 2009 up to the first half of 2012. The scope of this report is limited to the business management activities of the headquarters, the five plants operation of the (Wonju plant was stopped in April 2012), the regional headquarters, and branch offices. Business management activities relating to investments and investment companies are not covered in this report. Though the activities of our overseas incorporated businesses and offices are not included this year, we plan to incorporate them in subsequent reports. The sustainability report is published every two years, and the most recent KT&G sustainability report was published in 2009.

Reporting basis

The sustainability report 2010/2011 was made based on the GRI G3.1 Guidelines. To read about our activities for each indicator recommended by the GRI, please refer to the appendix.

Assurance report

To raise the credibility of the reporting process and of the disclosed information, KT&G conducted a third party assurance through an independent, specialized institution. The third party institution confirmed that this report complies with the GRI. G3.1 Guidelines with an application level of A+. The assurance report is disclosed in the Appendix.

2010/2011 report characteristics

Organized around six issues of key interest to stakeholders

Six questions of key interest to stakeholders were derived from several issues identified through a materiality test. The content of the 2010/2011 report is organized around these six questions, which are value creation, sharing happiness with customers, transparent and righteous company, fostering talents who play on imagination, sowing green seeds, and a society of sincerity.

Focus on the practice of sustainable business management

To assess the sustainability awareness level of our employees and execute our sustainability plan from where we stand, KT&G conducted a survey of sustainability awareness among all of our 4,167 employees. The survey showed that our staff support the development of KT&G into a global, sustainable business and improved business performance in the mid- to long-term. This allowed us to reaffirm the importance of sustainable business management and the need to reinforce our practice of sustainable business management.

A reader-friendly design

This report is organized in such a way that it is easy for our readers to find the information that is of most interest and relevance. To do so, we have broken the stereotype format of corporate information disclosure. We have elaborated our disclosure management approach (DMA) for each key issue to clearly present our past achievements and future plans.

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KT&G announced the 'Seed,' the new group CI, to create a bright future full of hope by working with the society for a sustainable world. Through the 'Seed,' KT&G will achieve a unique corporate value by growing together with its customers.

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“We will pay a closer attention to your interest and needs and communicate with you at a closer distance so that we can grow into a company of ‘Righteousness,’ ‘Enlightenment,’ and ‘Companionship.’”



[RIGHTEOUSNESS]

As a 'Righteous company,' KT&G will establish an accountable management system that values autonomy and creativity in our workplace and walk the right path of business management with a view into the future. This will allow us to faithfully abide by the social norms and duties. In recognition of its outstanding governance structure and sustainable business management, KT&G has been designated as one of the best companies in corporate governance every year since 2003 and made it into the Dow Jones Sustainability Index (DJSI) for two years in a row from 2010. The modification of its articles of incorporation in February 2010 to separate the role of the CEO and that of the chair of the board is a reflection of our dedication to righteousness and transparency in corporate governance structure.

[ENLIGHTENMENT]

As an 'Enlightened company,' KT&G will embrace 'change and innovation' as a goal in its own right rather than a means to an end. Amidst a more competitive global market where the business environment is changing rapidly, we are strengthening our competitiveness through innovation in our business activities. Our investments in the areas of new drugs, cosmetics, and health care will lay the basis for the company's global activities. With a balanced business portfolio, KT&G will work to help the society grow sustainably with us.

[COMPANIONSHIP]

As a 'Company pursuing companionship,' KT&G creates the utmost value and rewards for our customers, shareholders, and all other constituents. We actively accommodate social norms to serve the public good and fulfill our corporate social responsibility.

Under the slogan of 'Imagining a better tomorrow,' KT&G is engaged in creating basic social values that the era requires in various ways through the Welfare Foundation, the Scholarship Foundation, CSR initiatives, volunteer activities by our employees, and Sangsang Madang (Imagination Planet). We will strive to create more value to our customers by interacting with and supporting the socially disadvantaged groups, cultural and scholarship programs.

Dear stakeholders,

It is a great pleasure for me to greet you all through the KT&G Sustainability Report 2010/2011, the third such report since 2007. Following the publication of the sustainability report in 2007 and 2009, KT&G enjoyed favorable responses about its sustainable business management from in and outside the company. This encouraged us to reinforce our commitment to sustainable business management. Instead of being content with what we have achieved so far, we are continuously striving to make each day of our lives count. You will find the results of our efforts, albeit small, in the KT&G Sustainability Report 2010/2011.

Through the publication of 'Sustainable Seed', KT&G hopes to identify its mid- to long-term business management strategies for sustainability and the overall business conditions across the economy, society, and environment. Based on the findings, we will work to achieve sustainable growth jointly with the society.

This report will serve a higher purpose than just disclosing and promoting the company's economic, social, and environmental achievements. It will be an opportunity to internalize our capacity for sustainable management and make up for the kinds of activities that are most needed. That said, we promise all our internal and external stakeholders to remain committed to our goal of becoming a trusted corporate citizen.

Your valuable opinions are important drivers of our company's future sustainable business management. We will pay a closer attention to your interest and needs and communicate with you at a closer distance so that we can grow into a company of 'Righteousness,' 'Enlightenment,' and 'Companionship.'

Thank you.

April 2012

KT&G CEO **Young-jin Min**



KT&G's sustainable business management



KOREA GINSENG CORP



YUNGJIN PHARM



KT&G LIFE SCIENCES



SOMANG COSMETICS



Creativity

Innovative, strategic rationality is needed to create values that stand out from those of others. At KT&G Group, we call this creativity and the business mind to uphold social values and righteousness.



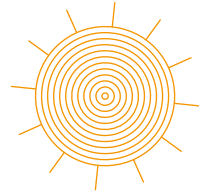
Passion

To turn a possibility into an endless value, one must challenge and try to achieve the smallest of possibilities. At KT&G Group, we call this passion and the mind to grow with the society.



Wise Insight

To create values that are meaningful for customers, one must keep a wise balance between rationality and sensitivity. At KT&G Group, we call this wise insight and the mind to be progressive and awakened.



Company that
creates endless value...

TAE A INDUSTRIAL

KGC YEBON

KGC LIFE & GIN

HANZHENG GINSENG



Company information

Company overview



Company overview

The world's fifth largest global tobacco company, KT&G is working to become a global company of excellence by maximizing corporate value. To do so, we are staying true to the values and ethics of business management and building a balanced portfolio in the areas of health supplement foods, bio and pharmaceutical business, cosmetics, and real estate.

* As of December 2011

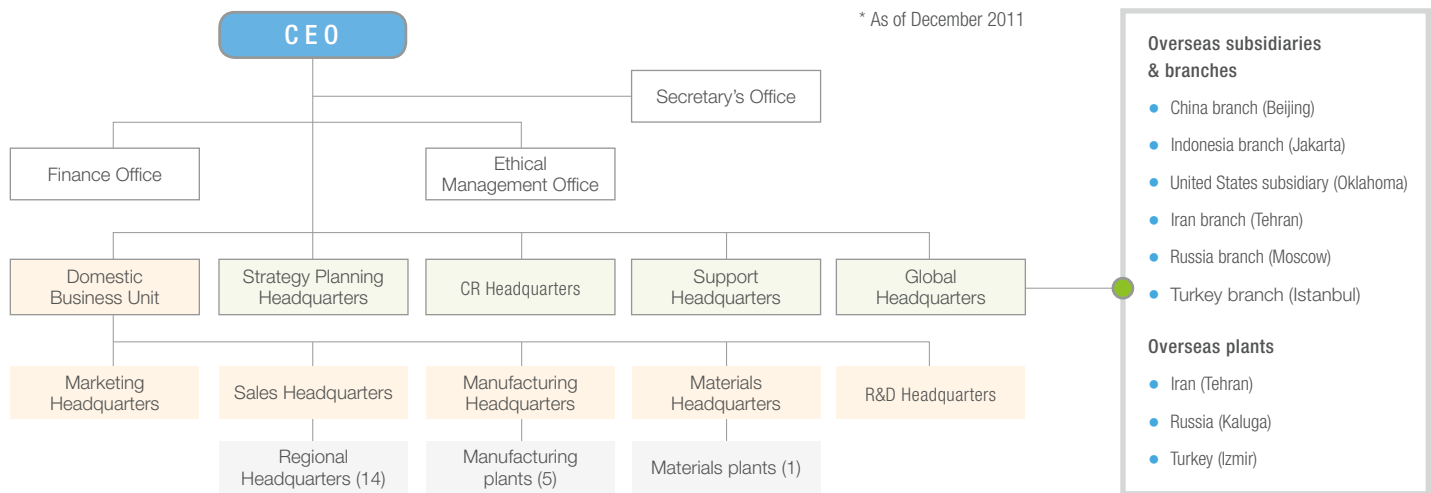
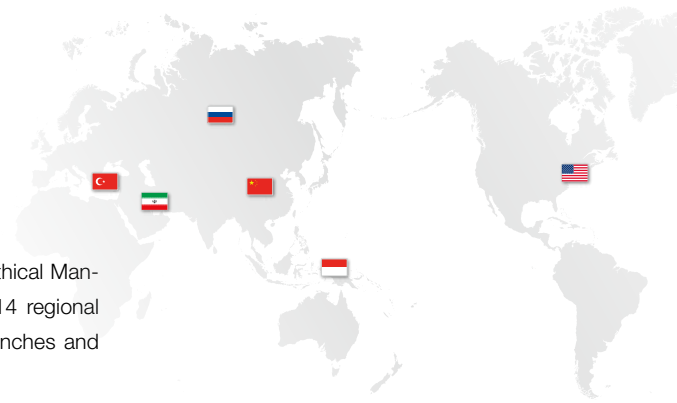
| | |
|--------------------------------|--|
| Name | KT&G |
| Location of HQ | 100, Pyeongchon-dong, Daedeok, Daejeon |
| Established on | April 1, 1987 |
| Company type | Private |
| Total assets | KRW 5,417.5 billion |
| Sales | KRW 2,490.8 billion |
| Number of employees | 4,298 (4,113 regular employees, 185 contract workers) |
| Affiliated companies | Korea Ginseng Corporation, KGC Life & Gin, Yungjin Pharmaceuticals, Somang Cosmetics, Tae-a Industries, KGC Yebon, KT&G Bio, Guilin Hanjeong Limited, and Trisakti, among others |
| Major shareholder institutions | Industrial Bank of Korea (6.9%), ESOP (2.4%), foreign shareholders (60.0%), treasury stocks (8.4%) |

Affiliated companies

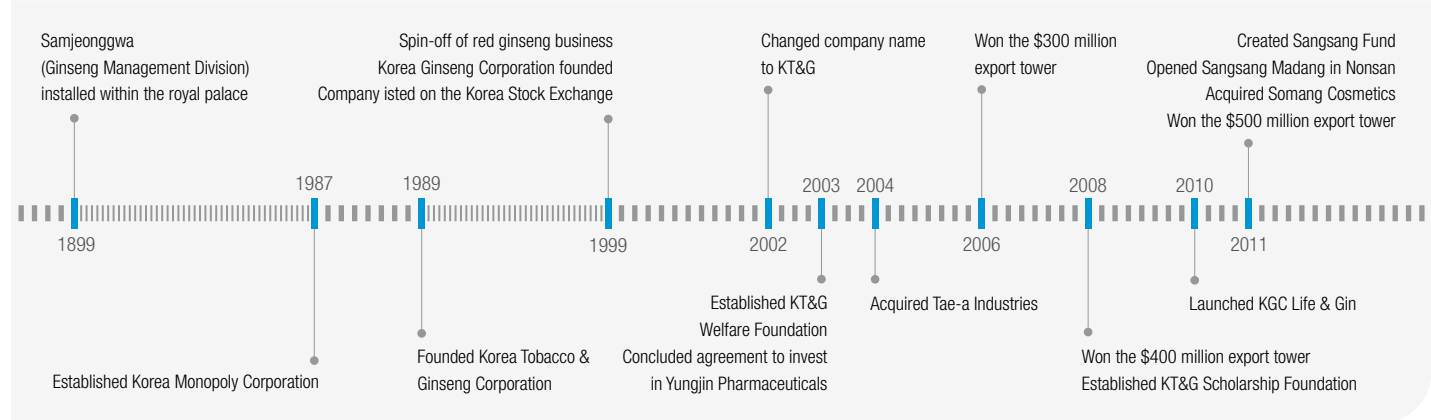
| Name | Established in | Major business |
|---------------------------------|----------------|---|
| Korea Ginseng Corporation (KGC) | 1999 | KGC is the nation's leading ginseng business. It processes and sells red ginseng and red ginseng products, continuing the tradition of the highest quality Korean ginseng in the world. |
| KGC Life & Gin | 2010 | KGC Life & Gin is KT&G's premium health and beauty business within the group's health care and life unit. It is growing into a global total health care and life business. |
| Yungjin Pharmaceuticals | 1962 | Yungjin Pharmaceuticals is the basis for the company's bio and pharmaceuticals business. Through continued R&D investment, it is distinguishing itself in the areas of new drugs and incrementally modified drugs (IMDs). |
| Somang Cosmetics | 1992 | Somang is a cosmetics business of middle standing offering outstanding quality, brand, and strong distribution channels. Recently, it expanded its business into premium Hanbang cosmetics through synergy with KGC Life & Gin. |
| Tae-a Industries | 1972 | Tae-a Industries is the nation's only producer of reconstructed tobacco sheet used in tobacco products. It exports its products to tobacco companies abroad and continues to expand its business areas. |
| KGC Yebon | 2012 | KGC Yebon was established to ensure a safe supply of Oriental medicinal herbs and ingredients to the KT&G group. It supplies extracted products to the group. |
| KT&G Bio | 2002 | KT&G Bio is a key pharmaceutical subsidiary that develops and commercializes new drug candidates. It will grow into the nation's top new drug development company. |
| Guilin Hanjeong Limited | 2011 | Guilin Hanjeong Limited is a subsidiary established in Guilin, China to produce red ginseng and red ginseng products using locally produced ginseng and sell them in the Chinese market. The company is expected to contribute to the early globalization of red ginseng. |
| Trisakti | 1974 | Trisakti is the first tobacco company acquired by KT&G through an overseas M&A. The company is expected to grow further in the Indonesian market and serve as a bridgehead for expansion into new markets through synergy with KT&G. |

Organizational structure

KT&G has three independent offices under the CEO (Secretary's Office, Finance Office, Ethical Management Office) and nine headquarters under the Domestic Business Unit. There are 14 regional headquarters and five plants under the Domestic Business Unit. KT&G operates six branches and three plants overseas.



Footsteps of KT&G

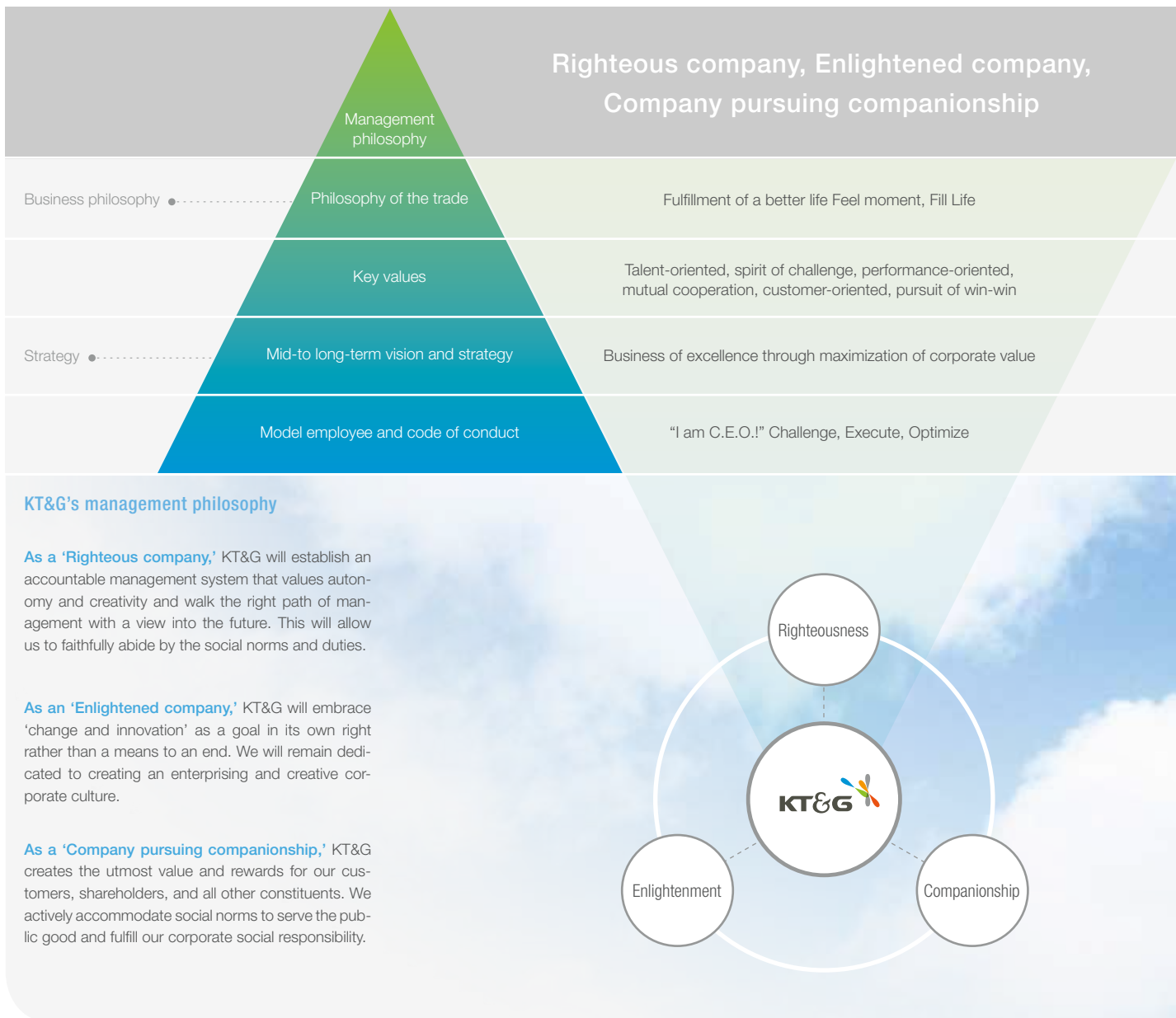


KT&G's corporate vision

KT&G will build a balanced business structure around its tobacco, health supplement food, and pharmaceutical businesses to become a global company of excellence, stability, and growth potential.

KT&G's value system

KT&G considers that becoming a trusted company is of utmost value in achieving accountable and ethical business management. To this end, we have introduced an operation system of integrity and efficiency. We are committed to becoming a model business in Korea that practices innovation based on the management philosophy of 'Righteousness', 'Enlightenment', and 'Companionship'.



Composition of board of directors

Composition of board of directors

KT&G is working to establish an efficient corporate governance structure through an accountable professional management system, which is led by an independent board of directors, and transparent disclosure of information. Consisting of nine outside directors and one executive director, our board of directors is rated the best in the nation in terms of activity and efficiency in operations. For transparency of business management, KT&G separated the role of the chair of the board from that of the CEO in March 2010. The qualification of outside director candidates are reviewed through the Outside Director Candidate Recommendation Committee, and the most qualified candidates whose independence and expertise are verified are recommended to the general meeting of shareholders for appointment.

Committees inside the board of directors

KT&G ensures reasonable and prompt decisions by establishing, inside the board of directors, the Strategy Committee, the Audit Committee, Evaluation & Compensation Committee, and the Investment Committee, which are designed to enhance the expertise and transparency of the board of directors and establish a stable governance structure. In particular, all members of the Audit Committee and the Evaluation & Compensation Committee are comprised of outside directors to enhance the transparency and credibility of financial information and ensure that the management is properly supervised and supported.

Performance evaluation by the board of directors

The board of directors' meeting was held 11 times in 2011. At the end of every year, the board and its committees conduct a general evaluation of the company's performance over the year as well as cross-evaluations by individual members. The evaluation results are analyzed and reported in the beginning of the following year.

Key Committee functions and decisions



Governance structure

Designated best company for corporate governance structure

KT&G was selected best company for corporate governance structure five times until 2011 by the Corporate Governance Service (CGS). After being selected best company for corporate governance structure three times in a row between 2004 and 2006, the company was designated honorary company* for corporate governance structure for three subsequent years.

* As a basic qualification, an honorary company for corporate governance structure must have been selected best company for corporate governance structure for three times in a row in the immediately preceding years.

Board of directors

* As of February 2012

| Classification | Name | Profile |
|--------------------|----------------|--|
| Executive director | Young-jin Min | CEO of KT&G |
| Outside directors | Won-yong Kim | Professor of Digital Media Department, Ewha Women's University |
| | Deuk-wi Kim | Member of Civil Affairs Mediation Committee, Seoul High Court |
| | Seung-rim Ji | CEO of Alticast |
| | Gyu-ha Cho | Korean representative of SCSK Holdings Corp. |
| | Wang-jae Lee | Medical professor, Seoul National University |
| | Jeong-sik Kim | Dean of School of Law, Soon Chung Hyang University |
| | Young-ki Jeong | Professor of College of Business Management, Hongik University |
| | In-ho Kim | Chairman of Market Economy Research Institute |
| | Won-ik Son | Senior economist of Korea Institute of Public Finance |

Risk management

Risk management system

Recently, the business management environment has changed rapidly due to factors like the global economic crisis, shortage of resources, fluctuation in foreign exchange, climate change, and water shortage. These changes have greatly affected the sustainability of businesses. KT&G is developing a company-wide risk management system to predict and mitigate the effects of internal and external risk factors and establish response measures for each type of risk.

Financial risks

To strengthen its financial risk management system, KT&G strives to reduce the risk of fund operations and raise transparency of transactions by regularly monitoring financial transactions and holding finance staff meetings.

| Major risks | Risk factors | Response |
|-------------|---|---|
| Tax risk | Management of national and local taxes | <ul style="list-style-type: none"> Analyse target businesses through review of tax issues and consultation, conduct education on how to respond Review taxes in advance by offering consultation services |
| FX risk | Compliance with Foreign Exchange Transactions Act | <ul style="list-style-type: none"> Improve FX risk management system by enhancing access to and use of FX management menu and better analysing FX performance Invite outside specialists for education on Foreign Exchange Transactions Act Analyse weekly/monthly flows and changes in FX markets |

Non-financial risks

As the business management environment becomes uncertain and various risk factors arise such as corruption, legal disputes, and government regulations, KT&G defined non-financial risks and established response measures for each type of risk.

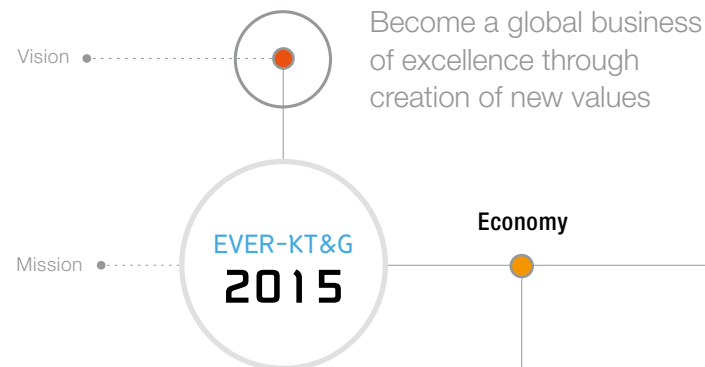
| Major risks | Risk factors | Response |
|---------------------------|---|--|
| Corruption risk | Management of corruption | <ul style="list-style-type: none"> Regularly monitor abnormalities through e-auditing system and manage audit materials |
| Human resources risk | HR management, management of employee health | <ul style="list-style-type: none"> Manage personal profile, award history, welfare benefit information through HR management system (E-HRM) Conduct medical check-up of employees |
| Information security risk | Cyber crime, information leakage | <ul style="list-style-type: none"> Establish information security policy, educate operation guidelines, perform security monitoring Run an information protection system to prevent intrusion and leakage of information |
| Legal risk | Legal risks related to new business, overseas expansion, M&As, change to holding company | <ul style="list-style-type: none"> Integrate and manage legal case materials and intellectual property rights in database Build company-wide legal risk management system (K-LERMS) |
| Regulation risk | Disclosure of cancer-causing substances on tobacco package, implementation of FCTC treaty | <ul style="list-style-type: none"> Implemented disclosure of cancer-causing substances on packages as early as 2009 Actively cooperate with government for implementation of FCTC treaty (Framework Convention on Tobacco Control) |

System for sustainable management

Vision for sustainable management

To achieve the vision of 'Global Excellence through Value Creation,' KT&G embraced the mission of 'EVER-KT&G 2015.' The 'E' in EVER stands for Excellence in economic performance, the 'V' for Value Creation for the economy, society, and environment, the 'E' for Eco-friendly business, and the 'R' for Responsibility towards the society. This is a reflection of KT&G's commitment to sustainable business management for the economy, society, and environment. The KT&G Post 2015, a vision and strategy for sustainable business management after 2015, will be drawn up in the future.

Vision & Strategy



| Strategic directions | Enhanced corporate competitiveness through value-oriented change | Win-win relations by fulfilling corporate citizenship | Environment-friendly business through eco programs |
|----------------------|--|---|---|
| Strategic tasks | <ul style="list-style-type: none"> Stronger market competitiveness in key areas of business More innovation leadership activities Enhanced corporate value through business diversification | <ul style="list-style-type: none"> Maximum value for customers Maximum human resources value Stronger win-win cooperation system | <ul style="list-style-type: none"> Strengthen operation of eco-friendly business management system Enhance ability to respond to environmental risks Build environment-friendly business culture |
| Practical tasks | <ul style="list-style-type: none"> Explore and build early presence in new markets overseas Build basis for sustainable business management operations Build sustainable business management networks in and outside of Korea Connect with mid- to long-term master plan Foster global leaders and specialists Manage value-oriented business portfolio Secure competence to develop new businesses | <ul style="list-style-type: none"> Efficiently improve customer satisfaction Strengthen employee welfare benefits Tighten link between performance and compensation Strengthen management of stakeholder network Manage sustainability of supply networks Step up community involvement activities Establish and announce philosophy of the trade Learn about and respond to changes in regulations | <ul style="list-style-type: none"> Strengthen environment business management organization Introduce and run environment business programs Conduct systematic environment education Introduce and strengthen eco-efficiency in products Increase purchase of environment-friendly goods Strengthen response system against climate change Increase public relations on environment |

KT&G's sustainable business management

Application of sustainable management elements and the feedback process

KT&G has established a sustainable business management strategy in economic, social, and environmental areas and established company-wide and department-specific action plans. For practical results, sustainable business management will become part of our corporate culture. To this end, we will encourage discussions among relevant departments, while carrying out performance management and evaluation.



Execution and evaluation of sustainable business management

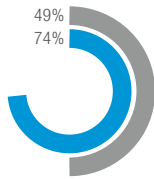
Awareness survey

To ensure a systematic execution of sustainable business management, all internal and external stakeholders must have an understanding of the status of sustainable business management and conduct relevant activities. KT&G conducted an awareness survey on key issues related to sustainable business management. Conducted among its employees, the survey is used to assess where the company stands in terms of sustainable business management and track changes in awareness. The results are reflected in the company's future sustainable business management. We will regularly conduct awareness surveys to listen to the various views of internal and external stakeholders.

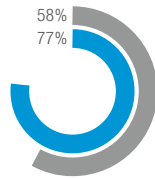
Awareness survey

Survey participants: 4,406 KT&G stakeholders Number of participants: KT&G employees: 4,167 people / Public: 239 people ● KT&G employees ● Public

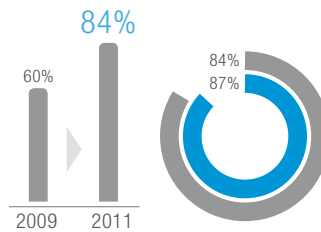
"Is KT&G's sustainable business management level above the average?"



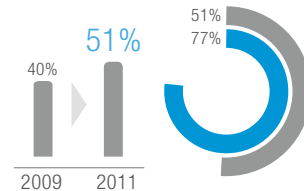
"Does KT&G's corporate culture support growth and innovation?"



"Is KT&G actively involved in CSR activities?"



"Does KT&G maintain good external communications for sustainable business management?"



The survey showed that external stakeholders have a positive view of KT&G's sustainable business management level and recognize sustainability as a culture that supports growth and innovation. We will continue to establish a business culture of growth and innovation to become a global leader in sustainable business management.

Compared to 2009, KT&G reaped some positive results through social initiatives in support of the disadvantaged and funding of cultural programs. We also kept various communication channels open, such as the Sangsang Madang and Sangsang Univ. We will continue our efforts to organize more of such external activities.

Key performance in 2010/2011

The Dow Jones Sustainability Indexes:

Featured in DJSI World for two consecutive years and designated World Sector Leader

The Dow Jones Sustainability Indexes (DJSI) are the first global sustainability benchmarks developed by Dow Jones, a U.S. business information company, and SAM Indexes, a Swiss investment boutique focused on sustainability investing. In recognition of its performance in sustainability, KT&G was featured in the DJSI World for two years in a row. In 2010, it was also honored as World Sector Leader in 2010.



Selected best corporate governance structure company in 2011

The Corporate Governance Service (CGS) evaluates businesses' ESG (environment, society, governance structure) to raise corporate social responsibility and promote accountable investments by investors. In CGS evaluation, KT&G was selected best KOSPI-listed company in recognition of its outstanding business management monitoring system.



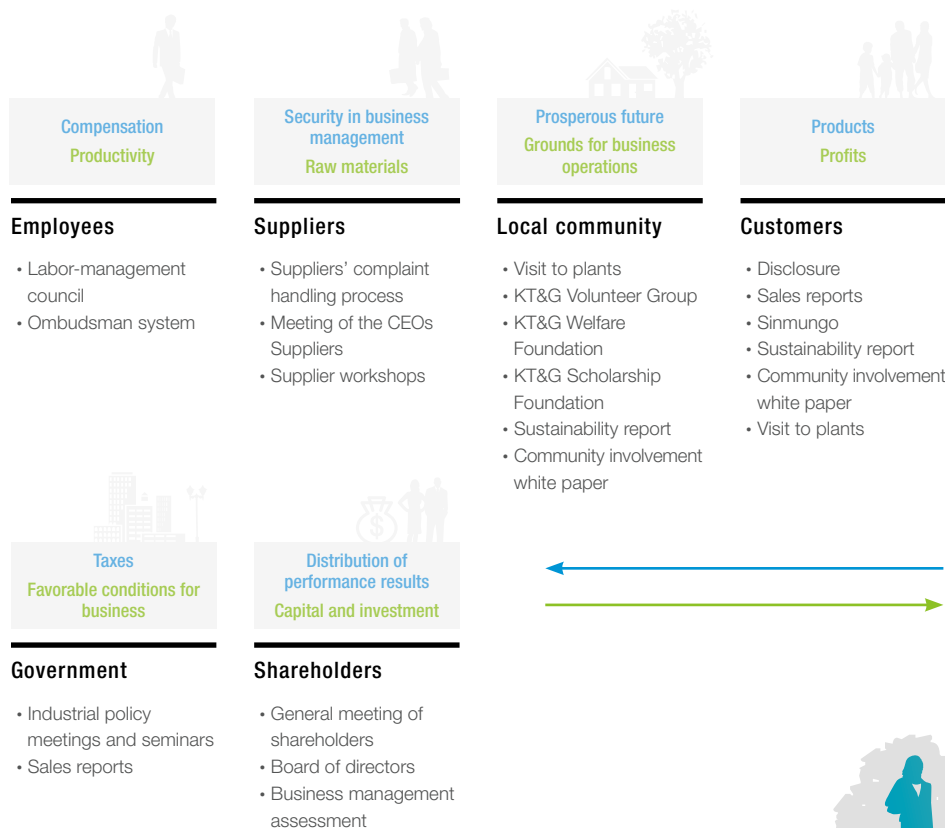
Awarded for cultural contribution in 2010

The Korean Business Council for the Arts awards companies that contributed to the development of culture through continued and efficient funding. In November 2010, KT&G received the Cultural Contribution Award for its support of non-mainstream culture and arts and its contribution to their popularization.



KT&G stakeholders

KT&G is closely related to its shareholders, customers, employees, suppliers, local communities, government, and other stakeholders. As the owners, users, and controllers of KT&G, our stakeholders share a common interest in our social sustainability drive. We are continuously expanding our communication with each group of stakeholders to share and tackle social sustainability issues.



Reflecting stakeholders' opinion

From the planning stage of this report, KT&G conducted interviews and surveys with internal and external stakeholders to sufficiently reflect stakeholders' opinion in the report. The results of the interviews and surveys were used in preparing this report. We also invited external experts on sustainable business management for third party assurance.

Third party assurance

Through a third party assurance by external experts, we checked that our sustainable business management directions are appropriate and whether they fully reflect the various views of our stakeholders.

Survey of internal and external stakeholders

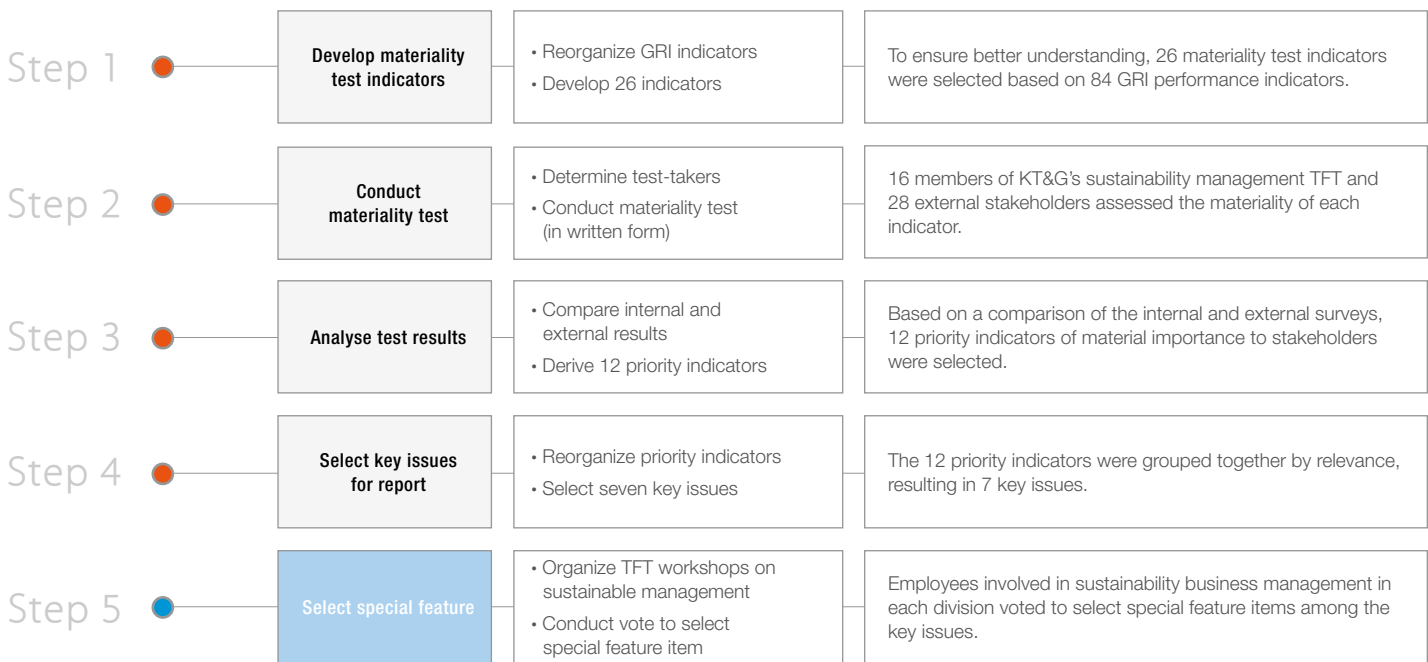
We conducted a survey to analyze the expectations of our stakeholders and their interest on our future plans. Based on the results of the survey, we established directions for KT&G's role and responsibility.

Operation of sustainability management TFT

A TFT comprising of working-level employees from each division was set up to identify the status of sustainable business management, the results of which were fully reflected in this report along with stakeholders' opinion.

Materiality test

A sustainability report covers both a company's economic performance and its environmental and social performances. For this reason, the report must focus on the risks, potential opportunities, and outcome related to sustainability issues that are most relevant to the business and of high interest to stakeholders. The process of prioritizing sustainability issues is called Materiality Test. To address stakeholders' top priority issues in the report, KT&G conducts a materiality test and reflects, among others, the most material sustainability issues in the report.



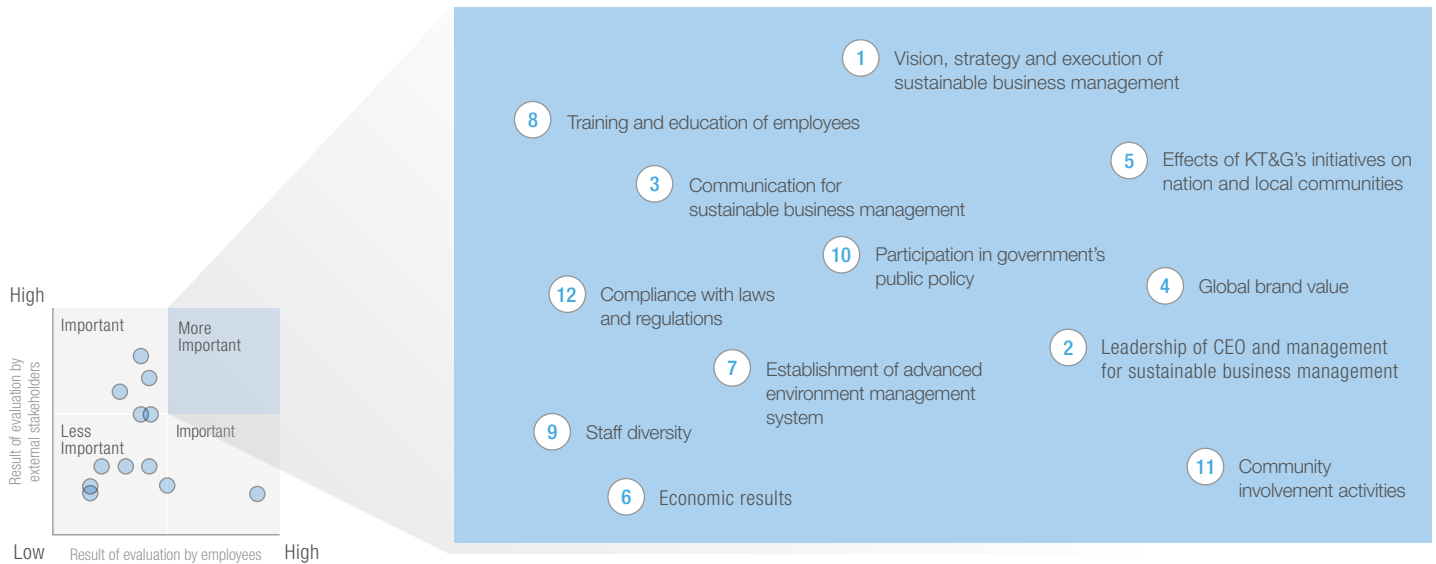
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|--|-----------|
| Business diversification for competitiveness | p. 22, 23 |
| Community involvement, activities | p. 26, 27 |
| KT&G product brands and innovation | p. 55, 56 |

On January 10, 2012, sustainability management TFT members voted for the key activities that they want to disclose to external stakeholders. The activities are covered as special feature items in the sustainability report.

Materiality test result

Based on the result of the materiality test, the indicators showing the highest materiality level were featured first in this report, with others also covered for balance of content. The information related to the indicators of the highest materiality level is marked with an Imagination Seed () so that stakeholders can find them more easily.



Organization of the 2010/2011 report

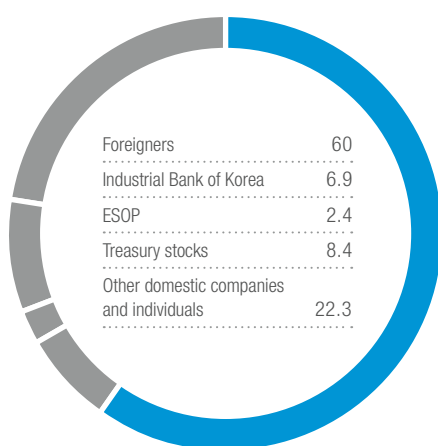
Based on the 12 priority indicators derived from the materiality test, seven key sustainability issues were selected for the 2010/2011 report. For greater readability of the report, the key sustainability issues are covered in the form of questions and answers.

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| SEED 2. What is KT&G doing to share happiness with customers? | Communication for sustainable business management | 12-13 |
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| SEED 4. What is KT&G doing to foster talents who play on imagination? | Effects of KT&G's initiatives on nation and local communities | 22-23 |
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| | Community involvement activities | 49-56 |
| | Compliance with laws and regulations | 10 |

Maximizing economic benefits

Shareholders

* Unit: %



Maximizing shareholder value

Based on its accumulated achievements and competence, KT&G grew to be the world's fifth largest tobacco company. We are maximizing shareholder value by raising our business value through a balanced portfolio across several business sectors. In particular, our company has applied International Financial Reporting Standards (IFRS) since 2009 and disclosed financial statements that include the financial performance of our affiliates.

Profits returned to shareholders

| Classification | 2009 | 2010 | 2011 |
|-----------------------------------|-------|-------|-------|
| Net income (KRW100 million) | 7,449 | 9,311 | 7,759 |
| Total dividends (KRW100 million) | 3,562 | 3,829 | 4,024 |
| Stock repurchase (KRW100 million) | 1,039 | 0 | 1,298 |
| Cash dividends per share (KRW) | 2,800 | 3,000 | 3,200 |
| Cash dividends payout ratio (%) | 48 | 41 | 52 |
| Rate of profit return (%) | 62 | 41 | 69 |
| Earnings per share (KRW) | 5,803 | 7,317 | 6,134 |

Investor relations

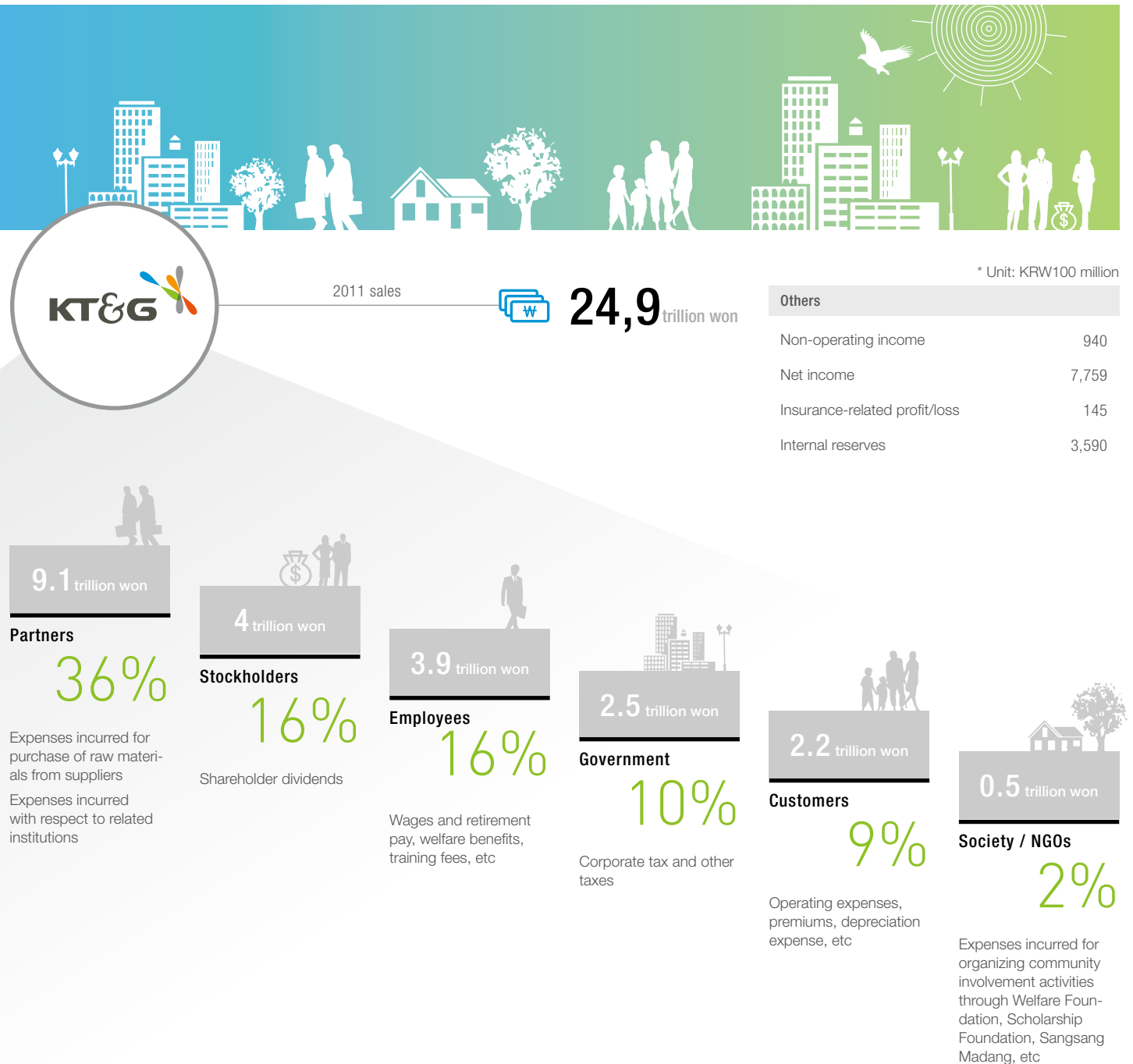
At KT&G, investor relations (IR) activities are recognized as a two-way communication with investors and a process to enhance corporate value. Based on such recognition, we regularly organize IR sessions, road shows, conferences, forums, and individual IR sessions with our analysts and investors to keep a smooth and active communication going with our shareholders and investors. We continue to expand the scope of our investor relations by organizing IR conferences in Hong Kong, Singapore, and London.

Key IR activities



Value distribution to stakeholders

KT&G fulfills its economic responsibility by fairly distributing values created through its business activities to internal and external stakeholders. In 2011, we achieved 2.49 trillion won in tobacco sales and distributed the profits thereof to our customers, shareholders, employees, suppliers, local communities, and the government. We will continue to share our company's values with our stakeholders and do our best to help them achieve sustainable growth.



SEED

As imagination



grows...



Q&A

KT&G 6 KEY ISSUES



1. What is KT&G doing to create an innovative corporate brand value?

20



2. What is KT&G doing to share happiness with customers?

28



3. What is KT&G doing to become a transparent, righteous company?

32



4. What is KT&G doing to foster talents who play on imagination?

37



5. What is KT&G doing to sow seeds of green in the world?

43



6. What is KT&G doing to make a society of sincerity?

49



SEED 1



SEED 2



SEED 3



SEED 4



SEED 5



SEED 6

SEED. 1

What is KT&G doing to create an innovative corporate brand value?

Direction

KT&G strives to create global brand value by maintaining sustained growth in its core business of tobacco, while diversifying its business portfolio.

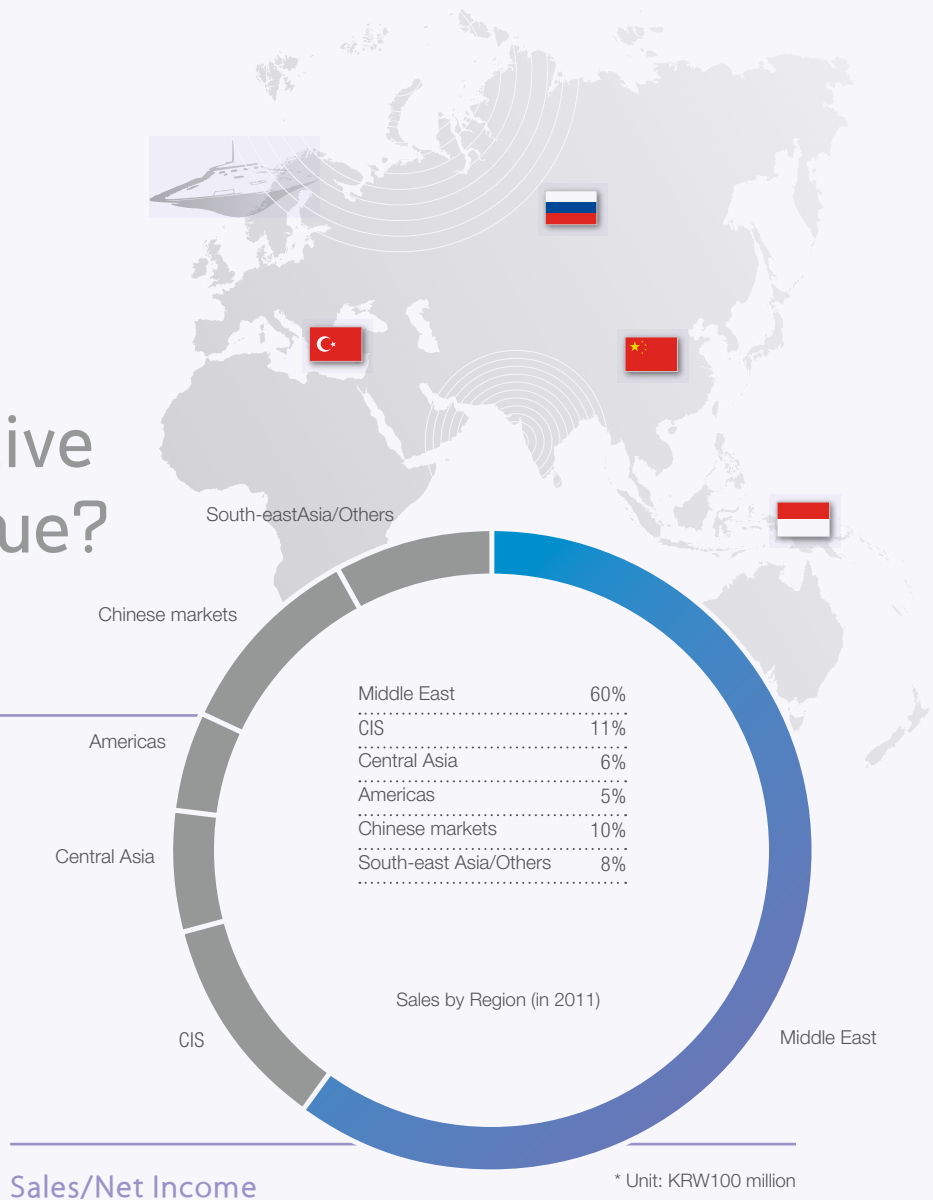
2010/11 Achievement

- ESSE ranked number one tobacco brand in National Brand Competitiveness Index* for three consecutive years (2010-2012)
- Launched KGC Life & Gin and took over Somang Cosmetics
- Established Guilin Hanjeong Limited*

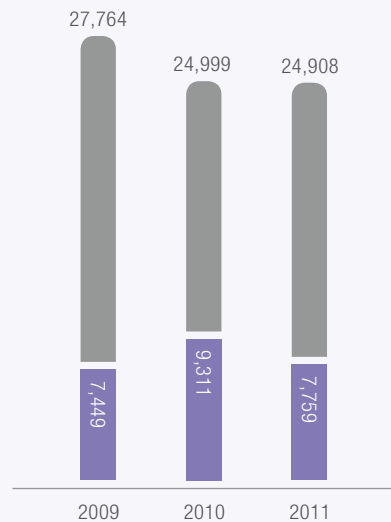
2012/13 Goals and Commitment

- Secure growth and profitability through aggressive market expansion abroad
- Create value in new growth engine businesses

* National Brand Competitiveness Index (NBCI): NBCI is an indicator measuring a firm's brand competitiveness accumulated through its marketing activities. It is measured on a scale of 100.
 * Guilin Hanjeong Limited: Subsidiary established in China to produce red ginseng and red ginseng products.



Sales/Net Income





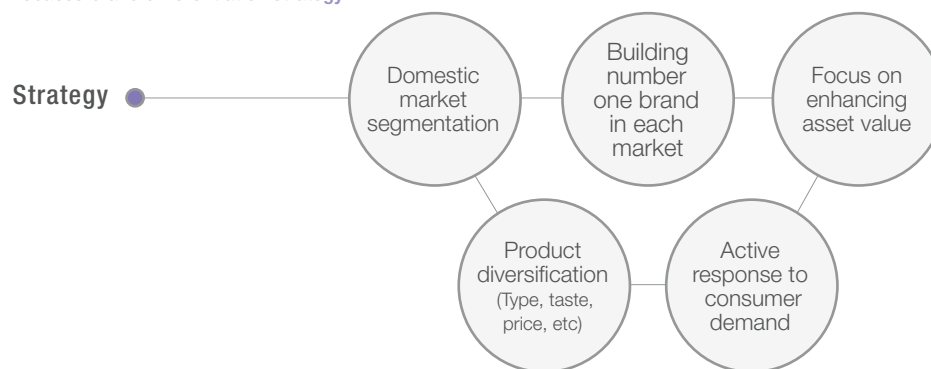
Greater corporate competitiveness

Enhancing brand value

KT&G is focused on enhancing the asset value of each brand with the goal of building the number one tobacco brand in each segmented market. Our products, which are produced using quality ingredients and advanced automation equipment, are constantly improved through diversification in terms of type, taste, price, and design to meet consumer needs.

To monitor overall brand performance in terms of competitiveness, satisfaction, recognition, and image, our top brands undergo a brand equity index review twice a year as well as a monthly brand index review. By adjusting our brand strategy in line with our sustainable strategy, KT&G updates its brand-specific business plans and brand development and operational guidelines every year.

Tobacco brand differentiation strategy



Overseas market expansion

Overseas investment

KT&G exports about 70 types of brands to 49 countries, including the Middle East, Central Asia, and Russia. The company will launch an aggressive marketing campaign overseas for a stable market share abroad and firmly establish itself as a global tobacco company.

KT&G currently operates incorporated subsidiaries and branches in six countries—China, Indonesia, the U.S., Iran, Russia, and Turkey. Its local plants in Iran, Russia, and Turkey produce ESSE, PINE, and other top KT&G brands for a smooth supply to importing countries and adjacent countries. In 2011, it took over the Indonesian firm Trisakti through a global M&A investment.

Participation in TFWA World Exhibition

Since 2006, KT&G has participated in the TFWA World Exhibition, the largest exhibition of its kind, to promote its brands, manage existing clients, enter new markets, and secure new potential customers.

World class number one brand ESSE

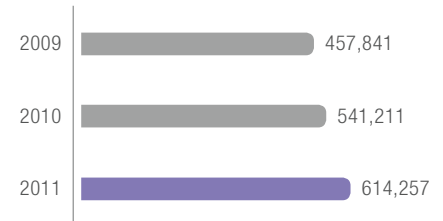
- 2.11 billion packs sold in 2011
- Top selling brand in world's ultra-slim tobacco market in 2011
- Number one in brand power (K-BPI) for five consecutive years (2008-2012)
- Number one tobacco brand in National Brand Competitiveness Index (NBCI) for three consecutive years (2010-2012)



* Korea Brand Power Index (K-BPI): The K-BPI measures a brand's power to influence customers' purchase behavior.

Overseas sales

* Unit: USD1,000



Participation in TFWA World Exhibition



Business diversification for competitiveness

With a balanced business portfolio consisting of the ginseng business, health and life business, and bio & pharmaceutical business, KT&G is striving to achieve business excellence.

Ginseng business

Stepping up marketing activities overseas to globalize the consumption of red ginseng, while diversifying business areas beyond the red ginseng business to enter health foods and health-oriented service market

KOREA GINSENG CORP

KT&G LIFE SCIENCES

KT&G

SOMANG COSMETICS

Health and life business

Offering customers total health care solution based on a business model of new-concept life Hanbang (traditional Oriental medicine) stores, premium Hanbang cosmetics, scientific and customized food supplements, and new-paradigm door-to-door sales.

Cosmetics business

Striving to develop market for premium red ginseng Hanbang cosmetics by synergistically combining R&D, production know-how, and distribution channel, and thereby increasing overall share in Korea's cosmetics market.

Bio & pharmaceutical business

Company's next-generation growth engine working to develop competitive products through strategic investment; more than 30% of sales derived from exports and company plans to expand operations in China, Southeast Asia, and the CIS countries.

YUNGJIN PHARM

KOREA GINSENG CORP

The Korea Ginseng Corporation (KGC) was established in 1899 as Samjeongwa (Ginseng Management Division) within the royal palace of the Daehan Empire. Since then, it has inherited and developed the tradition of Cheong-Kwan-Jang to become a total health business. It is reinforcing its position as the world's number one red ginseng company by accelerating the globalization of Korean ginseng, a great cultural heritage.



1. Cheong-Kwan-Jang 2. GoodBase 3. YEBON



1. Boum: Life Hanbang Store 2. Eche: Door-to-door Sales
3. Donginbi / LLang: Red ginseng cosmetics 4. Uberex: Medical business

KT&G LIFE SCIENCES

KGC Life & Gin offers a range of total health solutions to its customers by launching four brands using KGC's key competence in managing raw medicinal ingredients.

SOMANG COSMETICS

Somang Cosmetics enjoys rising sales by developing reliable cosmetic brands such as Hanbang cosmetics Danahan and using unique marketing strategies.



1. Ecopure 2. Danahan 3. Cosmetic Brand

YUNGJIN PHARM

Yungjin Pharmaceuticals concentrates its R&D competence in the development of botanical drugs and incrementally modified drugs (IMDs). It produces high quality, differentiated generic drugs, health supplement foods, and drink products.



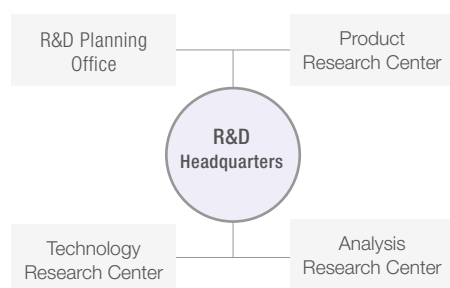
1. Pharmaceutical drugs 2. Health foods 3. Drink products

Product liability and competitiveness in quality

Research & development

To increase the value of each tobacco brand and satisfy varying consumer needs, KT&G is stepping up its R&D activities to reduce the harm caused by smoking and raise the quality of products through its R&D Headquarters, which plays a pivotal role in the company's R&D activities.

R&D organization



R&D organization

The R&D Headquarters consist of the R&D Planning Office and three research centers. The R&D Planning Office draws up R&D strategies and goals and manages R&D projects to achieve the goals. The Product Research Center works on the development of new products and improvement of existing lines based on customer needs. The Technology Research Center conducts research on the core technologies needed to develop innovative products and cultivate tobacco. The Analysis Research Center focuses on the research of analysis technologies needed to develop products and technologies.

Intellectual property rights

KT&G owns patented technologies in various areas including product manufacturing technology, process technology, and materials technology, which are directly and practically applied for processing improvement and new product development.

Key patents applied to products

| Product name | Patent name | Summary of technology | Effects | Status |
|--|--|--|--|-------------------|
| Bohem Cigar No.1 Bohem Cigar No.3 Bohem Cigar No.5 Bohem Cigar No.6 Bohem Cigar Master Bohem Mojito | Cigarette made of cigar tobacco and functional filter and its manufacturing method | Technology to toast cigar tobacco | Toasting operation enhances desirable taste characteristics of cigar tobacco | Patent registered |
| THE ONE etipac | Method of manufacturing aroma-released cigarette paper* and cigarette with lower sidestream smoke* | Technology of lower sidestream smoke with application of a double layer of cigarette paper | Less displeasure caused by second-hand smoke from cigarettes | Patent pending |
| RAISON POP | Equipment to manufacture cigarette filter with aroma capsule and method of manufacturing cigarette using that filter | Equipment and technology to manufacture aroma capsule | Application of aroma capsule inside filter naturally releases refreshing aroma without going through burning process | Patent pending |
| | Oil-resistant plug wrap paper and cigarette containing that paper | Technology to prevent leakage of aromatic liquid from filter when aroma capsule is crushed | Filter is kept from visible stain caused by aromatic liquid released from capsule | Patent pending |

* Sidestream smoke: The smoke coming from the lit end of a cigarette.

* Cigarette paper: The paper used to wrap around the tobacco and to help make the cigarette burn evenly.



Competitiveness in quality

Double-layer wrapping technology

The technology of wrapping the tobacco in a double layer of cigarette paper helps cut off the sidestream smoke coming off the end of a smoldering cigarette while reducing the tobacco odor from clothes and fingers.

Aroma packaging

A micro capsule containing a special aroma is mounted on cigarette packages. By rubbing a package, the aroma is released, reducing the tobacco smell left on the hands.

Taste & quality assurance system

To maintain the best taste required by consumers, KT&G built a system where the entire process from input of materials to production of finished product is monitored in real time. When a problem occurs, the production line is immediately stopped and is resumed after the problem is resolved.

Double verification system

In the final product shipping stage before shipment, products undergo a sensual evaluation by skilled workers and a quality data analysis using the latest equipment.



THE ONE etipac with double-wrap technology



BOHEM Mojito with aroma packaging

Disclosure of product information

Producer real name system

KT&G is the world's first tobacco company to introduce the Producer Real Name System, which is applied to all goods produced in Korea. This helps raise consumer trust, while making employees feel more responsible for quality.

Since August 2011, the company has printed the production information and name of producer (head of team) on the bottom of cigarette packages to encourage workers to maintain the highest quality in production. It is also building an internal process to assess and further improve the efficacy of the system.

Consumers' right to know

All cigarette packages and cigarette advertising in Korea carry health warnings in accordance with the Tobacco Business Act and the National Health Promotion Act. All exported products are also printed with warning messages in compliance with the laws of the importing country. For consumers' right to know, KT&G also prints warning messages on cigarette packages exported to countries where there is no such legal requirement. The company follows international standards regulating messages that may be misleading to consumers. The tar and nicotine content is also disclosed for customers' right to know.

Real name of
tobacco producer disclosed



KT&G product brands and innovation

Practicing quality and green business management

Through technology innovation and development, KT&G will practice green business management by producing quality products and mitigating the impact on the environment throughout the entire production process.

Reconstructed tobacco sheet technology (Better recycling)

Better recycling of residuals and better taste

RAISON POP (Aroma capsule technology)

Cigarette with added menthol aroma



THE ONE etipac (Lower sidestream smoke technology)

Cigarette with significantly lower level of sidestream smoke in consideration of non-smokers; micro aroma capsule mounted on package



ESSE SENSE (Filter differentiation technology)

Nation's first ultra-slim cigarette with spatial filter



BOHEM MOJITO DOUBLE (Menthol differentiation technology/Menthol boosting technology)

A differentiated menthol product to which cocktail aroma (mojito) is applied to menthol aroma; for more freshness, part of the aroma is mounted on package in aroma capsule



Directions for product R&D

1. Development of green technology
2. Research of less hazardous products
3. Development of differentiation technologies for quality



Aspiring to be number one brand in the world

About 70 KT&G brands are sold to 49 countries including the Middle East, Central Asia, and Russia.

The company will work to become the number one brand in the world by securing a stable market share overseas through aggressive marketing.

Global No.1 Brand!



DOMESTIC

THIS PLUS

A brand targeting the young who aspire to live a life of passion, confidence, and dauntless spirit

RAISON

Most favored brand among college students and creative consumers in their 20s

THE ONE

A clean and soft brand using activated oxygen filter



OVERSEAS

ESSE

No.1 super slim brand in the world and in Korea; a world-class no.1 tobacco brand from Korea

BOHEM CIGAR

A brand containing 30% of premium cigar leaf; main customers are sophisticated consumers drawn to its unique taste and aroma

PINE

A top brand in the Middle East and one that is enjoyed by a wide range of consumers in many countries



SEED. 2

What is KT&G doing
to share **happiness** with
customers?

Direction

In keeping abreast with the views of its customers, KT&G keeps a variety of communication channels open. The company will increase its activities for the public good to create a desirable smoking environment and fulfill its role as a corporate citizen.

2010/11 Achievement

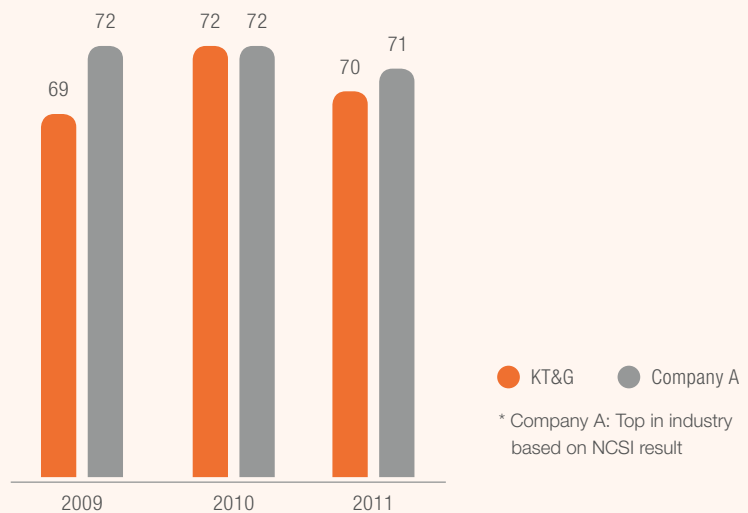
- Systematization and activation of customer consultation process
- Ranked number one in the industry in 2010 National Customer Satisfaction Index*
- Smoking environment improvement initiatives

2012/13 Goals and Commitment

- Raise customer satisfaction
- Expand campaign to promote smoking etiquette

Result of NCSI

* Unit: NCSI score



* National Customer Satisfaction Index (NCSI):
Product and service satisfaction index assessed by customers



Customer satisfaction management

Enhanced customer consultation process

The value of a company comes from its customers. To go beyond customer satisfaction and touch the hearts of its customers, KT&G is always open to customer opinions and engaged in various policies and activities.

Our cigarette packages come with the phone number of our CS-Center (080-931-0399), which is open 24 hours a day. The CS-Center is a 'customer happiness network' that promptly receives customer complaints and problems and handles them fairly and accurately.

Our 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, packaging, taste and aroma, and other inconveniences experienced during smoking.' All claims are handled through the CS-Center. Our systematic customer counseling system aims to satisfy customers through prompt claims handling. Feedback on process is communicated to the Quality Management Office to further improve product quality.

Reflecting customer opinions

The CS-Center handles all types of customer claims, including opinions received by phone or online as well as complaints received through our retail networks. The CS-Center prepares daily and monthly reports, which are shared with brand managers. The center also regularly discusses problems, solutions, and quality enhancement with brand managers through meetings and education programs.

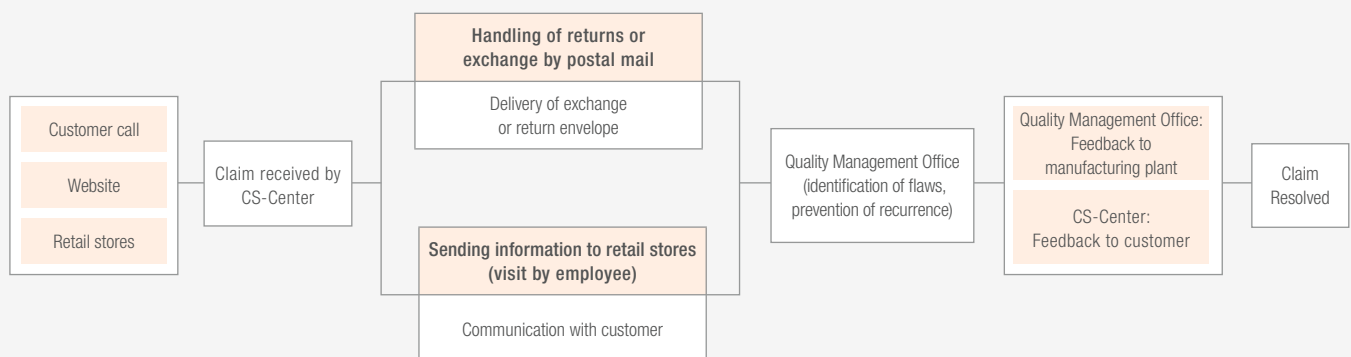
Product claims are mostly related to cigarettes, packaging, taste and aroma, which are largely subjective issues. Despite installing detectors on the upper part of cigarette packages, frequent claims were received on defective side packaging. To solve this problem, the company installed defective package detectors, successfully reducing customer discontent. The result of claims handling is entered into the claims handling management log and reported to the Marketing Division.

Numbers received and handled

* Unit: Case

| Classification | Details | 2010 | 2011 |
|----------------|------------------------------|-------|-------|
| Consultation | Product | 2,044 | 3,921 |
| | General company information | 1,566 | 1,432 |
| | Marketing/sales | 1,454 | 1,430 |
| | License | 1,350 | 1,142 |
| | Tobacco policy | 28 | 14 |
| | Relevant statutes | 252 | 188 |
| | Recent issues | 121 | 101 |
| | Health | 110 | 31 |
| | Claims handling | 3 | 2 |
| Product claim | Tobacco | 395 | 369 |
| | Packaging | 161 | 286 |
| | Dissatisfaction with smoking | 204 | 153 |
| | Taste or aroma | 163 | 136 |
| | Health-related | 0 | 12 |
| | Distribution | 35 | 12 |

CS-Center handling process



Customer communication channels

Opinions received by year * Unit: Case

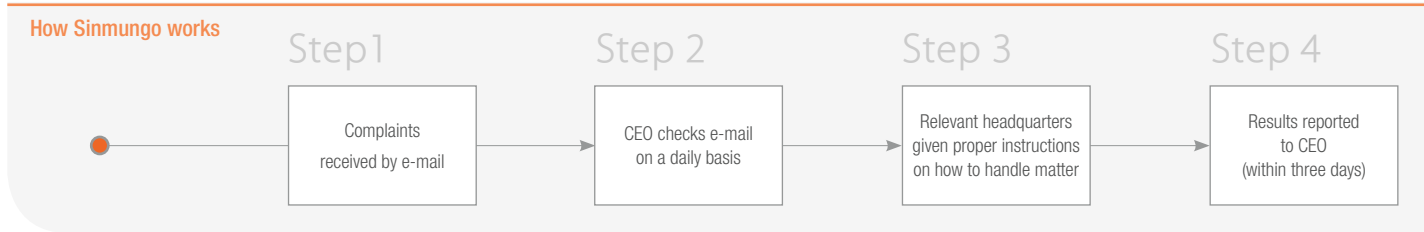
| Classification | 2010 | 2011 |
|----------------|-------|-------|
| Website | 1,253 | 1,951 |
| Sinmungo | 633 | 701 |
| Handling rate | 100% | 100% |

Website

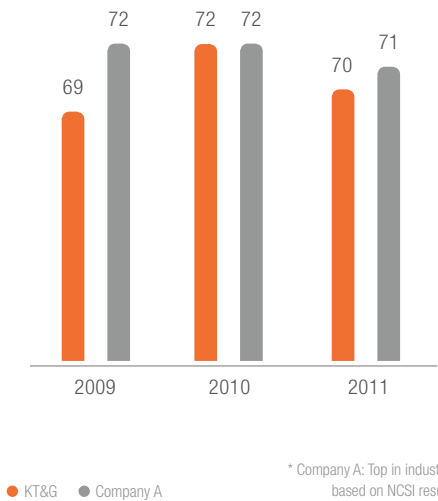
KT&G regularly updates its Frequently Asked Questions section on its website so that customers can conveniently find the information they need on brand, product, quality, and other company-related issues. Any questions not found on the FAQ can be sent to us directly by calling our customer center or by sending an e-mail through the Q&A section on our website. The results can be checked via our website or by e-mail.

Sinmungo

To fulfill its business management philosophy of ‘companionship,’ KT&G operates the Sinmungo (installed during the Joseon Dynasty, the sinmungo drum was hit by commoners to communicate their complaints) system. The system is a communication channel through which complaints is directed to the CEO by e-mail. Various stakeholders can report bribery, budget waste, and other wrongdoings and recommend best practices or best employees. All personal information collected through the Sinmungo or customer center are strictly protected in accordance with the Personal Information Protection Guidelines.



NCSI results * Unit: NCSI score



External Advisory Committee

To collect various views from the outside, KT&G operated an advisory committee comprising of specialists from different disciplines in 2010. In view of maximizing customer satisfaction, the company invited experts in marketing, brand, and design to regular advisory meetings organized one or more times a month. A total of 22 regular advisory meetings and 15 ad hoc advisory meetings were held that year. The company also held monthly marketing lectures to identify and discuss new customer trends and disseminated the relevant information company-wide.

National customer satisfaction level

In the National Customer Satisfaction Index (NCSI) survey carried out on KT&G's products and services produced in and outside of Korea and sold to final consumers in Korea, the company ranked number one in 2010 and number two in 2011 with the overall 2011 score being slightly lower than the 2010 score. To improve customer satisfaction, KT&G will continue to improve the aroma, filter, packaging, and design of its cigarette brands in response to customer demands while constantly communicating with customers.



More customer-related corporate responsibility activities

CSR activities related to key business

Funding of smoking rooms and smoke control facilities

To accommodate non-smokers and help maintain a clean environment, KT&G works to improve the smoking environment. We funded the installation of smoke control facilities in smoking rooms in airports and other public facilities, and repaired and maintained existing ones. To promote good smoking etiquette, we posted advertisements on hazardous smoking practices in smoking rooms.

Installation of portable ashtrays and public wastebins

KT&G distributes portable ashtrays in cooperation with the Seoul Metropolitan Government, other regional governments, and NGOs, as well as through its own campaign. We also install wastebins in highway rest areas and other public places. We are taking these initiatives to create a clean smoking culture by keeping the streets clean and accommodating non-smokers.

Smoking etiquette campaign 'A Better Tomorrow Contents Festival'

To promote good smoking etiquette, KT&G has hosted the 'A Better Tomorrow Contents Festival' every year since 2007. During the festival, various ideas, designs, videos and pictures on good smoking etiquette are collected from the public. This campaign is designed to raise public awareness and promote good smoking etiquette in public areas, in the workplace, and at home.

Youth smoking prevention campaign

Production and distribution of information stickers

KT&G is taking a cautious and sincere approach to cut down on youth smoking, which is on a continuous rise. To cut off channels through which youths can buy cigarettes, we funded the production of information stickers that provide information for retailers on whom to card, what to look for on an ID, how to spot fake IDs, and an ARS number (1382 without an area code), and had them posted on all retail stores.

Education to prevent smoking among youths

KT&G joined hands with the Medical School of Seoul National University and the Seoul Child and Adolescent Mental Health Center to launch the 'GreenNH' website and fund various educational programs. In 2011, we signed an agreement with the Medical School of Seoul National University and the Incheon Metropolitan Government and funded the distribution of educational materials to schools in the Incheon region. In 2012, we will expand this initiative to schools nationwide.

Funding of medical research

Funding of cancer research

As part of its CSR initiatives, KT&G wants to contribute to society by funding medical research. Since 2007, we have made donations to cancer research institutes to help identify the causes of cancer and find new diagnosis and treatment methods.

Smoke control facilities in smoking room



Trash-free vacation campaign



Smoking etiquette advertisement on tobacco packages

To promote good smoking etiquette, several pictographs were developed and printed on tobacco packages.



SEED. 3

What is KT&G doing
to become a **transparent,
righteous company?**

Direction

To become a transparent, righteous company, KT&G is focused on enhancing the ethical culture in the workplace and its corporate image. Its related activities are shared company-wide, and a 'supplier certification manual' was produced to help resolve issues of human rights, labor, anti-corruption, and environment in its partner companies.

2010/11 Achievement

- Group-wide employment of ethical business practices
- Establishment of Supplier Certification Manual
- Purchase of 167.9 billion worth of leaf tobacco from Korean producers in 2010 and 2011
- Development of Fair Transactions Guidelines

2012/13 Goals and Commitment

- Sign Fair Trade Agreement
- Reinforce the practice of ethical business management

Ratio of continued business with materials suppliers

* As of December 2011

94.8%

2010/2011 financial support to leaf tobacco farmers

* Through purchase of domestic leaf tobacco
and funding of collective farming

₩171,300,000,000

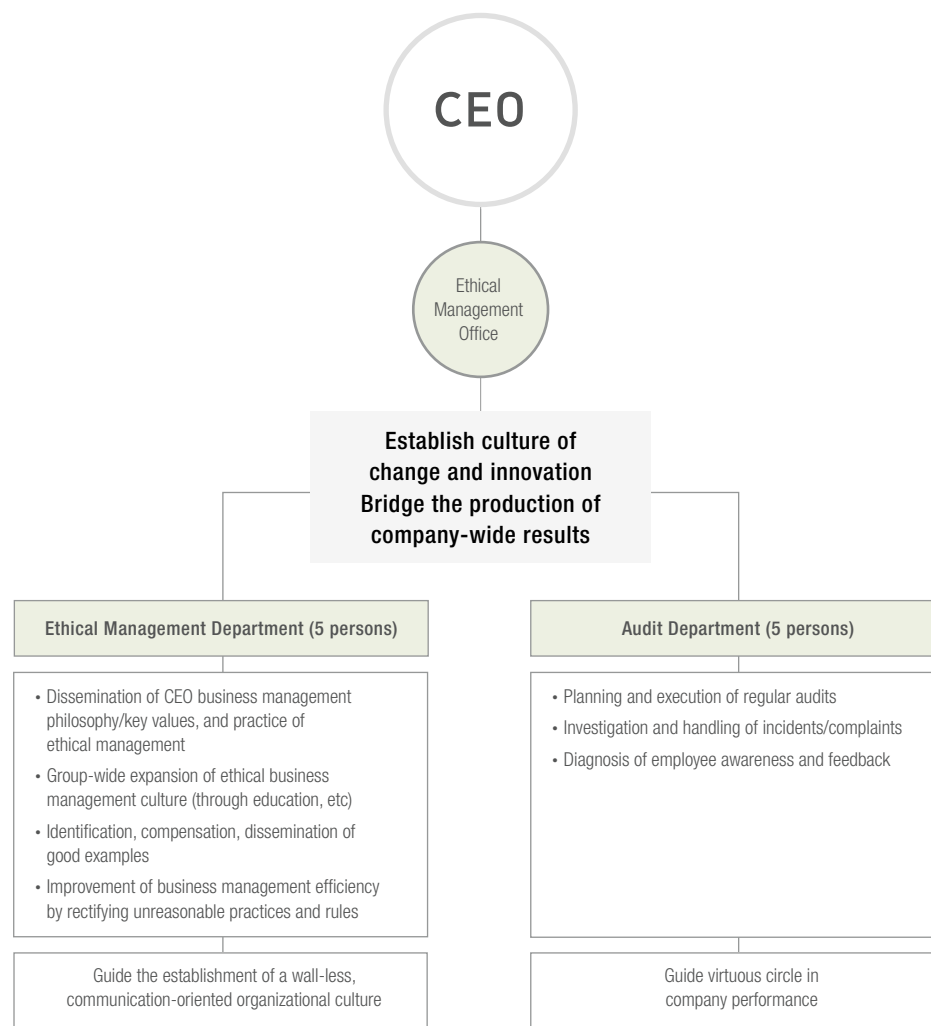


Ethical business management

Practice of ethical management

KT&G strives to build trust and confidence from its customers and society by fulfilling its corporate social responsibility and pursuing mutual benefits for our stakeholders. The company is building an ethical culture of business: a code of ethics and code of ethics implementation guidelines were established in 2003 to ensure that all employees fulfill their duties with integrity and faithfulness based of ethical values.

Ethical management structure and key roles



Code of ethics

Chapter 1 General provisions

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

Chapter 2 Pledge to customers

1. Respect for customers
2. Value creation
3. Giving value

Chapter 3 Legal compliance and fair competition

1. Legal compliance
2. Respect for free market economic system
3. Fair acquisition and use of information

Chapter 4 Basic ethics of employees

1. Basic ethics
2. Fulfillment of mission
3. Self-development
4. Fair execution of duties
5. Avoiding conflicts of interest
6. Protection of company's property
7. Protection of confidential business information
8. Mutual respect in the workplace
9. Prohibition of gift of money in the workplace
10. Prohibition of financial transactions in the workplace
11. Prevention of sexual harassment in the workplace
12. Prohibition of improper use of information system
13. Prohibition of insider trading and use of information

Chapter 5 Company's basic responsibilities to its employees

1. Fostering respect and improving working conditions in the workplace
2. Fair treatment
3. Fostering talents and creativity

Chapter 6 Good relationship with suppliers

1. Fair transactions
2. Mutual benefit
3. Prohibition of unethical practice against suppliers

Chapter 7 Responsibility towards shareholders and society

1. Rational business management
2. Protection of shareholders' interests
3. Contribution to social development
4. Protection of environment



Channels for reporting wrongdoings (Sinnungo)

Channels through which corruption and illegal acts (bribery, waste of budget, accounting fraud) can be reported

Consultation Center: 080-931-0399

Website: <http://www.ktng.com/> → Customer support
→ Sinnungo

Establishment and development of ethical management

In 2011, KT&G focused on enhancing the ethical culture of business and its corporate image. To this end, information on unethical behavior, abnormal sales behavior, and other information related to ethical business was shared company-wide, while education on ethical business management was conducted as needed during on-site visits. In 2012, the ethical business practices of our major affiliated companies will be diagnosed for improvement where needed. This will allow the group to set the right directions and reinforce the practice of ethical business management.

Education of ethical management

KT&G regularly organizes educational programs on fair transactions and anti-corruption for its employees. Online education on the prevention of sexual harassment is also offered every year. These efforts are designed to raise the ethics of the staff and help them make the right decisions.

Monitoring of ethical management

The Ethical Management Office conducts periodic assessments and audits of our business to detect potential misconduct and monitor compliance with code of ethics in each division, regional headquarters and branches. In case of corruption are detected, we take proper actions against the organization by notification, correction order, and improvement. And the persons involved are subject to dismissal, suspension, salary reduction. The persons involved are subject to dismissal, suspension, salary reduction, reprimand, warning, or attention. Good acts identified during audits that are exemplary to other institutions and staff are rewarded and disseminated company-wide.

Education in ethical business management in 2011

* One-hour class

| Classification | Month | Participants |
|---|----------|--------------|
| University graduate | May | 54 |
| Grade 7 salesmen, workers with previous work experience | March | 8 |
| | April | 20 |
| Grade 8 production workers | May | 35 |
| Grade 8 salesmen | November | 54 |
| Professional contract workers, experienced workers from military, full-time workers | June | 14 |
| | July | 12 |

Ethical management monitoring data

| Classification | Year | Monitored sites | Total measures taken | Measures taken | | |
|----------------|------|-----------------|----------------------|----------------|------------------|------------------------------|
| | | | | Work-related | Position-related | Process & System Improvement |
| General audit | '09 | 3 | 15 | 7 | 8 | 0 |
| | '10 | 5 | 31 | 30 | 0 | 1 |
| | '11 | 3 | 19 | 2 | 17 | 0 |
| Ad hoc audit | '09 | 24 | 15 | 2 | 13 | 0 |
| | '10 | 33 | 16 | 5 | 11 | 0 |
| | '11 | 34 | 12 | 1 | 10 | 0 |
| Total | | 102 | 108 | 47 | 59 | 1 |



Win-win partnership with suppliers

Laying the basis for fair transactions and win-win partnerships

In line with its philosophy of becoming a company of 'Righteousness', 'Enlightenment', and 'Companionship,' KT&G established basic principles for purchasing based on its code of ethics to ensure fair transaction order. We are building a relationship of mutual trust and win-win partnership with our suppliers by giving them an equal opportunity to participate, complying with the relevant fair transaction laws and regulations, and promoting transparency and fairness in transactions.

Working to prevent practices that hamper fair transactions

KT&G strives to achieve fair transactions based on its code of ethics on various fronts.

We implement 'the three major guidelines for win-win partnership between large companies and SMEs' recommended by the Fair Trade Commission. By establishing our own fair transactions compliance guidelines, we are enhancing our employees' understanding of the Fair Trade Act and practicing ethical business management for sustainable business.

The fair transactions compliance guidelines restrict intercompany investments and debt guarantees with large business groups, as well as unfair transactions such as joint unfair practices, abuse of dominant market position, and other general unfair transaction acts.

Following the introduction of the Compliance Program and the designation of a compliance officer in 2002, KT&G has striven to ensure market order by voluntarily complying with fair transactions laws. A member of the Korea Tobacco Association, we joined the Trade-related IPR Protection Association (TIPA) to eliminate illegal distribution of tobacco.

Building sustainable partnerships

KT&G strives to establish sustainable partnerships with its suppliers based on the recognition that its relationship with suppliers is equal rather than hierarchical. We operate the Supplier Management Committee to maximize supplier value and introduced the supplier qualification system to identify and manage outstanding suppliers and strengthen the competitiveness of our supply network. To ensure that our partnerships are sustainable for the mid- to long-term, our evaluation of suppliers take into account not only their business management and quality aspects but also their sustainable business management aspects such as human rights and environmental indicators.

Contract guidelines for win-win cooperation



Unfair transactions

Large business groups

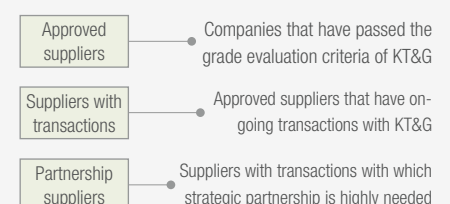
Declaration of Compliance with Fair Trade Act

- One, we will compete fairly with a creative mind and active attitude and not engage in any unfair acts.
- One, we will strive to establish a fair trade compliance program.
- One, when violating the Fair Trade Act, we will impose sanctions on ourselves to prevent the recurrence of violations.

Supplier qualification process



Supplier management grade



Win-win partnership

Identification and support of outstanding suppliers

KT&G drew up a supplier qualification manual in November 2010, and we are making efforts on various fronts to identify and support outstanding suppliers through our Supplier Management Committee.

Those selected as a major supplier enjoy various benefits, including priority in manufacturing of new-standard products and related technology guidance, support for developing new materials and granting of supply rights, early payments and, if necessary, advance payments.

Funding of local leaf tobacco farmers

KT&G continued to support local farmers through technology research and funds even after it was privatized. Though local leaf tobacco costs two or three times more than those produced overseas, we sourced 75 billion won worth of leaf tobacco locally in 2011. We locally sourced 618.5 billion won worth of leaf tobacco in the last five years. We also funded 2 billion won and 1.4 billion won in 2010 and 2011, respectively for collective tobacco leaf farming, helping local farmers to lead a stable economic life.

Research to enhance quality of locally-produced leaf tobacco

In 2011, the Gimcheon plant conducted research of leaf tobacco fertilizers to enhance the quality of leaf tobacco and increase farmers' income. It also offered farmers continuous technology guidance on how to manage leaf tobacco in different conditions of cultivation.

Volunteer activities to help farming

Every year, KT&G employees visit leaf tobacco farms where it is difficult to find labor. They help with transplantation, topping, and harvesting. We also join hands with college students during the busy harvest season to help farmers.

Supporting fertility management research
to enhance tobacco quality and increase farmers' income

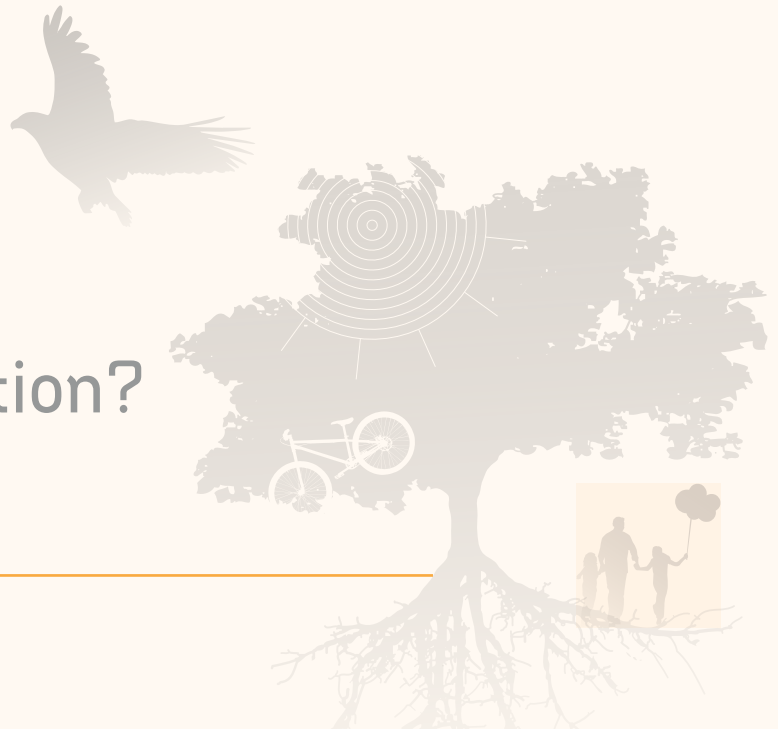


KT&G volunteers helping leaf tobacco farmers



SEED. 4

What is KT&G doing to **foster talents** who play on imagination?



Direction

KT&G pursues work-life balance as a top priority to make sure that its employees lead a stable life as they are the company's biggest asset and source of competitiveness.

To this end, we offer various welfare benefits to our workers.

2010/11 Achievement

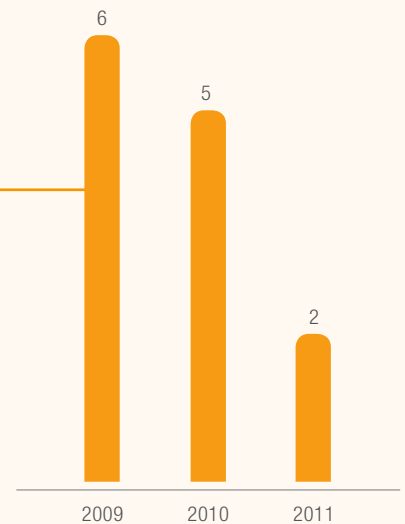
- Improved employee welfare benefit programs
- Established HR development policy
- Organized activities to improve organizational culture

2012/13 Goals and Commitment

- Promote intellectual services
- Offer more educational opportunities

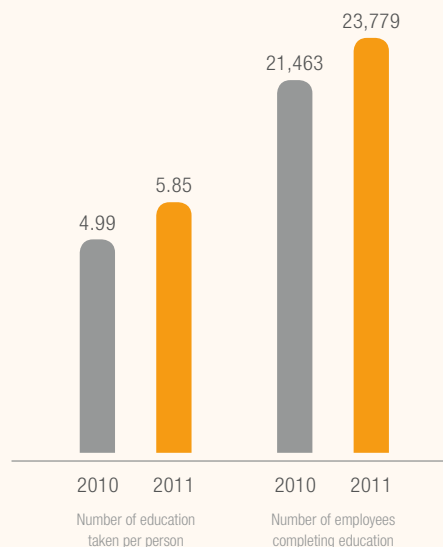
Work-related accidents

* Unit: People



Education statistics

* Unit: Case/People, People



Creating values for employees

Educational services

In March 2011, KT&G built the BIS (Business Information Service), which offers web- and smart phone-based video contents on the economy, business management, and leadership, as well as services to search thesis/dissertation. The KISS Education Management System helps employees track their education history, manage their career development, and share useful information other than those offered in group education.



Strategic HR development

KT&G is striving to foster the personal competence of all its employees by establishing a mission for HR development, which is aligned with KT&G's key values and talent criteria, and achieving goals with strategies and key tasks.



Company-wide education structure

| Education of key values | Leadership education | | Vocational education | | | | | | | | | | | | |
|---------------------------------------|--|------------------------------------|-------------------------------------|---|---|---------------------------------------|---------------------------------------|-------------------------------------|--------------------------------|---------------------------------------|---|---|-------------------------------|---|---|
| | Beginner | Intermediate | Marketing & sales | | | | | | R&D & manufacturing | | | | | | Business management support |
| KT&G WAY | New employee/promoted persons competence enhancement | Leadership improvement by vocation | Manager competence enhancement | Sales and planning competence enhancement | Sales management competence enhancement | Domestic sales competence enhancement | Overseas sales competence enhancement | Sales common competence enhancement | Manager competence enhancement | R&D technology competence enhancement | Office work technology competence enhancement | Mechanical team head competence enhancement | Driver competence enhancement | Manufacturing common competence enhancement | Competence enhancement by business area |
| Long/short-term outsourced education | | | Regular learning OJT by vocation | | | | | | | | | | | | |
| Cyber and reading support by vocation | | | Special education/thematic training | | | | | | | | | | | | |

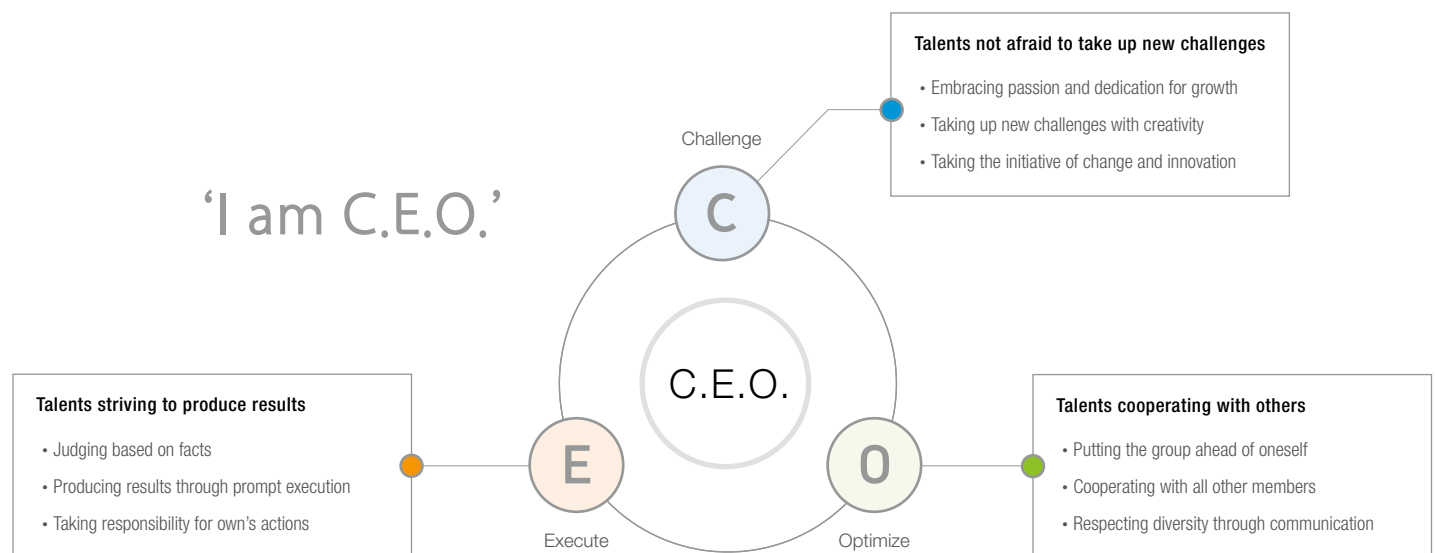


Employee value development

Hiring of global talents

Based on the Labor Standard Acts, KT&G offers equal opportunity of employment to people of merits and disabled persons without discrimination of region, gender, or religion. KT&G selects people who are committed to challenges, execution, and mutual cooperation with the spirit of 'I am C.E.O.'

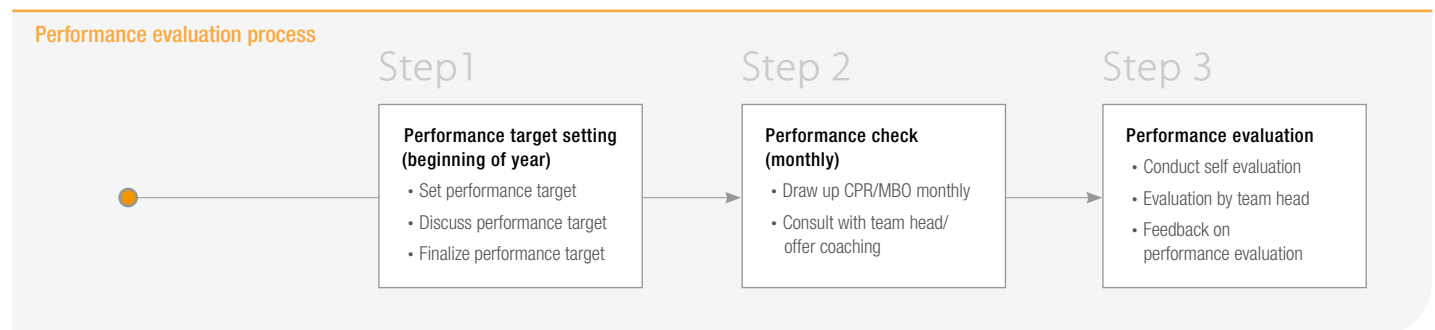
KT&G talents



Fair evaluation system

In accordance with internal regulations, all employees undergo a standardized evaluation process. The evaluation is designed to periodically measure and diagnose the performance and competence of each employee and compensate those with outstanding performance results through a fair performance management and competence development. We are working to establish a compensation system of internal fairness and external competitiveness. New employees receive a pay level that is 206% that of the legal minimum pay. There is no difference in the basic pay between men and women in the same position and each individual is compensated based on his/her ability or competence.

Performance evaluation process



Employee communication channels

Me-First KT&G

To establish a desirable organizational culture, we organize the 'Me-First KT&G' campaign. Based on the daily cycle, the campaign covers such themes as smoking etiquette, night work, and company dinner. Presentation is made on best practices, helping to establish a sound organizational culture.



Labor-Management Council

- Discussions of key operational issues

Personnel Affairs Consultation Corner

- Consultation of grievances regarding HR decisions or career management

Seed On

- Integrated communication channel for affiliated companies

Ombudsman Committee

- All difficulties are handled and reported within 10 days of receipt
- All reviewed matters communicated to HR Office for further handling

Sinnungo

- Channel to report wrongdoings and inconveniences at the workplace
- Direct communication with the CEO

Sangsang Baljeonso

- Space where employees can suggest ideas related to new business, general affairs, and corporate culture

Young Board

- Comprised of young, talented working-level employees
- Supporting decision-making by senior board through an official channel of communication with the management
- Communication messenger between employees and the management

Integrated communication for affiliates, 'Seed On'



Sangsang Baljeonso Idea Contest





Balancing work and personal life

Employee health

Health support programs

KT&G has its employees and their spouse take a medical check-up every year. We cover all medical expenses in excess of the amount to be borne by employees. We regularly offer health information, health management instructions, and other information related to health care through our EIP. As part of our efforts to enhance employee health at the plants, we invite trainers to offer stretching and various other exercises.

Education of safety management

In accordance with the Occupational Safety and Health Act, KT&G appoints safety managers at the workplace to communicate information on safety guidelines. To prevent industrial accidents and ensure that safety guidelines are met, the company analyzed industrial accidents by category and published and distributed an industrial accident casebook. We are also striving to make the workplace safe by identifying and eliminating risk factors through regular safety checks. Thanks to these initiatives, we are seeing a gradual fall in work-related accidents every year.

Noise control

To prevent difficulty in hearing, we made protective gears like earplugs and earmuffs available in noisy workplaces and regularly educated workers on how to wear them. Noise data are regularly measured and managed. We also installed hearing measurement booths in the workplace for workers to check their hearing level.

Family day

As part of the 'fun workplace program,' KT&G operates 'Family Day' to ensure work-life balance and creativity development. Team heads send a 'Family Day' notice message to team members thirty minutes before closing time to encourage them to leave the office on time and spend the rest of the day with their families.

Fitness center



Custom-tailored exercise



Posture check and rectification



Supporting employee company activities



Employee welfare programs

KT&G pursues work-life balance to make sure that its employees lead a stable life as they are the company's biggest asset and source of competitiveness. We develop welfare programs in consideration of employees' life cycle based on their age and seniority. Our various programs benefit not only employees but also their families to enjoy a higher quality of life.

Stable life

To help employees live a stable life, KT&G offers company housing to those coming from other regions. We also offer a long-term, low interest rate housing loan of up to 100 million won. All employees receive congratulatory/condolence money, optional welfare benefits, medical benefits, and condolence payment for accident. We operate an employee share ownership plan (ESOP) to strengthen trust and cooperation between the management and the labor.

Educational support

The high cost of bringing up and educating a child is pointed out as one of the causes behind the issue of low-birth rate and aging society, a phenomena that is becoming more and more widespread in Korea. To help address the social problem facing the nation, KT&G is working to reduce the financial burden of its employees by offering child tuition assistance and coverage of all educational expenses from elementary school up to college. Employees are also given the opportunity to develop themselves through cyber education, reading support, vocational training, and e-MBA programs.

Leisure/vacation support

KT&G actively encourages its employee's leisure activities to create a healthy and vibrant organizational culture. We operate company condominium, pension, and other types of recreational facilities year round and offer employees an opportunity to recharge once every five years of continued service with refresh vacation and some money. According to the legal labor standards, all pregnant employees are given 90 days of maternity leave. Male employees are given a three-day leave when their wife gives birth to a child. Employees with a child aged six years or less can also benefit from a one-year parental leave.

Retirement pension

KT&G operates a retirement pension program to assist employees lead a stable life in old age and protect their rights to retirement pension. All employees can opt between defined benefit (DB) or defined contribution (DC) depending on their personal preferences and discretion.

SEED. 5

What is KT&G doing
 to sow **seeds of green**
 in the world?



Direction

KT&G strives to become a green seed to balance its business activities and the environment through rigorous management of environmental risks and response to climate change.

Annual environment-related investment

* Unit: KRW100 million

2010/11 Achievement

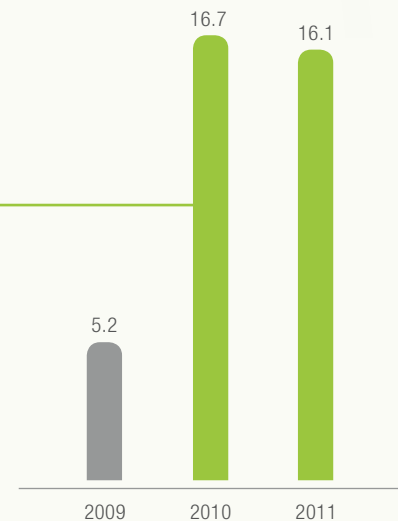
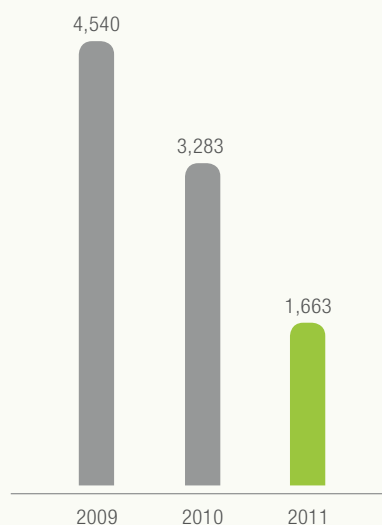
- Received 'Best Energy-saving Business in Gyeongbuk 2011' award (KT&G Yeongju plant)
- Improved environment-friendly aspect of materials and packaging
- Continuously reduced amount of waste

2012/13 Goals and Commitment

- Create team dedicated to environment
- Increase efficiency of group's logistics
- Enhance readiness to meet greenhouse gas and energy targets

Waste

* Unit: ton



KT&G's environment-friendly business management

ISO14001 certification

KT&G obtained ISO14001 certification for all of its manufacturing plants and built a foundation for eco-friendly business management.

| Plants | Date of certification |
|-----------|-----------------------|
| Wonju* | September 1999 |
| Sintanjin | June 2005 |
| Yeongju | June 2005 |
| Gwangju | June 2005 |
| Cheonan | November 2008 |
| Gimcheon | July 2009 |

* The operation of the Wonju plant was suspended in April 2012.

Strategy and directions

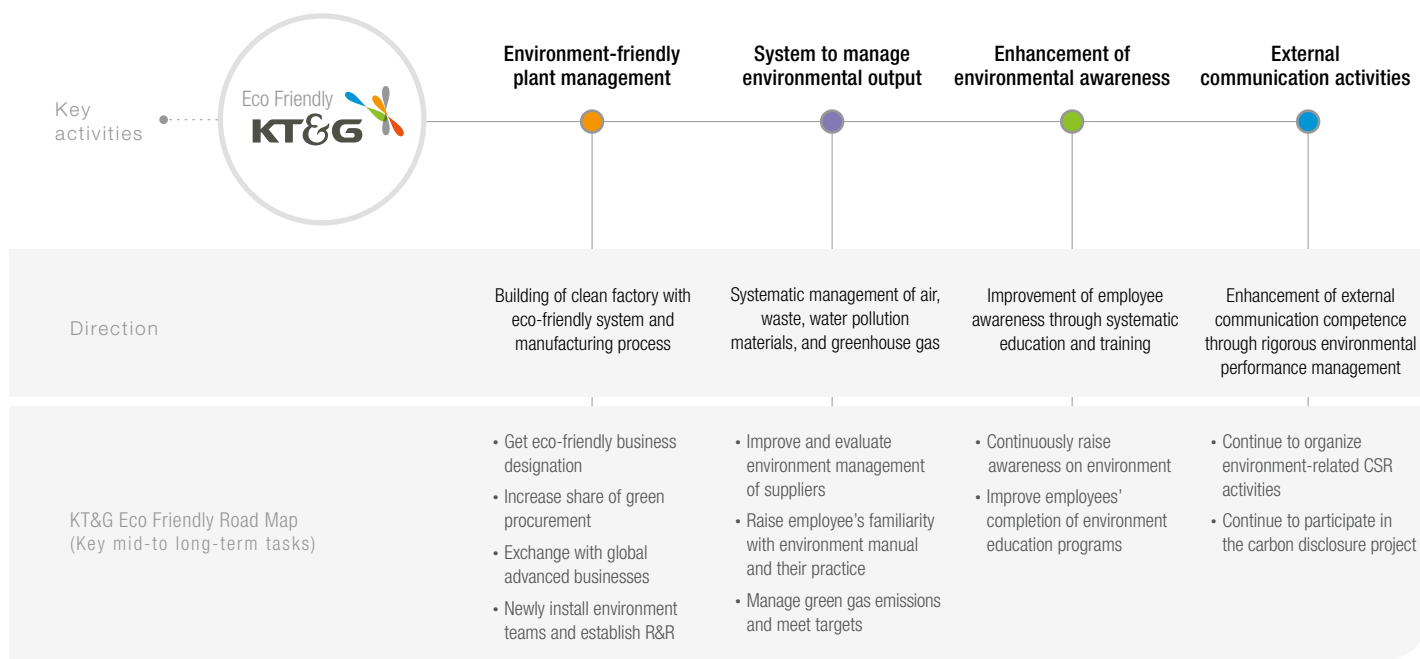
KT&G considers environment-friendly business management to be a corporate social responsibility and makes various efforts for an integrated and systematic response to environment and climate change issues rather than just responding to regulatory requirements.

To this end, KT&G strengthened its management of pollution material outputs by overhauling its internal eco-friendly business management system. We are also dedicated to climate change issues in line with the government's low-carbon, green growth policy.

Building of eco-friendly business management system

KT&G has less environmental issues than other manufacturing businesses. That said, the environment departments at the plants are closely monitoring energy saving and environment-related issues, while focusing on a systematic management of pollution materials to make the plants eco-friendly. We are also working to upgrade our environment performance management through the newly installed Green Business Management Team, which seeks to promote eco-friendly business management throughout the group, enhance environment management at the plants, and reduce green gas emissions.

KT&G eco-friendly management road map





Efforts to mitigate environmental impacts

Building eco-friendly plants

To minimize environmental impacts on local communities and the ecosystem, KT&G strictly manages the use of water resources, water discharges, and waste materials at its plants.

Activities to reduce use of waterworks

KT&G uses waterworks in its manufacturing process to ensure quality and sanitation management, remove bad smell, and use as a coolant. We are continuously reducing the use of waterworks by installing water-saving facilities or substituting industrial water or underground water for waterworks.

Activities to reduce use of waterworks in plants

| Plants | Activities to reduce use of waterworks |
|-----------|--|
| Sintanjin | <ul style="list-style-type: none">• Installation of congealing water withdrawal device in air handling unit• Replacement of coolant in cooling tower with industrial water• Replacement of water used in smell removing facilities and for cleaning air handling unit with underground water |
| Yeongju | <ul style="list-style-type: none">• Installation of congealing water withdrawal device in air handling unit |

Management of waste water

KT&G is working to minimize environment impacts caused by waste water by rigorously managing the quality of waste water. All water pollutants are managed at levels that are below the legal requirements. We outsource the management of waste water to an external professional service company.

Waste management

To reduce waste generated in workplaces, KT&G manages waste based on a thorough waste reduction plan. Through continuous improvement of the manufacturing process, the amount of waste generated in our plants in 2011 was 63% lower compared to that in 2009.

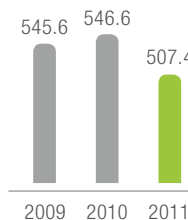
Process improvement to reduce waste

KT&G is making various efforts to reduce waste generated during the manufacturing process. Using new technologies to reduce by-products in the manufacturing process, we cut down on the use of raw materials. The use of technologies to recycle raw materials separated from the manufacturing process helped us achieve a higher rate of recycling while enhancing product quality.



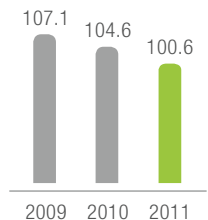
Recycling of byproducts generated in manufacturing process

Use of waterworks



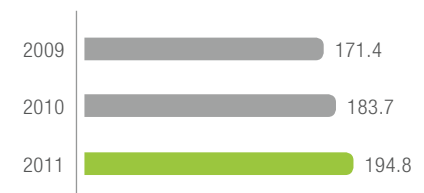
Use of underground water

* Unit: 1,000 ton



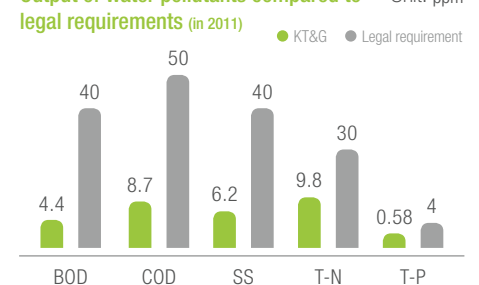
Amount of waste water

* Unit: 1,000 ton



Output of water pollutants compared to legal requirements (in 2011)

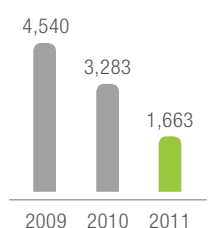
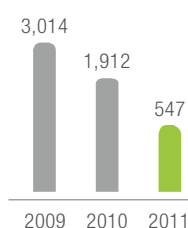
* Unit: ppm



Amount of residuals (tobacco fines)

Amount of waste materials

* Unit: ton



Strategic response to climate change

Plant rationalization plan

KT&G's plant rationalization plan is part of the company's plant clustering project, which has been underway since 2010. The plan is designed to enhance efficiency in business management and cut the cost of energy consumption by gradually reducing and clustering the four tobacco manufacturing plants.

KT&G's Sintanjin plant became subject to the clustering project and is now being expanded in terms of facilities and equipment infrastructure. From the first half of 2012, the tobacco manufacturing plants will become fully operational in clusters.

Strengthened management of energy consumption and greenhouse emissions

With the 'greenhouse gas and energy target management system' in place in 2011, businesses are stepping up their activities to cope with climate change. Though not a business subject to greenhouse gas and energy target management designated by the government, KT&G periodically manages its energy consumption and greenhouse gas emissions and is engaged in various activities to reduce them in order to proactively cope with climate change.

Energy consumption and greenhouse emissions

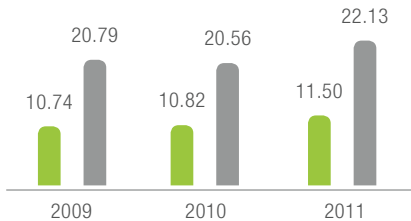
KT&G is actively engaged in the government's green growth policy by measuring its energy consumption in the five plants by type of energy (LNG and electricity) and calculating the respective amount of greenhouse gas emissions.

Between 2010 and 2011, KT&G's energy consumption and greenhouse gas emissions increased by a small margin due to facilities construction, which is based on our plant rationalization plan* and increased work hours in response to a rise in production demand. By the time the plant rationalization construction is completed, we expect our energy consumption and greenhouse gas emissions to decrease.

Energy consumption in KT&G plants

* Unit: 1,000 TOE

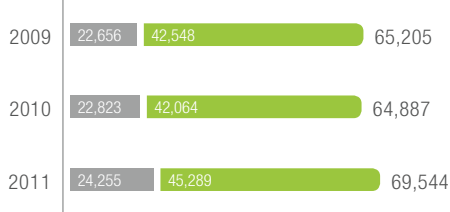
● LNG ● Electricity



Direct/indirect greenhouse gas emissions of KT&G

Unit: tCO₂

● Scope 1 ● Scope 2



KT&G's efforts to cope with climate change 1

Establishing "low-carbon green line" with local businesses

The KT&G Yeongju plant signed a cooperation agreement with the nearby Novelis Korea in July 2011 on joint energy use. This is an initiative to cope with climate change and achieve low-carbon, green growth. Through this agreement, KT&G will capture and use 2,700 tons of surplus steam generated by Novelis Korea, which will be transferred through a pipeline installed between the two plants. This will result in a reduction of 521 tons of tCO₂ a year. Thanks to these efforts, the Yeongju plant received the 'Best Energy-saving Business in Gyeongbuk 2011' award.



KT&G and Novelis Korea sign cooperation agreement



Pipeline opening ceremony



Awarded 'Best Energy-saving Business in Gyeongbuk 2011'



Efforts to reduce energy consumption and greenhouse gas emissions

KT&G is involved in various activities to reduce energy consumption and greenhouse gas emissions at the plants. Efforts to reduce energy consumption include the increased use of energy efficiency machinery and tools in the plants or sharing of energy with nearby businesses. Efforts to reduce greenhouse gas emissions include the production of eco-friendly products and integration of logistics operation at the group level.

Reduction of energy consumption at the plants

Though not part of a high energy-consuming industry group, KT&G carries out various activities to reduce energy consumption at the group level. The plants are engaged in various activities to reduce energy consumption such as installing energy-saving facilities or participating in energy service company (ESCO) projects.

Integrated logistics operation at group level

KT&G plans to integrate its logistics with the Korea Ginseng Corporation from the second half of 2012 to achieve synergistic effect based on logistical coordination among groups. We will cut down on transportation costs by integrating the logistics operations of our group companies while enhancing efficiency in transportation to minimize greenhouse gas emissions in the transportation stage.

Enhanced eco-friendliness of products

To enhance the eco-friendliness of its products, KT&G improved the materials used in internal and external packings. By raising product recyclability and reducing the amount of materials used, we were able to enhance our products' eco-friendliness and reduce greenhouse gas emissions.

Major activities to reduce energy consumption in plants

| Major activities | Major activities |
|---|---|
| Installation of energy-saving device | <ul style="list-style-type: none">• Eight high-efficiency cast resin transformers (Sintanjin)• Energy efficiency through ESCO project (Yeongju)• 5%-7% reduction in electricity consumption |
| Energy-saving activities in winter season | <ul style="list-style-type: none">• Reducing use of auxiliary equipment and running backup generators• Reducing heating hours in non-manufacturing facilities (office, restaurant) |
| PR of energy-saving activities | <ul style="list-style-type: none">• Installing energy-saving placards and posters |
| Replacement of lighting fixtures | <ul style="list-style-type: none">• Replacement of lighting fixtures in plants and storage room with energy-saving lighting fixtures |
| Sharing of surplus steam with nearby businesses | <ul style="list-style-type: none">• Sharing of surplus steam with nearby businesses |
| Building of video conference equipment | <ul style="list-style-type: none">• Installation of five video conference facilities and Internet video conferencing systems |



KT&G's efforts to cope with climate change 2

Improvement of cigarette packing material (aluminum inner liner → paper inner liner)

We developed environment-friendly, recyclable aluminum-free paper to replace aluminum-laminated paper inside cigarette packs. The paper is made with an optimal percentage of needle-shaped leaf and broadleaf pulps. The paper production process is adjusted to accommodate high-speed packing equipment. The paper is recyclable as it is made of 100% pulp only.

▼ 600 tCO₂



▼ 1,434 tCO₂

1,434 tons less greenhouse gas emitted
Equivalent to 516 small pine trees planted



Improvement of carton packaging (hard case → soft case)

The carton packaging, which contained 10 cigarette packs, was changed from hard case to soft case that made use of vinyls unnecessary. This eliminates the use of vinyl, which was a major cause of environmental pollution. Despite an initial increase in investment costs, the application of soft cases also helped reduce the amount of pulp used.

▼ 1,000 tCO₂



▼ 346 tCO₂

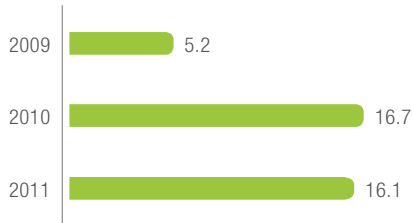
346 tons less greenhouse gas emitted
Equivalent to 131 small pine trees planted



Strengthened external communication

Total annual investments in environment

* Unit: KRW100 million



Manufacturing process tour

How can we participate?

We accept groups of 20 persons or more.

When can we visit?

From Monday through Friday (except holidays).

* Dates decided by company in consultation with applicant.

What time can we visit?

9am-11am, 2pm-4pm

* Up to two tours per day

How long is the tour?

50 minutes

Minimizing environmental risks in areas close to plants

KT&G is increasing its environmental investment to ensure that its plants do not cause issues of foul odor, waste water, or air pollutants in nearby areas.

In response to the change in urban classification of the area near the Cheonan plant from an industrial area to a general residential area, we invested 2 billion won to build an odor control facility and minimize disturbances to local residents. We are also involved in enlarging waste water treatment facilities and reinforcing dust collectors.

As part of our community involvement activities, we also periodically organize environment cleaning activities with local communities to strengthen our relationship with them.



Odor control facility



Environment cleaning activities



Tour to manufacturing plant

Tours to manufacturing plants

KT&G operates tours to its four plants (Yeongju, Wonju, Gwangju, Sintanjin), which boast the largest manufacturing facilities and size in Asia. Through the tours, we disclose to the public our manufacturing environment and eco-friendly facilities, which are in line with ISO international standards on quality and environmental management system.

Participation in carbon disclosure project (CDP)

The Carbon Disclosure Project (CDP) is a project to cope with climate change. It is currently carried out by more than 60 countries in the world. As climate change issues emerge as an important consideration for investment decisions by external investment institutions, over 2,500 businesses around the world participate in the CDP to disclose their greenhouse gas emissions as well as their carbon management strategies, which identify the risks and opportunities of climate change.

KT&G has disclosed its greenhouse gas emissions and related strategies through CDP response from 2010.

More information on [KT&G plant tours](http://www.ktng.com/kor/publicity/plant_info.jsp#) is available at http://www.ktng.com/kor/publicity/plant_info.jsp#

SEED. 6

What is KT&G doing to make a **society of sincerity?**

Direction

KT&G is supporting the promotion of non-mainstream arts and culture in various ways. We are also involved in volunteer activities to share the talents of our employees with others, while offering financial assistance to those in dire need.

2010/11 Achievement

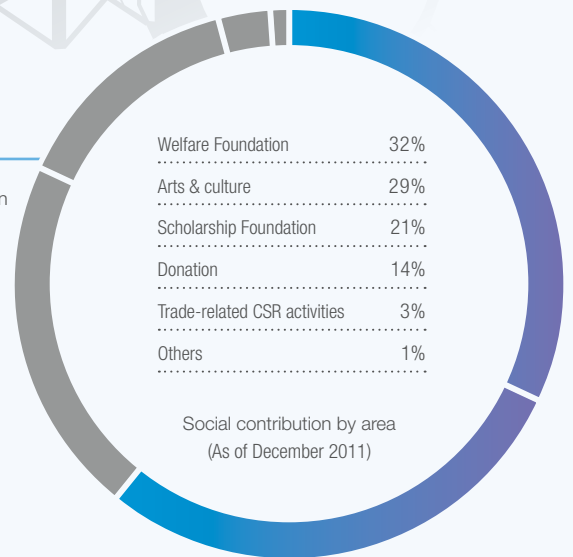
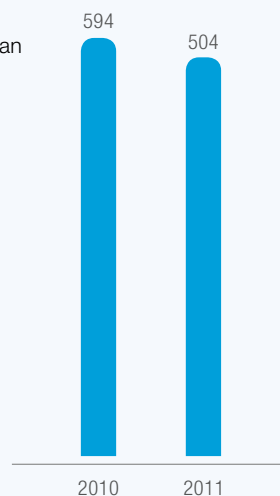
- Re-established KT&G Way
- Opened art and cultural space – Sangsang Madang in Nonsan
- Created Sangsang Fund

2012/13 Goals and Commitment

- Strengthen community involvement initiatives through KT&G Way
- Expand cultural contribution activities for people in marginalized areas

Social contribution costs

* Unit: KRW100 million



* Compared to the average social contribution costs of Korean businesses in 2010, which was 0.24% of total sales (data from the Federation of Korean Industries' 'White Paper on Social Contribution'), KT&G's average annual social contribution costs account for 2% or more of its total sales every year.

KT&G Way

KT&G's social contribution symbol

KT&G's social contribution symbol is a simple image in the shape of a man and a heart. It embodies the message of dream and hope and our imagination of a happy future full of love and sharing.

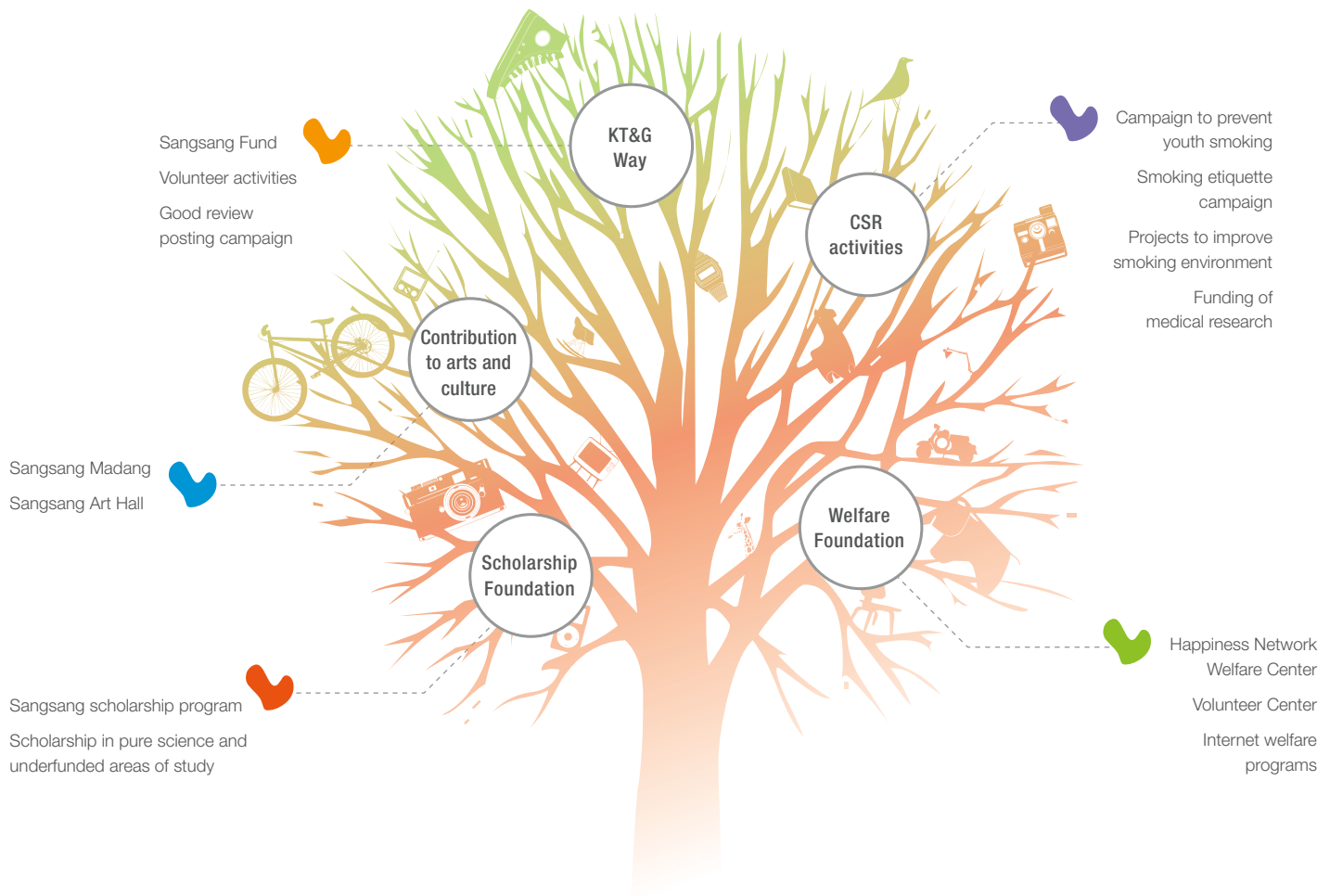


Re-establishment of KT&G Way

KT&G newly established its mid- to long-term social contribution directions by upgrading its existing social contribution activities. The 'KT&G Way' is based on a systematic development of the company's existing social contribution activities. It incorporates a differentiated social contribution method unique to KT&G such as mecenat activities.

KT&G's social contribution direction

Based on the keyword of 'Sangsang (imagination),' KT&G's social contribution direction is largely divided into five areas: the 'Contribution to arts and culture' to support and create new culture, the 'Welfare Foundation' to help disadvantaged groups of the society, the 'Scholarship Foundation' to offer financial assistance to creative talents of the global era, the 'Employee volunteer activities' to share our employees' talents with others, and the 'CSR activities' that reflect the characteristics of the industry.





Contribution to arts and culture

Mecenat activities

KT&G supports the development of arts and culture in every day life, rather than arts and culture exclusively enjoyed by certain groups of people. Since joining the Korean Business Council for the Arts in 1994, KT&G has sponsored pure culture through its Sangsang Madang and Sangsang Art Hall. In 2010, KT&G received the Cultural Contribution Award from the Korean Business Council for the Arts for supporting non-mainstream culture through its complex cultural spaces and its contribution to their popularization.

Sangsang Madang

Located in front of Hongik University, the complex cultural space of Sangsang Madang supports the creation and communication of non-mainstream arts and culture.

Market place

The Sangsang Madang offers a marketplace as well as a stable workplace for artists to concentrate on their work. It tries to find small but valuable works of art.

Incubating

The Sangsang Madang operates support programs for artists. It funds the activities of those engaged in design, photography, and music.

Communication

The Sangsang Madang offers the opportunity for artists to propose and organize exhibitions, performances, and other special events.

Sangsang Madang performance



Performance

Band incubating, special performances, rental performances



Cinema

Movie projection, production, distribution, CineLab



Visual Art

Fine art exhibitions, exhibitions of non-mainstream arts and culture, photography exhibitions and support of photographers



Design

Exhibitions and distribution, support of designers and mass production



Academy

Education on arts and culture for adults, programs to foster arts and culture talents, creative activities for youths, lectures business



Communication

Citizen participation programs, events, space tours, community FAM Tour membership, supporters

Sangsang Madang in Nonsan

Based on the success of Sangsang Madang in Hongik University, KT&G opened Sangsang Madang in Sangwol-myeon, Nonsan in Chungcheongnam-do Province in June 2011. The space is designed to expand cultural infrastructure in local communities, engage young students in creative arts and cultural activities, and provide aspiring artists an opportunity to pursue their artistic endeavors.

Sangsang Art Hall

Sangsang Art Hall is a special performance stage for theatrical plays, concerts, and musicals. It selects and presents quality, popular performing art works that seek to popularize high culture and elevate pop culture. Various domestic and international performances were staged at Sangsang Art Hall, including theatrical plays like 'If I could be with you', 'Finding Kim Jong-wook', musical 'Singles', 'Hedwig', 'Toxic hero', and 'Without you.' The art hall also actively supports new productions to contribute to the development of performing arts in Korea.

View of Sangsang Art Hall and performance



Inside Sangsang Art Hall



Sangsang Art Hall performance 'Finding Kim Jong-wook'



View of Nonsan Sangsang Madang and Boa Constrictor Exhibition Hall



More information on the performances organized at **KT&G Sangsang Art Hall** is available at <http://www.sangsangarthall.com>.

Talent sharing activities

Employee participation in social volunteer work

| Year | 2009 | 2010 | 2011 |
|----------------------|--------|--------|--------|
| Number of volunteers | 10,602 | 7,967 | 5,096 |
| Volunteer hours | 33,785 | 23,389 | 17,807 |

More information on [KT&G's community involvement activities](http://www.ktngtogether.com) is available at <http://www.ktngtogether.com>.

Sangsang Together, KT&G employee volunteer group

Sangsang Together is a KT&G employee volunteer group formed to help resolve local community problems and practice corporate social responsibility. KT&G's volunteer programs try to maximize the use of employee talents and characteristics. For example, employees with an electricity or civil engineering license help repair electricity and boilers for small retailers. Health care specialists at the plants are also involved in volunteer activities in the local communities, such as offering health consultation and performing basic medical check-up for low-income people. Employees feel rewarded by sharing their talents.

Sangsang Volunteer, University student volunteer group

Sangsang Volunteer is a university student volunteer group. It plans and conducts volunteer activities on its own and helps create a happy nation. With volunteer as a medium, the group creates a platform of communication and helps its members make a difference. There are about 7,000 Sangsang volunteer members. The actual costs of volunteer activities are fully funded by KT&G, and outstanding volunteers are offered various benefits such as overseas dispatches for disaster relief activities.

At the '2011 Love Sharing Event,' 600 KT&G Sangsang Together members and 1,100 Sangsang volunteer members delivered briquettes, rice, heating oil and other winter necessities to 2,300 places, including senior people living on their own, teenage heads of households, and welfare centers.

Sangsang Univ, a community of passion and challenge

Sangsang Univ offers aspiring artists who have a unique idea and style a stage to express their creativity. It allows them to bond, compete, and share various arts and culture. The community supports four areas, which are dance, band music, photography, video art, and cinematography, through education, mentoring, and various participatory programs. Sangsang Univ is an art and culture community where participants not only get a theoretical learning but also participate, express, meet, and share with one another.



Sangsang Together home repair



Sangsang Volunteer baking school



Library making by Sangsang Together and Sangsang Volunteer



Support for disadvantaged groups

Welfare Foundation

To realize a 'tolerant society,' KT&G recognizes that community involvement activities are an integral part of its business management and undertakes social welfare and health care programs accordingly. To achieve win-win between businesses and the society, KT&G Welfare Foundation supports various facilities and organizations that contribute to the social welfare of disadvantaged people in the local communities. It is also engaged in enhancing social welfare by supporting programs to treat dread diseases.

Welfare centers, a happiness network

In collaboration with welfare institutions and civic organizations in the communities, KT&G Welfare Foundation operates eight happiness network welfare centers.

2011 KT&G Welfare Foundation new rice sharing on Hangawi

To relieve the economic burden of low-income families and assist rice farmers overcome their difficulties due to a general fall in rice consumption, KT&G donated 471 tons of new rice worth 1.1 billion won to low-income families, free lunch programs, North Korean defectors, and multi-cultural households.



2011 KT&G Welfare Foundation donation of cars to community welfare centers

Recognizing that small cars are needed to better reach people in neighborhoods with small alleys, KT&G Welfare Foundation has donated small cars for eight years since 2004. A total of 800 cars was donated to community welfare centers.



Cars donated to community welfare institutes (Cumulative)

| Year | 2009 | 2010 | 2011 |
|----------------|------|------|------|
| Number of cars | 600 | 700 | 800 |

* 100 cars donated every year

More information on [KT&G Welfare Foundation](http://www.ktngwelfare.org) is available at <http://www.ktngwelfare.org>.

Volunteer Center

KT&G Welfare Foundation actively supports volunteer activities involving people of different age groups such as youth and college student volunteers and senior volunteer groups.



Senior volunteers



Youth volunteers

Internet welfare programs

We operate 1004 KT&G, an Internet-based donation website to help low-income patients.



More information on [KT&G Support for Patients](http://www.1004ktng.com) is available at www.1004ktng.com.

Fostering of next-generation talents

KT&G Scholarship Foundation Operation Directions

Strategy

- Assist the learning by the socially disadvantaged groups
- Foster next-generation leaders
- Expand research opportunities
- Fund socially unsupported areas of studies

Key achievements of KT&G Scholarship Foundation

2011 Sangsang scholarship fund

464,000,000 won

2010/11 (In Korea and overseas) college students scholarship fund

766,000,000 won

2010/11 foreign students scholarship fund

856,000,000 won

2010/11 research funding scholarship fund

250,000,000 won



2011 Sangsang Scholarship Camp



Award ceremony of
2011 Humanities Thesis Contest

More information on the activities of
KT&G Scholarship Foundation is available at
<http://scholarship.ktngtogether.com>.

Scholarship Foundation

KT&G Scholarship Foundation presents a new vision for scholarship programs by offering a systematic and sustained talent fostering program. Its scholarship and research funding benefit young talents from in and out of Korea.

Sangsang scholarship program

KT&G offers approximately 4 million won in annual financial aid to students of low-income families, multi-cultural families, and North Korean defector families for a fair chance in education. The financial aid is used to cover school fees, private institute fees, uniforms, and other costs related to learning.

Scholarship program for graduate students

KT&G offers scholarship to graduate students studying pure science, for which there is relatively less support compared to practical science. Those with a major in the Humanities benefit from tuition coverage while in a graduate and doctoral program. In addition to funding Korean graduate students studying in Korea, the company also offers financial aid to Korean students studying overseas to strengthen the international competitiveness of Korean talents and promote broad scientific exchange.

Financial aid to foreign students

Young, outstanding foreign students enrolled in a Korean graduate school can benefit from financial aid from KT&G. The financial aid covers tuition and living expenses. We also offer them an opportunity to experience Korean culture.

Funding of research activities

KT&G organized a Humanities contest to identify mid- to long-term tasks for the future of Humanities and systematically organize research projects. This initiative is designed to encourage the works of those majoring in the Humanities to promote their studies and contribute to the development of academic research in this field.

Special lectures on the Humanities

The lectures are offered to graduate students by the nation's top mentors. Various fields are covered and presented from the perspective of the Humanities. Organized in major universities in Seoul every year, the lectures are designed to teach students various aspects of the Humanities and help them develop a creative mind.

Sangsang Fund

Sangsang Fund

In March 2011, KT&G created 'Sangsang Fund,' a unique donation and matching grant program that encourages all employees to have a higher sense of belonging to the company and help them make a difference through voluntary participation in the program. The fund consists of employee donations that are matched by the company in the same amount and our employee volunteer work hours that are converted into 10,000 won per hour. Currently, about 91% of KT&G employees took part in the program and the fund is about 1.4 billion won a year.

The Fund Operation Committee, which consists of employee representatives, works to raise the operational efficiency of Sangsang Fund by collecting and executing ideas gathered through the company's Intranet. Information on the beneficiaries, fund accumulation, and use of fund are disclosed to ensure that the fund is managed transparently.

Matching grant

A type of social contribution fund program where donations made by employees to not-for-profit organizations or institutions are matched one-to-one in the same amount by the company

Creation and operation of the fund

Employees



- KT&G employees opt for number of accounts from 1 to 50 (10,000 won per account)
- Monthly donation of up to 10,000 won from salary



Company

- Employee donations 1:1 matching
- Employee volunteer activities (Volunteer work hours converted into 10,000 won per hour)

Decisions by
Sangsang Fund
Operation
Committee



Delivery of
briquettes of love



Scholarship for
college students



Disaster relief funds

SANGSANGMADANG

상상마당은
예술적 상상력을 키우고
세상과 만나고
함께 나누며
행복해지는 곳

Band incubating

Potential bands are identified and offered various benefits, which range from band exercise room to concert, album production, and performance stage for a chance to become successful musicians.

Great Design Project of Sangsang Madang

The Great Design Project is an exceptional collaboration project to support the finalists of the <5th Great Short Film Festival>. The project offers a one-to-one matching between the 25 directors whose films were selected in the short film competition section and designers. The directors and designers collaborate to create and produce movie posters for use in international film festivals.

SKOPF (Sangsang Madang Korean Photographer's Fellowship)

We support the activities of Korean photographers who engage in new initiatives while basing their works on the history and tradition of photography.

Writing, Humanities, fine arts/ photography, visual art, arts and culture

We offer various educational programs and lectures in creative writing, the Humanities, design, and arts and culture to help participants enlarge their perspective and thoughts about art.

More information on the performances
organized at **KT&G Sangsang Madang** is available at
<http://www.sangsangmadang.com>.



Appendix

Appendix

| | |
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| 58 | Economic performance |
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Economic performance

Statement of Comprehensive Income

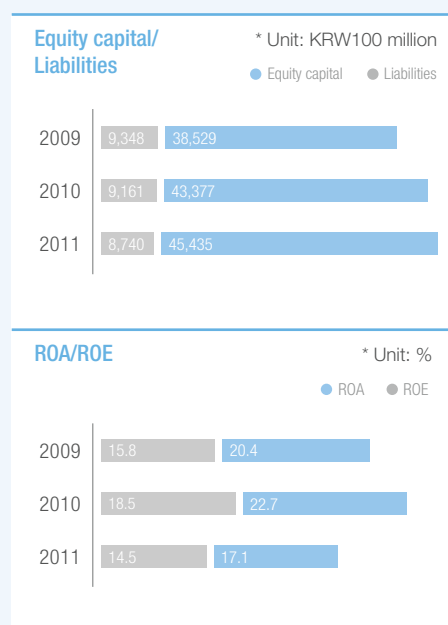
KT&G enhanced the integrity of its financial data by applying the International Financial Reporting Standards (IFRS).

* in millions of won

| Classification | 2009 | 2010 | 2011 |
|--------------------------------------|-----------|-----------|-----------|
| Sales | 2,776,403 | 2,499,931 | 2,490,831 |
| Cost of sales | 1,154,944 | 1,002,185 | 966,954 |
| Gross profit | 1,621,459 | 1,497,746 | 1,523,877 |
| Operating expenses | 669,966 | 572,730 | 590,628 |
| Profit from operations | 951,493 | 925,016 | 933,249 |
| Net finance income | 33,855 | 295,090 | 89,152 |
| Profit before income taxes | 985,348 | 1,220,106 | 1,022,401 |
| Income tax expense | 240,406 | 288,979 | 246,464 |
| Profit for the period | 744,942 | 931,127 | 775,937 |
| Earnings per share | 5,803 | 7,317 | 6,134 |
| Other comprehensive income (expense) | 117,981 | -115,199 | -64,281 |
| Total comprehensive income | 862,923 | 815,927 | 711,656 |

Statement of Financial Position

* in millions of won



| Classification | 2009 | 2010 | 2011 |
|---------------------------------|-----------|-----------|-----------|
| Non-current assets | 2,751,984 | 2,721,131 | 3,036,301 |
| Current assets | 2,035,821 | 2,532,644 | 2,381,188 |
| Total assets | 4,787,805 | 5,253,775 | 5,417,488 |
| Equity capital | 954,959 | 954,959 | 954,959 |
| Treasury shares | -226,945 | -216,827 | -343,522 |
| Gain on sale of treasury shares | 468,275 | 482,129 | 485,922 |
| Other capital surplus | 2,630 | 3,582 | 3,582 |
| Reserve | 2,074,108 | 2,184,703 | 2,678,814 |
| Retained earnings | 579,964 | 929,140 | 763,738 |
| Total equity | 3,852,991 | 4,337,686 | 4,543,493 |
| Non-current liabilities | 165,242 | 145,501 | 169,567 |
| Current liabilities | 769,572 | 770,587 | 704,429 |
| Total liabilities | 934,814 | 916,089 | 873,996 |
| Total equity and liabilities | 4,787,805 | 5,253,775 | 5,417,488 |

Board of director meetings (in 2011)

| No | Date | Agenda | Vote | Attendants |
|----|---------|---|--|---|
| 1 | Jan. 14 | Resolution #1: Amendment of the articles of incorporation (proposal) Resolution #2: Composition of Outside Director Candidate Recommendation Committee (proposal) | Proposal resolved Resolved | Outside directors: 9 Executive director: 1 |
| 2 | Jan. 19 | Resolution #1: 24th statement of financial position, statement of comprehensive income (consolidated and non-consolidated) Resolution #2: 24th statement of appropriation of retained earnings Resolution #3: 24th sales report Report #1: Operation of internal accounting management system Report #2: Result of evaluation of operation of internal accounting management system | Proposal resolved Proposal resolved Proposal resolved Proposal received Proposal received | Outside directors: 9 Executive director: 1 |
| 3 | Feb. 9 | Resolution #2: 24th statement of appropriation of retained earnings | Proposal resolved | Outside directors: 9 |
| 4 | Feb. 9 | Resolution #1: Recommendation of Audit Committee member candidate (proposal) Resolution #2: Organization of 24th annual general meeting of shareholders (proposal) | Proposal resolved Proposal resolved | Outside directors: 9 Executive director: 1 |
| 5 | Mar. 16 | Resolution #1: Appointment of chair of the board (proposal) ※ Director Yong-chan Ahn appointed Resolution #2: Appointment of members of Committees within the BOD (proposal) Report #1: C1 project implementation plan Resolution #3: Plan to establish and invest in incorporated subsidiary in China (proposal) | Resolved Resolved Proposal received Proposal resolved | Outside directors: 9 Executive director: 1 |
| 6 | Apr. 20 | Report #1: 2011-Q1 settlement Resolution #1: Acquisition of treasury shares (proposal) | Proposal received Proposal resolved | Outside directors: 9 Executive director: 1 |
| 7 | Jun. 24 | Resolution #1: Investment to take over Somang Cosmetics (proposal) | Proposal resolved | Outside directors: 8 Executive director: 1 |
| 8 | Jul. 14 | Resolution #1: Investment to take over Indonesian tobacco company (proposal) | Proposal resolved | Outside directors: 8 Executive director: 1 |
| 9 | Jul. 20 | Report #1: 2011-first half settlement | Proposal received | Outside directors: 9 Executive director: 1 |
| 10 | Oct. 19 | Report #1: 2011-Q3 settlement | Proposal received | Outside directors: 9 Executive director: 1 |
| 11 | Dec. 14 | Report #1: 2012 business plan Resolution #1: 2012 budget (proposal) Resolution #2: Donation to KT&G Scholarship Foundation (proposal) Resolution #3: Donation to Tobacco Leaf Production Stabilization Foundation (proposal) Resolution #4: Sale of treasury stock (proposal) Resolution #5: 2011 BOD activities evaluation plan (proposal) | Proposal received Proposal resolved Proposal resolved Proposal resolved Proposal resolved Proposal resolved | Outside directors: 8 Executive director: 1 |

Contribution to the national economy (taxes)

By faithfully paying its taxes, KT&G contributes to the promotion of a sound tax payment climate and to the national finance. In 2011, we paid about 3.7275 trillion won in taxes.

* in hundreds of millions of won

| Classification | 2009 | 2010 | 2011 |
|----------------|--------|--------|--------|
| Tobacco excise | 19,809 | 18,119 | 18,063 |
| Education tax | 9,912 | 9,068 | 9,039 |
| Other taxes | 11,156 | 10,204 | 10,173 |
| Total | 40,877 | 37,391 | 37,275 |

Government subsidies

KT&G benefits from economic incentives through government subsidies. In 2011, we received approximately 2 billion won in government subsidies.

* in millions of won

| Classification | 2009 | 2010 | 2011 |
|--|-------|------|-------|
| Tax credit for temporary investment | 2,077 | 789 | 1,207 |
| Tax credit for research manpower development and facilities investment | 70 | 87 | 93 |
| Tax credit for productivity enhancement/specific facilities investment | 76 | 1 | 146 |
| Tax credit for environmental conservation facility investment | 14 | 52 | 139 |
| Tax credit for energy-saving investment | 151 | 26 | 62 |
| Tax credit for research and manpower development expenses | 340 | 400 | 414 |

Overseas sales by region

In overseas business, we achieved approximately 614.26 million dollars in sales, up 13.5% from the previous year. To secure a basis for sustainable growth and strengthen profitability overseas, we are actively engaged in expanding markets and brands and investing in markets with high growth potential.

* in thousands of dollars

| Classification | Middle East | CIS | Central Asia | Americas | Chinese markets | Southeast Asia /Others |
|----------------|-------------|--------|--------------|----------|-----------------|------------------------|
| 2009 | 306,311 | 21,524 | 59,804 | 24,984 | 22,560 | 22,658 |
| 2010 | 363,636 | 14,460 | 53,762 | 31,975 | 21,916 | 55,462 |
| 2011 | 365,102 | 70,139 | 36,289 | 29,773 | 63,522 | 49,432 |

Sales of key brand overseas

* in thousands of dollars

| Brand | 2009 | 2010 | 2011 | Total |
|----------|---------|---------|---------|---------|
| ESSE | 174,459 | 313,747 | 324,675 | 812,881 |
| PINE | 148,849 | 98,405 | 120,919 | 368,173 |
| CIMA | 43,881 | 44,497 | 42,734 | 131,112 |
| ZEST | 20,520 | 33,790 | 45,216 | 99,526 |
| PLEASURE | 34,714 | 8,990 | 35,083 | 78,787 |

Sales of key brand in Korea

* in millions of won

| Brand | 2009 | 2010 | 2011 | Total |
|-----------|---------|---------|---------|-----------|
| ESSE | 862,146 | 836,207 | 861,761 | 2,560,113 |
| THE ONE | 254,902 | 222,589 | 229,000 | 706,491 |
| RAISON | 191,363 | 167,342 | 159,410 | 518,115 |
| THIS PLUS | 114,731 | 98,947 | 106,035 | 319,713 |
| SIMPLE | 70,282 | 69,055 | 79,744 | 219,081 |

Environmental performance

Use of waterworks and underground water by plant

Since 2009, KT&G has continuously reduced the amount of water used by funding the installation of water-saving facilities and through education. We will continue to carry out systematic management to further reduce use of water resources.

* in tons

| Plant | 2009 | | 2010 | | 2011 | |
|-----------|------------|-------------------|------------|-------------------|------------|-------------------|
| | Waterworks | Underground water | Waterworks | Underground water | Waterworks | Underground water |
| Sintanjin | 186,868 | 39,536 | 217,562 | 42,862 | 162,375 | 43,429 |
| Yeongju | 71,175 | 67,599 | 55,855 | 61,778 | 49,121 | 57,141 |
| Wonju | 104,416 | 0 | 100,804 | 0 | 102,234 | 0 |
| Gwangju | 151,763 | 0 | 144,648 | 0 | 157,335 | 0 |
| Cheonan | 31,367 | 0 | 27,763 | 0 | 36,369 | 0 |
| Total | 545,589 | 107,135 | 546,632 | 104,640 | 507,434 | 100,570 |

Water discharge by plant

* in tons

| Plant | 2009 | 2010 | 2011 |
|-----------|---------|---------|---------|
| Sintanjin | 42,575 | 44,495 | 54,436 |
| Yeongju | 29,636 | 31,860 | 28,378 |
| Wonju | 65,731 | 64,830 | 70,509 |
| Gwangju | 33,434 | 42,535 | 41,486 |
| Total | 171,376 | 183,720 | 194,809 |

Quality of waste water by plant

KT&G keeps the quality of waste water at or below legal requirements and regularly maintains waste water sources and repairs facilities to lower BOD (biochemical oxygen demand) and T-P (total phosphorus) to stable levels.

| Year | Requirement Plant | PH | BOD (PPM) | COD (PPM) | SS (PPM) | N-H (PPM) | | TN (PPM) | TP (PPM) |
|------|----------------------|---------|-------------|-------------|-------------|--------------|-------------------------------|-------------|-------------|
| | | 5.8-8.6 | 40 or below | 50 or below | 40 or below | Mineral oils | Vegetable oil and animal fats | 30 or below | 30 or below |
| | | | | | | 1 or below | 5 or below | | |
| 2009 | Sintanjin | 6.9 | 11.4 | 15.7 | 13.0 | 0.6 | 0.2 | 9.1 | 0.1 |
| | Yeongju | 7.2 | 5.5 | 13.8 | 11.5 | 0.3 | 0.3 | 13.1 | 0.4 |
| | Wonju | 7.1 | 3.5 | 7.6 | 5.2 | 0 | 1.9 | 4.5 | 0.8 |
| | Gwangju | 7.3 | 2.4 | 10.1 | 3.5 | 0 | 0 | 8.4 | 0.7 |
| 2010 | Sintanjin | 7.0 | 8.1 | 10.5 | 8.3 | 0.2 | 0.5 | 9.4 | 0.2 |
| | Yeongju | 7.2 | 4.5 | 9.7 | 6.3 | 0.3 | 0.2 | 7.5 | 0.2 |
| | Wonju | 7.1 | 2.7 | 6.8 | 4.2 | 0.1 | 1.7 | 8.2 | 0.8 |
| | Gwangju | 7.0 | 1.3 | 4.6 | 5.5 | 0.5 | 0 | 5.0 | 0.8 |
| 2011 | Sintanjin | 7.9 | 6.5 | 11.1 | 7.6 | 0.3 | 0.6 | 19.1 | 1.1 |
| | Yeongju | 7.2 | 7.7 | 13.3 | 10.1 | 0.4 | 0.3 | 7.7 | 0.1 |
| | Wonju | 7.0 | 1.5 | 5.8 | 3.7 | 0 | 0.7 | 7.9 | 0.5 |
| | Gwangju | 7.2 | 1.91 | 4.5 | 3.3 | 0.4 | 0 | 4.6 | 0.6 |

* in tons

Amount of materials used

| Classification | 2009 | 2010 | 2011 |
|---|--------|--------|--------|
| Tobacco leaf (Locally-produced/imported) | 55,627 | 47,705 | 50,689 |

Waste production

KT&G carries out various internal activities to reduce the amount of waste in the plants. In particular, the amount of tobacco dust went down by 71% in 2011 compared to the previous year thanks to the development of technologies to reduce residuals and improved recycling rate.

* in kilograms

| Classification | 2009 | 2010 | 2011 |
|----------------------------------|-----------|-----------|---------|
| Tobacco fines | 3,014,313 | 1,911,527 | 547,273 |
| Waste synthetic resins | 244,054 | 254,028 | 270,192 |
| Waste synthetic fiber | 234,138 | 250,980 | 213,830 |
| Sludge | 199,900 | 184,580 | 213,060 |
| Other inflammables | 491,170 | 385,830 | 192,100 |
| Waste synthetic resins (plastic) | 190,240 | 158,527 | 118,500 |
| Others | 166,389 | 137,783 | 107,821 |

Direct/indirect energy consumption and greenhouse gas emissions in plants

Our energy consumption and greenhouse gas emissions rose following construction works to increase production and execute plant rationalization plan in 2010, but we expect them to go down by the time the plant rationalization plan is completed.

| Classification | | | Sintanjin | Yeongju | Wonju | Gwangju | Cheonan |
|----------------|--------------------|-------------------|-----------|---------|--------|---------|---------|
| 2009 | Energy used | LNG (1,000 m³) | 2,356 | 2,846 | 1,964 | 2,025 | 1,106 |
| | | Electricity (MWh) | 22,382 | 25,330 | 19,868 | 15,632 | 7,199 |
| | tCO ₂ e | Scope 1 | 5,183 | 6,261 | 4,322 | 4,456 | 2,434 |
| | | Scope 2 | 10,533 | 11,921 | 9,350 | 7,357 | 3,388 |
| | | Total | 15,716 | 18,182 | 13,672 | 11,813 | 5,822 |
| 2010 | Energy used | LNG (1,000 m³) | 2,517 | 2,727 | 1,935 | 2,139 | 1,055 |
| | | Electricity (MWh) | 25,671 | 22,318 | 18,038 | 16,112 | 7,245 |
| | tCO ₂ e | Scope 1 | 5,538 | 6,000 | 4,258 | 4,705 | 2,321 |
| | | Scope 2 | 12,081 | 10,503 | 8,489 | 7,582 | 3,410 |
| | | Total | 17,619 | 16,502 | 12,747 | 12,288 | 5,731 |
| 2011 | Energy used | LNG (1,000 m³) | 2,476 | 2,795 | 2,069 | 2,371 | 1,313 |
| | | Electricity (MWh) | 24,465 | 24,346 | 20,976 | 18,138 | 8,312 |
| | tCO ₂ e | Scope 1 | 5,449 | 6,149 | 4,552 | 5,216 | 2,889 |
| | | Scope 2 | 11,513 | 11,457 | 9,871 | 8,536 | 3,911 |
| | | Total | 16,962 | 17,606 | 14,424 | 13,752 | 6,801 |

Social performance

Employment

| Classification | Unit | 2009 | 2010 | 2011 |
|--|------------|--------------|-------------|-----------|
| Number of employees | Number | 4,874 | 4,244 | 4,298 |
| Number of female employees | Number | 511 | 415 | 438 |
| Percentage of regular employees | % | 96.0 | 96.0 | 95.7 |
| Number of new employees hired | Number | 42 | 220 | 151 |
| Percentage of female employees among new employees | % | 9.5 | 11.4 | 17.9 |
| Turnover rate | % | 0.28 | 0.67 | 1.00 |
| Number of retirees (male) | Number (%) | 189 (4.4) | 573 (14.6) | 152 (4.1) |
| Number of retirees (female) | Number (%) | 34 (7.7) | 94 (24.7) | 9 (2.6) |
| Number of disabled people hired | Number (%) | 181 (3.9) | 173 (4.2) | 141 (3.4) |
| Return rate after maternity leave | % (number) | 93.8 (15/16) | 100 (11/11) | 100 (9/9) |

Employee education

KT&G Human Resources Development Center is dedicated to fostering strategic talents who share the company's business management philosophy, vision, and key values and create results in business management. In 2011, an employee took on average 58 hours of education.

| Classification | Unit | 2009 | 2010 | 2011 |
|--|-----------------|--------|--------|--------|
| Persons completing education | Persons | 29,409 | 21,463 | 23,779 |
| Education and training expenses | Millions of won | 7,009 | 10,031 | 5,242 |
| Number of education per person (Persons completing education/Employees) | Times / Person | 6.29 | 4.99 | 5.85 |

Strategy and leadership programs

The KT&G Human Resource Development Center disseminates the philosophy of the trade, key values, and work culture unique to KT&G Group via managers and in-house lecturers. It also fosters business management leaders to drive organizational change and innovation. In collaboration with the Business Department, we operate educational programs designed to resolve various problems in the workplace. We also offer cyber education for employees' voluntary learning, contents for informal learning, and reading programs.

| 2010 | Program | Employees completing program | 2011 | Program | Employees completing program |
|------|---------------------------------|------------------------------|------|---|------------------------------|
| | Performance coaching program | 479 | | Dissemination of KT&G Way | 724 |
| | Executive seminar | 283 | | Executive seminar | 664 |
| | Grade 2 ACE | 71 | | Executive education by external institution | 13 |
| | Inhouse academy | 29 | | Headquarter directors seminar | 226 |
| | Newly appointed branch managers | 9 | | New deputy directors | 30 |
| | New employee education | 147 | | In-house academy | 74 |
| | Self change (innovation) | 44 | | New branch managers | 22 |
| | Fostering of facilitators | 19 | | Marketing academy | 71 |

Human rights protection efforts

Every year, we organize a one-hour long sexual harassment prevention education for all employees, including fixed-term employees, in order to raise the company's competitiveness by creating a workplace free of sexual harassment. In accordance with the Labor Standards Act and the Convention Concerning the Prohibition and Immediate Actions toward the Elimination of the Worst Forms of Child Labour of the International Labour Organization (ILO), we strictly prohibit all child labor and forced labor.

Special medical check-up

* in number of persons

| Classification | Area | 2009 | 2010 | 2011 |
|---|--|------|------|------|
| Employees taking special medical check-up | Noise | 646 | 700 | 617 |
| | Dust | 12 | 0 | 0 |
| | Noise+radiation | 5 | 5 | 5 |
| Diagnosis results | Persons requiring attention for hearing problems | 133 | 124 | 137 |
| | Persons suspected of other diseases | 0 | 0 | 0 |

Labor-Management Council

Approximately 90% of all employees are members of the labor union. According to the collective agreement, the labor-management council meets one or more times as needed every quarter and promptly notifies employees of any major changes in working conditions, industrial safety, and accident compensation. No labor disputes or losses were reported for the reporting period.

| | |
|--------------------------|---|
| Eligibility | All employees of grade 3 or lower, manager-level researchers, seasonal employees of Gimcheon plant |
| Affiliated persons | 4,081 regular employees / 95 non-regular employees |
| Full-time personnel | 9 in HQ labor union |
| Association | Federation of Korean Trade Unions |
| Organizational structure | 26 locals |
| Key discussions | Improvement of productivity and reward distribution; hiring, placement, education & training of employees; handling of employee difficulties; improvement of safety and public health in the workplace; improvement of employee health; improvement of HR and labour management regulations; operation of work hours and rest hours; improvement of method, system, and structure of wage payment; introduction of new machine technology and better work process |

Number of difficulties resolved

Type of difficulties resolved

Employees who are in distress because of sick parents, personal health issues, or separation from spouse on week-days due to different job locations can submit their case to the Ombudsman Committee. The headquarters make reviews of the cases and reflects them as much as possible in subsequent personnel shifts.

| Year | Number of difficulties received | Number of difficulties resolved |
|------|---------------------------------|---------------------------------|
| 2009 | 16 | 16 |
| 2010 | 22 | 19 |
| 2011 | 19 | 10 |

Incidents/accidents

| Classification | 2009 | 2010 | 2011 | Total |
|-----------------------|------|------|------|-------|
| Dismissal from office | 1 | 8 | 4 | 13 |
| Suspension from duty | 4 | 2 | 5 | 11 |
| Salary reduction | 7 | 7 | 7 | 21 |
| Warning and others | 19 | 17 | 21 | 57 |
| Total | 31 | 34 | 37 | 102 |

Health and security in workplace

| Classification | Detail | Unit | 2009 | 2010 | 2011 |
|---------------------|--------------------------------------|---------|-------|-------|-------|
| Number of accidents | Rate of absenteeism | % | 0.044 | 0.633 | 0.008 |
| | Number of industrial accident victim | persons | 6 | 5 | 2 |
| | Number of working days loss | days | 574 | 7,606 | 91 |

Percentage of social contribution

As part of its new mid- to long-term social contribution plan, KT&G is planning to gradually increase the share of its social contribution investment. As a reference, the White Paper on Social Contribution of the Federation of Korean Industries shows that the amount of social contribution expenses of Korean businesses is, on average, 0.24% of total sales (in 2010).

* in percentage

| Year | 2009 | 2010 | 2011 |
|-----------------------------------|------|------|------|
| Percentage of social contribution | 2.3 | 2.4 | 2.0 |

Size of social community involvement

* in hundreds of millions of won

| Classification | 2009 | 2010 | 2011 |
|------------------------|------|------|------|
| Welfare Foundation | 184 | 130 | 161 |
| Scholarship Foundation | 40 | 221 | 109 |
| Arts & culture | 78 | 92 | 147 |
| Donations | 164 | 9 | 70 |
| CSR activities | 19 | 13 | 14 |
| Sports | 120 | 106 | 0 |
| Others | 21 | 24 | 3 |
| Total | 626 | 595 | 504 |

Size of Scholarship Foundation

* in millions of won

| Classification | 2009 | 2010 | 2011 |
|--|------|------|------|
| Scholarship for graduate students in Korea | 84 | 149 | 162 |
| Korean students studying overseas | 159 | 216 | 239 |
| Foreign students studying in Korea | 273 | 547 | 309 |
| Funding of research activities (including college student dissertation contest) | 61 | 182 | 68 |
| Elementary, middle school, high schools | 252 | 223 | 0 |
| Sangsang scholarship students | 0 | 0 | 464 |
| Special scholarship | 0 | 110 | 96 |
| Operational expenses | 254 | 234 | 187 |

Third party assurance

| | |
|--------------------------|---|
| 1. Foreword | <p>The auditor was asked to perform an independent third-party assurance of KT&G Sustainability Report 2010/2011. The responsibility to prepare the sustainability report lies with the management of KT&G, and the responsibility of the auditor is to provide a third-party statement of assurance on whether the sustainability report was prepared faithfully in accordance with the GRI G3.1 Guidelines.</p> |
| 2. Scope of review | <p>KT&G's sustainability report classifies the company's efforts and outcome of its sustainable business management activities into economic, social, and environmental aspects and offers information by key issues/stakeholders. The auditor reviewed the following:</p> <ul style="list-style-type: none">• That the financial performance data were adequately drawn from KT&G's 2009, 2010, and 2011 financial reports• That the social and environmental data contain no significant errors or bias and that the data management system is managed in a reliable way |
| 3. Review criteria | <p>The auditor performed the review based on CAU-APSR, the assurance protocol for sustainability reporting developed by the Chung-Ang University (Accounting Research Institute).</p> <p>* CAU-APSR is an assurance protocol for sustainability reporting developed based on the following:</p> <ul style="list-style-type: none">• Global Reporting Initiative (GRI) Sustainability Reporting Guidelines 3.1• AA1000AS (2008) Assurance Standard from Accountability• International Standard on Assurance Engagements 3000 (ISAE3000) from IFAC |
| 4. Independence | <p>Other than providing a third party assurance service, the auditor has no relationship of interests with KT&G and maintains independence.</p> |
| 5. Key review procedures | <p>The auditor has taken the following steps in expressing its assurance opinion.</p> <p>Stage 1</p> <p>The auditor established an assurance plan with the management of the auditing institution, reviewed the draft of the sustainability report, investigated various data sources, and performed an overall evaluation.</p> <p>Stage 2</p> <p>The auditor conducted interviews with the management and key persons in charge, performed due diligence on the information contained in the draft of the sustainability report, and evaluated the quality of the data management system.</p> <p>Stage 3</p> <p>The auditor put the results of assurance and analysis together, made a documentation of the analysis and discussion results, and wrote the final assurance statement.</p> |
| 6. Conclusion | <p>The auditor has judged that the report strictly follows the GRI G3.1 and does not have any significant errors or biases. The following are evaluations in accordance with detailed assurance principles of the CAU-APSR.</p> |

Materiality

The 12 key issues selected based on the results of a materiality test and featured in this report properly reflect stakeholders' needs.

Completeness

No significant data were found missing in terms of scope, boundary, and period of report and the report offers a balanced coverage of various information.

Neutrality

Information related to sustainable business management performance were selected and reported in a neutral and unbiased way so that they do not cause a false representation or bias to readers.

Reliability

The information contained in the report maintains accuracy and comparability. The quality of collection, recording, and delivery system of data is also reliable.

Responsiveness

The level of information disclosure and the description of the company's policies, strategies and plans are sufficient enough for readers to determine whether the company's responsiveness and efforts to address sustainability issues are adequate.

Stakeholder inclusiveness

The company selected and guided the participation of stakeholders in an efficient and systematic way, and feedback on stakeholders' needs is given appropriately in line with the company's strategies and goals.

7. Opportunities for Improvement

In accordance with an assurance process conducted as stated above, we have suggested following recommendation to be improved and KT&G has accepted to implement.

- To achieve its 2015 vision for sustainability, KT&G is executing key strategic tasks based on specific goals and directions. However, to ensure that the results of sustainability business management are reflected in the value of its shares in the capital market, the firm should integrate the sustainability strategy into its mid- to long-term business management strategies and fully reflect them in related internal systems.
- KT&G should work to enhance the brand value of the KT&G Group, which includes all of its subsidiary companies, by actively engaging itself in strategic CSR activities through benchmarking of initiatives abroad and using them in its IR activities.



February, 2012
Director, Accounting Research Institute,
Chung-Ang University

Jang Ji-in

장지인

GRI 3.1 Index

● fully reported ◐ partially reported ○ not reported

| GRI Indicator | Description | Level of Disclosure | Page |
|--|--|---------------------|-------------------|
| Strategy and Analysis | | | |
| 1.1 | Statement from the most senior decision-maker of the organization. | ● | 2, 3 |
| 1.2 | Description of key impacts, risks, and opportunities. | ● | 10-11,13 |
| Organizational Profile | | | |
| 2.1 | Name of the organization. | ● | 6 |
| 2.2 | Primary brands, products, and/or services. | ● | 6, 22, 23, 26, 27 |
| 2.3 | Operational structure of the organization, including main divisions, operating companies, subsidiaries, and joint ventures. | ● | 6, 7 |
| 2.4 | Location of organization's headquarters. | ● | 6 |
| 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. | ● | 7 |
| 2.6 | Nature of ownership and legal form. | ● | 6 |
| 2.7 | Markets served (including geographic breakdown, sectors served, and types of customers/beneficiaries). | ● | 20-23, 26, 27 |
| 2.8 | Scale of the reporting organization. | ● | 16, 63, 58-60 |
| 2.9 | Significant changes during the reporting period regarding size, structure, or ownership. | ● | 6, 7 |
| 2.10 | Awards received in the reporting period. | ● | 76 |
| Report Parameters | | | |
| 3.1 | Reporting period (e.g., fiscal/calendar year) for information provided. | ● | Front Cover |
| 3.2 | Date of most recent previous report (if any). | ● | Front Cover |
| 3.3 | Reporting cycle (annual, biennial, etc.) | ● | Front Cover |
| 3.4 | Contact point for questions regarding the report or its contents. | ● | Back Cover |
| 3.5 | Process for defining report content. | ● | 14, 15 |
| 3.6 | Boundary of the report (e.g., countries, divisions, subsidiaries, leased facilities, joint ventures, suppliers). See GRI Boundary Protocol for further guidance. | ● | Front Cover |
| 3.7 | State any specific limitations on the scope or boundary of the report (see completeness principle for explanation of scope). | ● | Front Cover |
| 3.8 | Basis for reporting on joint ventures, subsidiaries, leased facilities, outsourced operations, and other entities that can significantly affect comparability from period to period and/or between organizations. | ● | Front Cover |
| 3.9 | Data measurement techniques and the bases of calculations, including assumptions and techniques underlying estimations applied to the compilation of the Indicators and other information in the report. Explain any decisions not to apply, or to substantially diverge from, the GRI Indicator Protocols. | ● | Front Cover |
| 3.10 | Explanation of the effect of any re-statements of information provided in earlier reports, and the reasons for such re-statement (e.g., mergers/acquisitions, change of base years/periods, nature of business, measurement methods). | ● | Front Cover |
| 3.11 | Significant changes from previous reporting periods in the scope, boundary, or measurement methods applied in the report. | ● | Front Cover |
| 3.12 | Table identifying the location of the Standard Disclosures in the report. | ● | 68-71 |
| 3.13 | Policy and current practice with regard to seeking external assurance for the report. | ● | 66, 67 |
| Governance, Commitments, and Engagement | | | |
| 4.1 | Governance structure of the organization, including committees under the highest governance body responsible for specific tasks, such as setting strategy or organizational oversight. | ◐ | 7, 9 |
| 4.2 | Indicate whether the Chair of the highest governance body is also an executive officer. | ● | 9 |
| 4.3 | For organizations that have a unitary board structure, state the number and gender of members of the highest governance body that are independent and/or non-executive members. | ● | 9 |
| 4.4 | Mechanisms for shareholders and employees to provide recommendations or direction to the highest governance body. | ● | 9, 13, 16, 30, 40 |
| 4.5 | Linkage between compensation for members of the highest governance body, senior managers, and executives (including departure arrangements), and the organization's performance (including social and environmental performance). | ● | 17 |
| 4.6 | Processes in place for the highest governance body to ensure conflicts of interest are avoided. | ● | 9 |
| 4.7 | Process for determining the composition, qualifications, and expertise of the members of the highest governance body and its committees, including any consideration of gender and other indicators of diversity. | ● | 9 |
| 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. | ● | 11, 33, 72-74 |
| 4.9 | Procedures of the highest governance body for overseeing the organization's identification and management of economic, environmental, and social performance, including relevant risks and opportunities, and adherence or compliance with internationally agreed standards, codes of conduct, and principles. | ● | 9 |
| 4.10 | Processes for evaluating the highest governance body's own performance, particularly with respect to economic, environmental, and social performance. | ● | 9 |
| 4.11 | Explanation of whether and how the precautionary approach or principle is addressed by the organization. | ● | 10 |
| 4.12 | Externally developed economic, environmental, and social charters, principles, or other initiatives to which the organization subscribes or endorses. | ● | 48, 72-74 |
| 4.13 | Memberships in associations (such as industry associations) and/or national/international advocacy organizations in which the organization: * Has positions in governance bodies; * Participates in projects or committees; * Provides substantive funding beyond routine membership dues; or * Views membership as strategic. | ● | 76 |
| 4.14 | List of stakeholder groups engaged by the organization. | ● | 13 |
| 4.15 | Basis for identification and selection of stakeholders with whom to engage. | ● | 13 |
| 4.16 | Approaches to stakeholder engagement, including frequency of engagement by type and by stakeholder group. | ● | 12-15 |
| 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. | ● | 12-15 |

● fully reported ◐ partially reported ○ not reported

| GRI Indicator | Description | Level of Disclosure | Page |
|--|---|---------------------|------------|
| Economic | | | |
| Disclosure on Management Approach | | | 20 |
| 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. | ● | 16, 17 |
| EC2 | Financial implications and other risks and opportunities for the organization's activities due to climate change. | ◐ | 46, 47 |
| EC3 | Coverage of the organization's defined benefit plan obligations. | ◐ | 42 |
| EC4 | Significant financial assistance received from government. | ● | 59 |
| EC5 | Range of ratios of standard entry level wage by gender compared to local minimum wage at significant locations of operation. | ● | 39 |
| EC6 | Policy, practices, and proportion of spending on locally-based suppliers at significant locations of operation. | ● | 35, 36, 39 |
| EC7 | Procedures for local hiring and proportion of senior management hired from the local community at significant locations of operation. | ◐ | 39 |
| EC8 | Development and impact of infrastructure investments and services provided primarily for public benefit through commercial, in-kind, or pro bono engagement. | ● | 51-56 |
| EC9 | Understanding and describing significant indirect economic impacts, including the extent of impacts. | ◐ | 16, 17 |
| Environmental | | | |
| Disclosure on Management Approach | | | 43 |
| EN1 | Materials used by weight or volume. | ● | 61 |
| EN2 | Percentage of materials used that are recycled input materials. | ● | - |
| EN3 | Direct energy consumption by primary energy source. | ● | 46, 62 |
| EN4 | Indirect energy consumption by primary source. | ● | 46, 62 |
| EN5 | Energy saved due to conservation and efficiency improvements. | ● | 46, 47 |
| EN6 | Initiatives to provide energy-efficient or renewable energy based products and services, and reductions in energy requirements as a result of these initiatives. | ● | 46, 47 |
| EN7 | Initiatives to reduce indirect energy consumption and reductions achieved. | ◐ | 46, 47 |
| EN8 | Total water withdrawal by source. | ● | 45, 61 |
| EN9 | Water sources significantly affected by withdrawal of water. | ● | 45, 61 |
| EN10 | Percentage and total volume of water recycled and reused. | ● | - |
| EN11 | Location and size of land owned, leased, managed in, or adjacent to, protected areas and areas of high biodiversity value outside protected areas. | ● | - |
| EN12 | Description of significant impacts of activities, products, and services on biodiversity in protected areas and areas of high biodiversity value outside protected areas. | ● | - |
| EN13 | Habitats protected or restored. | ● | - |
| EN14 | Strategies, current actions, and future plans for managing impacts on biodiversity. | ● | - |
| EN15 | Number of IUCN Red List species and national conservation list species with habitats in areas affected by operations, by level of extinction risk. | ● | - |
| EN16 | Total direct and indirect greenhouse gas emissions by weight. | ● | 46, 62 |
| EN17 | Other relevant indirect greenhouse gas emissions by weight. | ● | 46, 62 |
| EN18 | Initiatives to reduce greenhouse gas emissions and reductions achieved. | ● | 46 |
| EN19 | Emissions of ozone-depleting substances by weight. | ● | - |
| EN20 | NOx, SOx, and other significant air emissions by type and weight. | ● | - |
| EN21 | Total water discharge by quality and destination. | ● | 45, 61 |
| EN22 | Total weight of waste by type and disposal method. | ● | 45, 62 |
| EN23 | Total number and volume of significant spills. | ● | - |
| 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. | ● | - |
| 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. | ● | - |
| EN26 | Initiatives to mitigate environmental impacts of products and services, and extent of impact mitigation. | ◐ | 45-48 |
| EN27 | Percentage of products sold and their packaging materials that are reclaimed by category. | ● | 47 |
| EN28 | Monetary value of significant fines and total number of non-monetary sanctions for non-compliance with environmental laws and regulations. | ● | - |
| EN29 | Significant environmental impacts of transporting products and other goods and materials used for the organization's operations, and transporting members of the workforce. | ◐ | 47 |
| EN30 | Total environmental protection expenditures and investments by type. | ● | 48 |

● fully reported ◐ partially reported ○ not reported

| GRI Indicator | Description | Level of Disclosure | Page |
|--|--|---------------------|--------------------|
| Labor Practices and Decent Work | | | |
| Disclosure on Management Approach | | | 32, 37 |
| LA1 | Total workforce by employment type, employment contract, and region, broken down by gender. | ● | 63 |
| LA2 | Total number and rate of new employee hires and employee turnover by age group, gender, and region. | ◐ | 63 |
| LA3 | Benefits provided to full-time employees that are not provided to temporary or part-time employees, by major operations. | ● | 42 |
| LA4 | Percentage of employees covered by collective bargaining agreements. | ● | 42, 64 |
| LA5 | Minimum notice period (s) regarding significant operational changes, including whether it is specified in collective agreements. | ● | 64 |
| LA6 | Percentage of total workforce represented in formal joint management-worker health and safety committees that help monitor and advise on occupational health and safety programs. | ● | 64 |
| LA7 | Rates of injury, occupational diseases, lost days, and absenteeism, and number of work-related fatalities by region and by gender. | ◐ | 64, 65 |
| LA8 | Education, training, counseling, prevention, and risk-control programs in place to assist workforce members, their families, or community members regarding serious diseases. | ● | 41, 42 |
| LA9 | Health and safety topics covered in formal agreements with trade unions. | ● | 64 |
| LA10 | Average hours of training per year per employee by gender, and by employee category. | ● | 34, 38, 63 |
| LA11 | Programs for skills management and lifelong learning that support the continued employability of employees and assist them in managing career endings. | ◐ | 38, 42, 63 |
| LA12 | Percentage of employees receiving regular performance and career development reviews, by gender. | ● | 39 |
| LA13 | Composition of governance bodies and breakdown of employees per employee category according to gender, age group, minority group membership, and other indicators of diversity. | ● | 9, 63 |
| LA14 | Ratio of basic salary and remuneration of women to men by employee category, by significant locations of operation. | ● | 39 |
| LA15 | Return to work and retention rates after parental leave, by gender. | ● | 42, 63 |
| Human Rights | | | |
| Disclosure on Management Approach | | | 32 |
| HR1 | Percentage and total number of significant investment agreements and contracts that include clauses incorporating human rights concerns, or that have undergone human rights screening. | ● | 35, 36 |
| HR2 | Percentage of significant suppliers, contractors and other business partners that have undergone human rights screening, and actions taken. | ● | 35, 36 |
| 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. | ● | 34, 64 |
| HR4 | Total number of incidents of discrimination and corrective actions taken. | ● | 30, 34, 64 |
| HR5 | Operations and significant suppliers identified in which the right to exercise freedom of association and collective bargaining may be violated or at significant risk, and actions taken to support these rights. | ● | 64 |
| HR6 | Operations and significant suppliers identified as having significant risk for incidents of child labor, and measures taken to contribute to the effective abolition of child labor. | ● | 64 |
| HR7 | Operations and significant suppliers identified as having significant risk for incidents of forced or compulsory labor, and measures to contribute to the elimination of all forms of forced or compulsory labor. | ● | 64 |
| HR8 | Percentage of security personnel trained in the organization's policies or procedures concerning aspects of human rights that are relevant to operations. | ○ | - |
| HR9 | Total number of incidents of violations involving rights of indigenous people and actions taken. | ● | 34 |
| HR10 | Percentage and total number of operations that have been subject to human rights reviews and/or impact assessments. | ● | 34 |
| HR11 | "Number of grievances related to human rights filed, addressed and resolved through formal grievance mechanisms." | ◐ | 30, 64 |
| Society | | | |
| Disclosure on Management Approach | | | 49 |
| S01 | Percentage of operations with implemented local community engagement, impact assessments, and development programs. | ● | 15, 30, 44, 48, 54 |
| S02 | Percentage and total number of business units analyzed for risks related to corruption. | ● | 34 |
| S03 | Percentage of employees trained in organization's anti-corruption policies and procedures. | ● | 34 |
| S04 | Actions taken in response to incidents of corruption. | ● | 34 |
| S05 | Public policy positions and participation in public policy development and lobbying. | ● | 10, 25 |
| S06 | Total value of financial and in-kind contributions to political parties, politicians, and related institutions by country. | ● | - |
| S07 | Total number of legal actions for anti-competitive behavior, anti-trust, and monopoly practices and their outcomes. | ● | - |
| S08 | Monetary value of significant fines and total number of non-monetary sanctions for non-compliance with laws and regulations. | ● | 35 |
| S09 | Operations with significant potential or actual negative impacts on local communities. | ● | - |
| S010 | Prevention and mitigation measures implemented in operations with significant potential or actual negative impacts on local communities. | ● | - |

| GRI Indicator | Description | Level of Disclosure | Page |
|--|--|---------------------|------------|
| Product Responsibility | | | |
| Disclosure on Management Approach | | | 28 |
| 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. | ◐ | 25, 29 |
| 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. | ● | . |
| PR3 | Type of product and service information required by procedures, and percentage of significant products and services subject to such information requirements. | ◐ | . |
| PR4 | Total number of incidents of non-compliance with regulations and voluntary codes concerning product and service information and labeling, by type of outcomes. | ● | 25 |
| PR5 | Practices related to customer satisfaction, including results of surveys measuring customer satisfaction. | ● | 25, 29, 30 |
| PR6 | Programs for adherence to laws, standards, and voluntary codes related to marketing communications, including advertising, promotion, and sponsorship. | ◐ | 21 |
| 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. | ● | 10 |
| PR8 | Total number of substantiated complaints regarding breaches of customer privacy and losses of customer data. | ● | 30 |
| PR9 | Monetary value of significant fines for non-compliance with laws and regulations concerning the provision and use of products and services. | ● | . |



ISO26000 Standard

Activities in response to ISO26000

The International Organization for Standardization (ISO) published the ISO26000 standard as guidance for social responsibility in seven core subjects, which are organizational governance, human rights, labour practices, the environment, fair operating practices, consumer issues, and community involvement and development.

ISO26000 is not a legally binding standard or certification for business management systems; it is a guideline encouraging businesses to voluntarily engage themselves in sustainable business management.

KT&G will actively respond to the various issues required by ISO26000 to fulfill its social responsibility and carry out its business activities for various stakeholders.

ISO26000 core subjects and related activities

| Classification | Principle | Related activities | Page |
|---------------------------|---|--|----------------|
| Organizational governance | | Composition of board of directors and committees within the board of directors | 9 |
| Human rights | Due diligence | Monitoring of ethical business management | 34 |
| | Human rights risk situations | Ethical business management reporting channel Sinmungo, fair transactions guidelines, supplier certification process | 30, 34, 35 |
| | Avoidance of complicity | Efforts to prevent activities/practices that hamper fair transactions | 35 |
| | Resolving grievances | Operation of Sinmungo, communication channel between employees and executives, Ombudsman Committee | 30, 40, 64 |
| | Discrimination and vulnerable groups | Education to prevent sexual harassment, compliance with Equal Employment Opportunity and Work-Family Balance Assistance Act, prohibition of child labour and forced labour, KT&G Welfare Foundation, KT&G Scholarship Foundation | 39, 52, 54, 64 |
| | Civil and political rights | CS-Center, Labor-Management Council | 29, 64 |
| | Economic, social and cultural rights | Stable life support for employees, educational support, leisure and vacation support, pension fund, clubs | 42 |
| | Fundamental principles and rights at work | Communication channel between employees and executives, specialized medical check-up, Ombudsman Committee, prohibition of child labour and forced labour | 40, 64 |
| Labor practices | Employment and employment relationships | Employment of human resources, education to prevent sexual harassment, Labor-Management Council | 63, 64 |
| | Conditions of work and social protection | Stable life support for employees, educational support, leisure and vacation support, pension fund, health and safety in the workplace | 42, 65 |
| | Social dialogue | Young Board, Sangsang Baljeonso, Seed on, HR consultation, Sinmungo, Ombudsman Committee, Labor-Management Council | 40 |
| | Health and safety at work | Safety management education, noise management, health support programs, specialized medical check-up, health and safety in the workplace | 41, 64, 65 |
| | Human development and training in the workplace | Strategic development of human resources, strategy and leadership program | 38, 63 |
| The environment | Prevention of pollution | Activities to reduce use of waterworks, management of waste water discharge, management of wastes | 45 |
| | Sustainable resource use | Improvement of packaging materials | 47 |
| | Climate change mitigation and adaptation | Management of amount of energy used and greenhouse gas emissions, participation in carbon disclosure project | 46, 48 |
| | Protection of the environment, biodiversity and restoration of natural habitats | Minimization of environmental risks in areas near plants | 48 |

| Classification | Principle | Related activities | Page |
|---------------------------------------|---|--|------------|
| Fair operating practices | Anti-corruption | Education on and monitoring of ethical business management, supplier certification manual | 34, 36 |
| | Responsible political involvement | Win-win cooperation with partners | 35 |
| | Fair competition | Efforts to prevent activities/practices that hamper fair transactions | 35 |
| | Promoting social responsibility in the value chain | Development of supplier certification manual, building of sustainable partnerships | 35, 36 |
| | Respect for property rights | Fair transactions guidelines | 35 |
| Consumer issues | Fair marketing, factual and unbiased information and fair contractual practices | Fair transactions guidelines, building of sustainable partnerships | 35 |
| | Protecting consumers' health and safety | Disclosure of product information (real-name of producer, guarantee of customers' right to know), trade-related social responsibility activities, activities to prevent youth smoking, funding of medical research | 25, 31 |
| | Sustainable consumption | Quality competitiveness (double-layer wrapping technology, aroma packaging, taste-quality guarantee, double examination system) | 25 |
| | Consumer service, support, and complaint and dispute resolution | CS-Center, homepage, Sinmungo, National Customer Satisfaction Index | 29, 30 |
| | Consumer data protection and privacy | Customer communication channel | 30 |
| | Access to essential services | KT&G Welfare Foundation (Happiness Network, Volunteer Center) | 54 |
| | Education and awareness | Sangsang Madang, KT&G Scholarship Foundation | 51, 52 |
| Community involvement and development | Community involvement | Opening of Sangsang Madang in Nonsan, Sangsang Together, Sangsang Volunteer, Sangsang Univ | 51, 53 |
| | Education and culture | Sangsang Madang, Sangsang Art Hall, fostering of future-generation talents, Sangsang Together, Sangsang Volunteer, Sangsang Univ | 51, 53, 56 |
| | Employment creation and skills development | Scholarship for graduate students, funding of research activities, Sangsang Volunteer, Sangsang Univ | 52, 53 |
| | Technology development and access | Reflecting customer's suggestions in product development, operation of CS-Center | 29 |
| | Wealth and income creation | Distribution of value among stakeholders, community involvement costs, Sangsang Madang | 17, 49, 51 |
| | Health | Support for employee health check-up and medical expenses, construction of smell removing facilities, extension of waste water treatment facilities, environment cleaning activities | 41, 48 |
| | Social investment | Korean Business Council for the Arts activities, opening of Sangsang Madang in Nonsan | 51 |

UNGC Principle

Enrollment in the UN Global Compact

In March 2012, KT&G enrolled in the UN Global Compact, an initiative seeking to promote responsible global citizenship. The Company complies with 10 universally accepted principles of the Compact in the areas of human rights, labor, environment, and anti-corruption.

In observance of the principles, KT&G continues to respect human rights and basic labor rights, to invest in and develop the products of eco-friendly businesses to cope with the world-wise environmental impacts, and to conduct programs in and reinvigorate monitoring of ethical management as a part of its corporate culture. Detailed actions and performance related to the 10 principles are reported in the pages presented in a table below:



UN Global Compact Principles and Related Activities

| Classification | Principle | Related Activities | GRI | Page |
|-----------------|---|---|--|--------|
| Human Rights | 1. Businesses should support and respect the protection of internationally proclaimed human rights; and | <ul style="list-style-type: none"> • Supplier certification manual (Supplier eligibility review standards) • Code of ethics, Chapter 5 (Company's basic responsibilities to its employees) | HR1 HR2 HR3 HR4 HR5 HR6 HR7 HR8 HR9 | 34-36 |
| | 2. Businesses should support and respect the protection of internationally proclaimed human rights; and | <ul style="list-style-type: none"> • Supplier certification manual (Supplier eligibility review standards) • Code of ethics, Chapter 5 (Company's basic responsibilities to its employees) | HR1 HR2 HR8 | 34-36 |
| Labor | 3. Businesses should support and respect the protection of internationally proclaimed human rights; and | <ul style="list-style-type: none"> • Collective agreement, Chapter 10 (Collective bargaining) • Collective agreement, Chapter 11 (Labor-management Council) • Collective agreement, Chapter 12 (Labour dispute and peace obligation) | HR5 LA4 LA5 | 64 |
| | 4. The elimination of all forms of forced and compulsory labour; | • Collective agreement, Chapter 3 (Working conditions) | HR7 | 64 |
| | 5. The effective abolition of child labour; and | • Policy against child labour | HR6 | 64 |
| | 6. The elimination of discrimination in respect of employment and occupation | • Code of ethics, Chapter 4 (Basic ethics of employees) | HR4 LA2 LA10 LA13 LA14 | 39 |
| Environment | 7. Businesses should support a precautionary approach to environmental challenges; | <ul style="list-style-type: none"> • Management of environmental risks through newly installed team (Green Green Business Management Team) • Monitoring of environmental impact factors (Greenhouse gas, water usage, amount of wastes/waste water) • Energy savings through facility replacement and plant rationalization plan | 4.11 | 44-47 |
| | 8. Undertake initiatives to promote greater environmental responsibility; and | <ul style="list-style-type: none"> • Information disclosure through the carbon disclosure project (CDP) • Investments to reduce environmental risks in local communities | EN5 EN6 EN7 EN10 EN14 EN18 EN26 EN27 | 48 |
| | 9. Encourage the development and diffusion of environmentally friendly technologies | <ul style="list-style-type: none"> • Development of technologies to recycle wastes • Development of technologies for eco-friendly products | EN2 EN5 EN6 EN7 EN10 EN18 EN26 EN27 | 45, 47 |
| Anti-corruption | 10. Businesses should work against corruption in all its forms, including extortion and bribery | <ul style="list-style-type: none"> • Code of ethics, Chapter 4 (Basic ethics of employees) • Code of ethics, Chapter 6 (Good relationship with suppliers) • Practical business ethics guidelines (Against bribery, provision of entertainment, receipt of benefits) | S02 S03 S04 | 33-36 |

Glossary

National Customer Satisfaction Index (NCSI)

Developed by the Korea Productivity Center, the NCSI is an indicator measuring the level of customer satisfaction and analyzing corporate performance. It is designed to enhance quality competitiveness at the business, industry, economy, and national scale, and seek and manage customer satisfaction.

National Brand Competitiveness Index (NBCI)

The NBCI was developed by the Korea Productivity Center to measure a firm's brand competitiveness. It is computed by adding the weighted scores of brand awareness, brand image, and relationships accumulated through marketing activities and converting the total to a scale of 100.

Framework Convention on Tobacco Control (FCTC)

The Framework Convention on Tobacco Control is an international convention adopted by the World Health Organization (WHO) at the 56th World Health Assembly on May 21, 2003. It went into effect on February 27, 2005.

Matching Grant

Matching grant is a type of social contribution fund program where regular donations made by employees of a company to not-for-profit organizations or institutions are matched one-to-one in the same amount by the company.

Mecenat

Mecenat refers to businesses' support for arts and culture, and sports, and funding of enterprises designed for the public good from a social and humanitarian perspective.

Eco Efficiency (EE)

First coined at the World Business Council for Sustainable Development in 1994, the term Eco Efficiency is based on the concept of minimizing environmental impacts of goods and services while creating more economic value. It is expressed as the ratio between environmental impact and economic cost or value.

Pictograms

A pictogram is a pictograph of an object, facility, act, or concept that allows many and unspecified persons quick and easy understanding.

Korea Brand Power Index (K-BPI)

Developed by the Korea Management Association, the K-BPI measures a brand's power to influence customers' purchase behavior.

Compliance Program (CP)

A compliance program is a company's internal compliance system designed to voluntarily comply with fair trade related statutes.

Dow Jones Sustainability Index (DJSI)

Developed by the Dow Jones and SAM in 1999, the Dow Jones Sustainability Index is a stock index of blue-chip companies selected through an evaluation of not only their financial data but also their sustainable management. The index measures businesses' governance structure, ethical business management, environmental business management, and social contribution.

Global Reporting Initiative (GRI)

The Global Reporting Initiative is a non-profit organization established by CERES and UNEP in 1997 to promote economic sustainability. It produces one of the world's most prevalent standards for sustainability reporting (GRI Guideline).

International Financial Reporting Standards (IFRS)

The International Financial Reporting Standards are a set of accounting standards established and published by the International Accounting Standards Committee to enhance international unity in business accounting and financial statements.

ISO 14001

ISO 14001 is one of the ISO 14000 series related to environmental management system developed by the Technical Committee 207 (TC 207) of the International Organization for Standardization (ISO).

United Nations Global Compact (UNGC)

The United Nations Global Compact is the world's largest voluntary corporate citizen initiative. It offers a framework for ten principles in the areas of human rights, labour, the environment and anti-corruption, and promotes the implementation of the United Nations' agendas such as the New Millennium Goals.

Tonnage of oil equivalent (TOE)

TOE is a unit of energy. One TOE is the amount of energy released by burning one tonne of crude oil.

Membership/External evaluation

Membership in related organizations

| Institution | Year joined | Purpose of establishment |
|---|-------------|---|
| Korea International Trade Association | 1989 | <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/interpretation center, the trade incubator, assistance with overseas transactions, and provision of trade funds |
| Korea Tobacco Association | 1994 | <ul style="list-style-type: none"> A purely civilian organization consisting of four major cigarette makers Ensuring 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 | 1998 | <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 |
| Korea Trade-Investment Promotion Agency | 1999 | <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 |
| Federation of Korean Industries | 2001 | <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 |
| Korean Business Council for the Arts | 2002 | <ul style="list-style-type: none"> Bridging businesses that support arts and culture and cultural organizations involved in creative activities so that the economy and culture can grow by complementing each other |
| United Nations Global Compact | 2012 | <ul style="list-style-type: none"> A voluntary initiative promoting more model corporate citizenship that offers a framework for ten principles in the areas of human rights, labour, the environment, and anti-corruption |

Evaluation by external institutions

| Classification | Awards | Year received | Award organization |
|---|--|------------------|--|
| General sustainable business management | Received outstanding business award for corporate governance structure | '03 | Korean Corporate Governance Improvement Support Center, Korea Exchange |
| | Received grand prize at 5th Audit Award | '04 | Korea Listed Companies Association |
| | Received best business award for corporate governance structure | '04-'06, '10-'11 | Korean Corporate Governance Improvement Support Center, Korea Exchange |
| | Named honorary business for corporate governance structure | '07-'09 | Korean Corporate Governance Improvement Support Center, Korea Exchange |
| | Received grand prize at 2009 Transparent Accounting Award | '09 | Korean Accounting Association |
| | Certified best business in industry by DJSI Korea | '09 | DJSI, SAM, Korea Productivity Center |
| | Joined DJSI World | '10-'11 | DJSI, SAM, Korea Productivity Center |
| Economy | Received silver prize at 1st Money Today IR Award | '03 | Money Today |
| | Received grand prize in magazine category at Seoul Economic Daily Advertisement Award | '04 | Seoul Economic Daily |
| | Received outstanding business award at 2nd Money Today Shareholder Value Award | '06 | Money Today |
| | Received grand prize in magazine category at 2008 Seoul Economic Daily Advertisement Award | '08 | Money Today |
| | Received 200 billion won national tax payment tower | '09 | Ministry of Strategy & Finance |
| | Received outstanding business award for business management system | '11 | Korean Foundation for Quality |
| Society | Ranked 4th most respected Korean business among top 30 | '04 | Donga Daily |
| | Received bronze prize for best workplace | '04 | Korea Economic Daily |
| | Received Social Contribution Grand Prize Award | '04-'05 | Korea Economic Daily, Korean Economy Business Management Academy |
| | Received grand prize at 4th Korean Ethical Business Management Award | '06 | New Industry Management Academy, Korea Economic Daily |
| | Received 2008 Social Contribution Grand Prize Award | '08 | Korean Journalists Forum |
| | Received grand prize in arts and culture category at 2009 Social Contribution Award | '09 | Korea Economic Daily |
| | Received grand prize in electronic house journal category at 2009 Korean Communication Award | '09 | Korean Company Journal Association |
| | 2010 Mecenat Cultural Contribution Award | '10 | Korean Business Council for the Arts |
| Environment | Grand prize for environment-friendly business management | '04 | Korea Economic Daily |

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| Ethical Management Office | Chul Hyeon Park | Supply Chain Management Office | Jin Kyu Park |

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2007
Imagine & Think Next



2009
Sustainable Imagine

