

Sustainable Seed for the Society



KT&G 2012/13 Sustainability Report

About this Report

Scope and period of report

This report covers our major activities and achievements from January 1, 2012 to December 31, 2013, and includes some of the quantitative achievements over a three-year period, from January 1, 2011, to December 31, 2013, to enable a trend analysis for each year. However, the report incorporates our activities and achievements after 2013, which are considered important for stakeholders.

The report includes the business management activities of KT&G's headquarters, branch offices, and plants, but does not include the activities of its parent and subsidiary companies.

Reporting basis

This report has been prepared in accordance with the GRI (Global Reporting Initiatives) G3.1 Guidelines and reflects some of the G4 recommendations. For more details, please see the GRI Guideline Index (pp. 68-71) and the Third Party Assurance (pp. 66-67). In addition, the company's financial results, including its financial and income statements, have been covered in compliance with the K-IFRS (Korean International Financial Reporting Standards).

Assurance Report

To increase the credibility of the report and the information disclosed, KT&G conducted a third-party assurance. The assurance results are provided in the Third Party Assurance (pp. 66-67).

Reporting Framework

The report was organized by stakeholders to provide a better understanding of the values that KT&G shares with its stakeholders and to report related activities faithfully.

Disclosure Level

KT&G has prepared this report in accordance with the GRI G3.1 Guidelines and declares that the report meets the Application Level A+ requirements.

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2012/13 Highlight



Feb. 2013

Introduced the “Donation Application Program”

KT&G adopted the “Donation Application Program” in which the company directly recommends a beneficiary of the Sangsang Fund, a fund voluntarily created by KT&G’s employees. Kim Seong-Chan, who was suffering from a brain tumor, was selected as the first beneficiary of the program in February.

Apr. 2013

Implemented the “Pride Of Korea” Project

Using the Sangsang Fund, the fund run by KT&G’s employees, the company launched the “Pride Of Korea” Project to raise the awareness of Korea’s stolen cultural artifacts among college students, in hopes to encourage them to change the way they perceive their cultural heritage.

Oct. 2013

Recorded a cumulative of 1,000 Cars Provided to Social Service Centers

Each year, KT&G implements the program designed to provide 100 cars to social service centers across the country. In 2013, at the 10th KT&G Welfare Foundation Presents Cars for Social Service Centers Ceremony, the company recorded a cumulative number of 1,000 cars.

Oct. 2013

Listed on the “DJSI World” for 4 Consecutive Years

By being listed on the DJSI (Dow Jones Sustainability Indexes) World, a global indicator focused on sustainability, for four years straight, KT&G was internationally recognized for its sustainability performance.

Feb. 2013

Agreement to Create "KT&G Sangsang Madang Chuncheon"

Following "Sangsang Madang Non-san," the company agreed to create "Sangsang Madang Chuncheon", as an art and culture complex, which connects nature and culture. Through this agreement, the company planned on contributing to the growth of art and culture by increasing support for artistic creations and opportunities for the public to experience more culture and art.

Apr. 2012

Announced the KT&G Group's CI

The KT&G Group announced its CI (Corporate Identity) designed for the group's affiliated companies to build a unified corporate brand, consolidate their bond, and develop a sense of identity throughout the KT&G Group.

Apr. 2012

"ESSE" Reached a record of 100 Billion in Export Sales

ESSE, which had grown into the world's top super-slim cigarette brand through an innovative localization strategy, it reached record sales of 100 billion cigarettes.

Jun. 2013

Developed Low Ignition Propensity (LIP) Cigarettes

KT&G developed the "Blue Band" technology designed to manufacture low ignition propensity (LIP) cigarettes in a different way from existing methods. Through this technology, the company benefited from the effect of import substitution, worth approximately 40 billion won, and took steps to fulfill its social responsibilities.

Sept. 2012

Implemented "Hangawi Love and Rice Sharing"

The "Sangsang Together Volunteer Group," which consists of KT&G's employees, held an event to donate 22,200 20kg bags of rice worth 1 billion won to 21,000 households, including low-income families, multicultural families, new settlers from North Korea, and Sakhalin returnees, and 131 free food service locations.

Oct. 2012

KT&G, Selected as Corporate Social Responsibility Leader

At the "2012 Conference on Social Responsibility for Mutual Growth" co-hosted by the JoongAng Ilbo and the Ministry of Knowledge Economy, KT&G was selected as a corporate social responsibility leader.

Nov. 2013

Won the National Emergency Management Agency (NEMA) Director Award at the 12th Korea Safety Awards

KT&G's Cheonan Plant received the National Emergency Management Agency (NEMA) Director Award at the 12th Korea Safety Awards. This offered the company a great opportunity to promote KT&G's commitment to occupational safety and its achievements.



Sustainable Seed for the Society

KT&G 2012/13
Sustainability Report



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CEO Message

The publication of the KT&G 2012/13 Sustainability Report is part of our efforts to promote the company's achievements in sustainable business management as it reflects our growth into a company of 'Righteousness,' 'Enlightenment,' and 'Companionship.'



Dear Stakeholders:

It is my privilege to express my deep gratitude to all of you for your support and trust through KT&G 2012/13 Sustainability Report.

The publication of the KT&G 2012/13 Sustainability Report is part of our efforts to promote the company's achievements in sustainable business management as it reflects our growth into a company of 'Righteousness,' 'Enlightenment,' and 'Companionship.'

First of all, KT&G has dedicated itself to building trust with its stakeholders through the establishment of an advanced governance structure and the practice of ethical business management. Since becoming the first company in Korea to announce the Corporate Governance Charter, hard work was put in to establish a transparent and efficient governance structure in which it has expanded the scope of ethical practices and monitoring to its subsidiary companies. Based on these achievements, the company was listed on the highest World index of the DJSI (Dow Jones Sustainability Indexes), which evaluate companies' sustainability performance, for four consecutive years.

In addition, KT&G has built a competitive advantage and dominated the market through change and innovation. Continuous investments in R&D and value innovations are KT&G's treasured intangible assets. The company has achieved customer satisfaction by developing new technologies and products. Its achievements have been recognized through a variety of evaluations by independent organizations. Furthermore, the company is working hard to become a global leader by making inroads into foreign markets and diversifying its portfolio of businesses.

Finally, KT&G strives to become a company making a contribution to its communities through a wide range of social contribution activities. By taking into account the characteristics of the industry, KT&G, a socially responsible company, provides, shares value and promotes communication to ultimately realize the imaginations of its stakeholders, such as customers, shareholders, employees, communities, and suppliers. Additionally, the company also works hard to fulfill its environmental responsibilities through the development of eco-friendly products and the conservation of resources and energy.

Due to the global recession, uncertainty continues to reign in domestic and international business environments. However, under its business principle, "Always Look Ahead," KT&G will strengthen its capabilities through a long-term strategy and become a global blue-chip company by devoting itself to CSR activities.

KT&G needs your support and encouragement to realize its sustainable development. Your participation in KT&G's sustainability activities, your ongoing loyalty and love will be greatly appreciated.

Thank you.

April 2014
KT&G CEO Young-Jin Min



Company Overview

KT&G has led the stabilization of domestic demands in the tobacco business, which has been an independently-run business area since its privatization. The company is also taking steps to diversify its portfolio into the health food, bio and pharmaceutical, cosmetics, and real estate businesses. In particular, through the implementation of a balanced business portfolio, righteous and ethical business management, KT&G endeavors to increase its value to become a global blue-chip company.



Company name	KT&G Corporation
Founding date	April 1, 1987
Location	71, Beotkkot-gil, Daedeok-gu, Daejeon
Website	http://www.ktng.com
Major businesses	Manufacturing and distribution of tobacco products

4,235	70,750	38,217	5,721	AAA
Number of employees (people)	Total value of assets (0.1 billion won)	Revenue (0.1 bil won)	Net income (0.1 bil won)	Credit rating (Korea Investors Service)

(Based on consolidated financial statements dated December 31, 2013)

Overseas Subsidiaries and Branches

China Branch

Room 2107 Tianyuangang Plaza No C2 DongSan-Huan BeiLu ChaoYang District Beijing China
Tel +86 139 1013 3842

Indonesia Subsidiary

City Bank Tower 22FL Jl. Jend Sudirman Kav, 54-56
Tel +62 21 2995 0118

USA Subsidiary

2605 N. Van Buren St., Enid OK
Tel +1 580 231 1834

Russia Subsidiary

Office 1102A, Entrance 3, 12 Krasnopresnenskaya emb., Moscow, Russia, 123610
Tel +7 919 039 8835

Turkey Subsidiary

Buyukdere Road Altan Erbulak Street No. 103 Sarli Work Center B Block 4Th Fl Mecidiyekoy 34000 ISTANBUL TURKEY
Tel +90 212 288 1310 (ext.115)

Iran Subsidiary

Unit 28, 5th, No.5, Jam Tower Bidar st, Elahieh st, Tehran, Iran
Tel. 98 21 2204 7927

Russia Plant

Estate 3, 2nd East Way, Dobrino Village, Borovsk District, Kaluga Region, Russia Federation 249020
Tel +7-48439-25001~2

Turkey Plant

Turan Mah. Tire Organize Sanayi Bolgesi 1269 Ada 15 Parsel Tire / Izmir
Tel +90 232 513 52 00

Iran Plant

KT&G Pars Office, Iranian Tobacco Company Qgazvin St., Tehran, Iran
Tel +98 21 5541 4081~2

Governance Structure

KT&G practices specialized and transparent business management based on an advanced governance structure where ownership and management are separated. KT&G's Board of Directors consists of one executive and eight outside directors. By creating a board-based accountable management system, the company seeks the balanced growth of profits among shareholders and stakeholders. Each year, the Board of Directors conducts self-assessments, peer evaluations, reports and evaluates the results early next year.

KT&G has continuously worked hard to establish a transparent and accountable business management system and has been recognized for its top-notch governance structure. For example, in 2007, for three years straight, KT&G was selected as the Best Company in the corporate governance evaluation conducted by the Korea Corporate Governance Improvement Center and was appointed as a Corporate Governance Honorary Company.

Result of the Korea Corporate
 Governance Service Evaluation



Composition of the Board of Directors

Classification	Name	Title	Independent	Profile
Executive Director	Young-Jin, Min	Director	-	Present) CEO of KT&G Experience) Head of Marketing Department of KT&G (managing director)
	Deuk-wi Kim	Director	●	Present) Member of the Civil Affairs Mediation Committee, Seoul High Court Experience) Vice-President of the National Financial Labor Union Federation
	Won-yong Kim	Director	●	Present) Director of the Kim & Jang Future Science Research Institute Experience) Professor of Mass Media and Communication at Sungkyunkwan University
	In-ho Kim	Director	●	Present) Chairman of Market Economy Research Institute Experience) Senior Secretary of Economy to the President (Minister-level)
Outside Directors	Dong-yeol Park	Director	●	Present) Chairman of the Tax Firm Horam Experience) President of the Daejeon Regional Tax Service
	Won-ik Son	Director	●	Present) Senior researcher at the Korea Institute of Public Finance Experience) Member of the National Economic Advisory Committee in the Office of the President
	Eop-gyo Song	Director	●	Present) Advisor to Amendments to the Constitution in Congress Experience) Member of the 15 th National Congress
	Jun-gyu Lee	Director	●	Present) Professor of Kyunghee University (Law School, College of Business Administration) Experience) President and Chairman of the Korea Society of Taxation
	Gyu-ha Cho	Chairman	●	Present) CEO of SCSK Korea Experience) Managing director at Hanwha Securities Co., Ltd.

*As of April 2014

Structure of the Board of Directors



Business Portfolio

(except domestic tobacco business)

In the past, KT&G's major products were tobacco and ginseng. In 1999, following the separation of the Ginseng Department, it became KGC (Korea Ginseng Corporation) and has since increased the size and capabilities of the KT&G Group.

KT&G has led domestic pharmaceutical technologies through its Bio Business and Health & Beauty Business, working hard to keep people healthy and beautiful which contributed to the nation's economic growth by expanding its global business. In addition, the company will fulfill its responsibilities and duties as a leading Korean company by revitalizing the ecosystem of related industries.



영진약품

A pharmaceutical company spanning half a century, dedicated to the growth of national economy and to the improvement of public health.

Company name: Yungjin Pharmaceutical Co., Ltd.

Business type: Manufacturing and distribution of drugs, ingredients, and chemical products

Share: 53%

Revenue: 156.6 billion won

Major product: Cefcapene

KT&G 생명과학

Leading the domestic bio industry through the development and commercialization of new drug candidates

Company name: KT&G Life Sciences

Business type: Research and development of life science drugs, research and development of drugs

Share: 59.48%

Revenue: 83 million won

GLOBAL BUSINESS GROUP

Seeking National Economic Growth



태아산업

The only Korean company that manufactures/produces reconstituted tobacco used for cigarettes, which has been expanding its business abroad through exports as well as nationwide

Company name: Tae-A Industrial Co., Ltd.

Business type: Manufacturing of reconstituted tobacco sheet

Share: 100%

Revenue: 14.2 billion won

Major product: Paper-type reconstituted tobacco sheets

Trisakti Purwosari Makmur

The first international M&A company that provides access to the Indonesian market and inroads into new international markets.

Company name: Trisakti

Business type: Manufacturing and distribution of tobacco products

Share: 60.17%

Revenue: 33.8 billion won



Reconstituted tobacco sheet, Tae-A Industrial

HEALTH & BEAUTY BUSINESS GROUP

Improving Public Health and Beauty



Dongibi KGC Life & Gin



Jeonggwanjang KGC Ginseng Corporation



Danahan Somang Cosmetics



The top Korean ginseng-producing company, which continues the tradition of Goryeo ginseng with the best quality in the world

Company name: Korea Ginseng Corporation

Business type: Manufacturing and distribution of ginseng and ginseng products

Share: 100%

Revenue: 784.8 billion won

Major product: Hongsamjeong (Red ginseng tablet)



Committed to providing a better life for homes and society through balance between the science of red ginseng and natural materials

Company name: KGC Life & Gin

Business type: Distribution of red ginseng products and health foods

Share: 100%

Revenue: 35.8 billion won

Major product: Dongjinbi



Devoted to realizing dreams for customers who seek beauty, without being afraid of change and innovation

Company name: Somang Cosmetics

Business type: Manufacturing of cosmetic products

Share: 50%

Revenue: 78.8 billion won

Major product: Man with Flowers, Danahan

Value System

Under its management philosophy of 'Righteousness', 'Enlightenment', and 'Companionship', KT&G has all its employees practice its core values in order to realize its vision, 'Becoming a blue chip company by maximizing its value'. The company established the 'KT&G Way' to align its business strategy with its corporate culture and encourages all employees to internalize and practice the KT&G way to continuously produce desired outcomes.

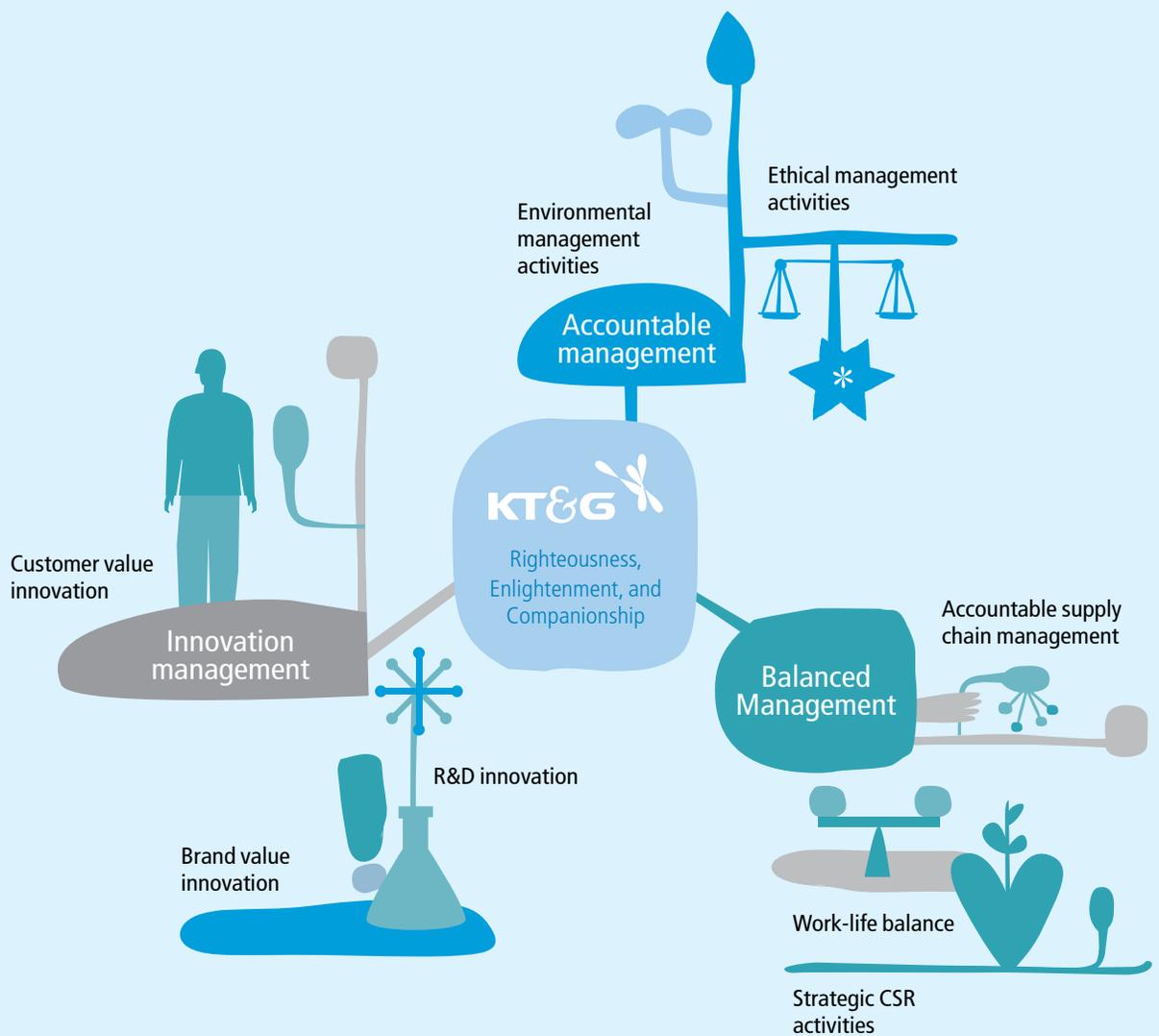
KT&G Way



Sustainable Business Management

To enhance its ability to execute sustainable business management activities and ensure its sustainable growth, KT&G established a sustainable management strategy. Aimed at realizing KT&G's management philosophy of Righteousness, Enlightenment, and Companionship, this new sustainable management strategy was established through an analysis of sustainability issues facing KT&G, a survey of trends in the industry and in the sustainable management area with an analysis of stakeholder needs.

KT&G will fulfill its three business principles, 'Accountable Management', 'Innovation Management', and 'Balanced Management', and execute 8 practical tasks to contribute to the growth of the nation and society and meet the expectations of all stakeholders.



Ethical Business Management

Recently, there has been growing demand from stakeholders for the company’s transparency, ethics, and social responsibility. KT&G regards ethical management as the key to sustainable growth and development rather than just an option. To become a transparent, righteous company, a variety of training and programs for its employees is needed.

Ethical Management Infrastructure

KT&G has established a code of ethics and guidelines for ethical practices and tries to make an ethical corporate culture take root so that all employees adopt the core set of values and undertake their jobs under the principles of honesty and sincerity.

Code of Ethics KT&G established and practices its Code of Ethics based on proper actions and value judgements that all employees must abide by. The Code of Ethics is largely comprised of the General Provisions, Pledge to Customers, Legal compliance and fair competition, Basic ethics of employees and Company’s basic responsibilities to its employees, Good relationship with business partners, and Responsibilities to shareholders and society. The code also sets the rules for the Code of Conduct.

Organization for Ethical Management To be prompt and efficiently respond to ethical issues, the company created an ethical management office under the CEO’s supervision to carry out related activities. The Ethical Management Office is specifically responsible for disseminating ethical practices, increasing and strengthening the monitoring of business risks, expanding the scope of assessment to subsidiary companies, performing periodic assessments, and surveying and coping with accidents.

Organizational Chart for Ethical Management and Roles



Establishment of an Advanced Ethical Management System

KT&G develops myriad activities aimed at upgrading ethical management and reinforcing its practice. In particular, the company tries to establish a culture of ethical management by continuously running activities such as ethical management training, proactive risk management, and periodic assessments.

Internalization of Ethical Management Training KT&G continues its ethical training and activities to help employees internalize ethical awareness.



On-site ethical management: Our employees visit local offices to receive localized training. We collect on-site incidents for ethical management training and share them with the employees of local offices to increase their interest and participation.



Anti-harassment activities: We organize anti-sexual harassment activities to eliminate sexism and discriminatory practices in the workplace to create a better and healthier corporate culture. In particular, we developed 'Anti-Harassment Measures' based on applicable laws, case studies of other companies, and an analysis of company-wide programs. We also conduct in-house cyber training for employees once a year to raise employees' ethical awareness.

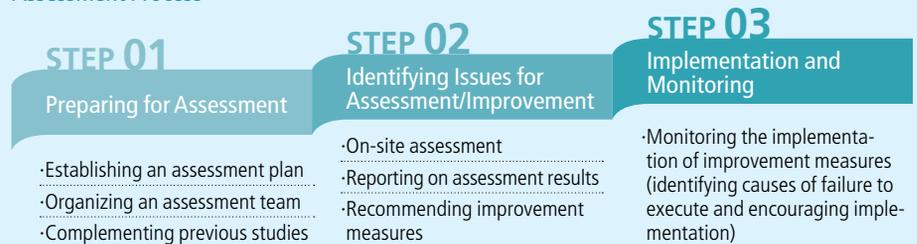


"Think Twice" Campaign: By sharing examples of accidents/incidents on a quarterly basis, we raise employees' alertness level and prevent similar incidents from happening again.

Proactive Risk Management The Ethical Management Office expands the scope and target of monitoring to KT&G's subsidiaries to manage risks proactively. In addition, the office enforces monitoring through multi-channel data analysis and strengthens the company's fundamental capabilities through proactive risk prevention and management activities in collaboration with related departments.

Conducting Ethical Management Assessments Aside from periodic assessments, the company monitors the status of ethical management through frequent assessments of management issues and processes. Designed to help the company continuously produce desired outcomes, the assessment process consists of preparation, identification of assessment/improvement issues, and implementation and monitoring. After an assessment has been carried out, the company keeps track of problems, improvement issues, improvement results, causes of failure to execute, and coordinates with related departments to encourage the implementation of improved measures.

Assessment Process



Ethical Awareness Survey Through an employee awareness survey, KT&G identifies the status of ethical management and develops improvement measures. An employee awareness survey is conducted through an EIP (Enterprise Information Portal). The survey is comprised of questions about awareness of and problems with ethical management internalization programs and methods of operation, and suggestions. In 2014, KT&G plans on expanding the survey scope to its suppliers and the supplies of subsidiaries to survey internal and external awareness levels.

Risk Management

Today's increasingly unpredictable business environment has had a huge impact on companies' sustainability. To deal with such uncertainty, KT&G has laid the foundation for stable business management through systemic risk management, which includes predicting and controlling the effects of internal/external risks.

Financial/Non-financial Risk Management

KT&G regularly monitors financial transactions to strengthen its financial risk management system, holds finance staff meetings to reduce operational risks and increase the transparency of transactions. As other various risks arise such as corruption, legal disputes and government regulations, KT&G defined non-financial risks and established response measures for each type of work.

Classification	Major Risks	Risk Factors	Response Measures
Financial Risks	Tax risk	Management of national and local taxes	<ul style="list-style-type: none"> ·Analyse target businesses through the review of tax issues and consultation, conduct education on how to respond ·Review taxes in advance by offering consultation services
	Foreign exchange risk	Compliance with the Foreign Exchange Transactions Act	<ul style="list-style-type: none"> ·Improve FX risk management system by enhancing access to and the use of FX management menu and better analysing FX performance ·Invite outside specialists to educate staff on Foreign Exchange Transactions Act ·Analyse weekly/monthly trends and changes in FX markets
Non-financial Risks	Corruption risk	Management of corruption	<ul style="list-style-type: none"> ·Regularly monitor abnormalities through the E-Auditing system and manage audit materials
	Human resources risk	HR management, management of employee health	<ul style="list-style-type: none"> ·Manage personal profiles, award history welfare benefits information through HR management system (E-HRM) ·Conduct medical check-ups of employees
	Information security risk	Cybercrime, 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 intrusions and leakage of information
	Legal risk	Legal risks related to new businesses, 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	<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 the FCTC treaty (Framework Convention on Tobacco Control)

Case Study

Operating a company-wide legal affairs manual to manage legal risks

KT&G proactively manages legal risks in its business arising from the changing business environment, and created a manual for the company-wide legal affairs to establish a systemic and unified process for handling legal affairs, such as contract reviews, legal advice, and commercial registrations.

Key Details of the Manual

Contract Reviews

- Important notice regarding contracts (guidelines and risk checklist)
- Mandatory legal review of all contracts related to the company's business
- Method for requesting contract review (registering with legal information system)
- Mandatory registration of all contracts with the legal information system
- Enforcement of a standard contract system

Legal Advice

- Method for requesting legal advice (registering with legal information system)
- The Legal Affairs Department participates in legal review of projects (licensing, M&As, etc.)

Commercial Registrations

- Information on essentials for commercial registration
- Information on commercial registration deadlines
- Documentation of the commercial registration procedure

Third-Party Creditor Cases

- Defining a third-party creditor case and a responsible organization
- Seizure enforcement procedure
- Method of handling the amount seized



Stakeholder Engagement

Due to the nature of its business, KT&G engages with a variety of stakeholders, and their relationship with the stakeholders greatly affects its business direction. Therefore, through open communication with the stakeholders, the company strives to listen to their opinions and improve/develop its stakeholder relationships.

Communication with Stakeholders



Stakeholders' Concerns and Issues

Shareholders and Investors

- Strengthening competitive advantage in market
- Developing eco-friendly products

Employees

- Work-life balance
- Strengthening employees' capabilities

Customers

- Enhancing brand value
- Strengthening ethical management

Community

- Implementing strategic social contribution activities
- Establishing an environmental management system

Government

- Establishing fair trade practices
- Strengthening ethical management

Suppliers

- Reinforcing mutual cooperation
- Continuously implementing R&D activities

Stakeholder Research

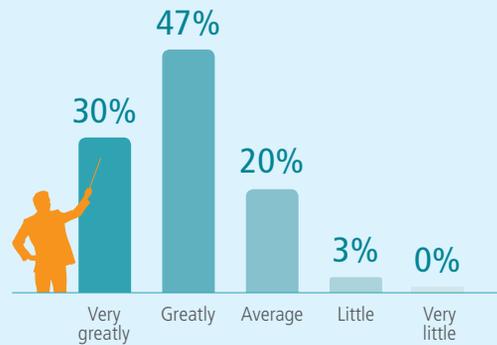
KT&G openly communicates with its stakeholders to ensure its sustainable growth. By conducting stakeholder research regularly, the company pays attention to their interests, identifies their needs and expectations, then incorporates them into its business decision-making process.

According to the 2013 Stakeholder Research results, over 76% responded that “KT&G is actively involved in communicating with stakeholders.” As for the interest of the CEO and top management in sustainability, more than 77% said that “They are greatly interested.” The survey revealed that KT&G’s sustainability efforts were evaluated positively by the stakeholders. The company pledges to achieve sustainable growth through open communication.

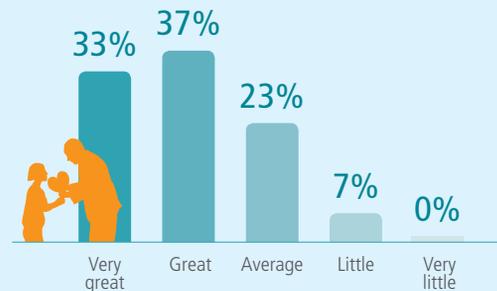
How would you rate KT&G’s communication with key stakeholders?



How interested is top management, including the CEO, seem in sustainable business management?



To what degree do you think KT&G incorporates environmental and social issues into its business activities?



Materiality Test

KT&G conducted a materiality test to select topics for this sustainability report. First, the company gathered its sustainability issues based on the results of benchmarking, media research and internal data review.

Benchmarking

Survey and analysis of the sustainable management status of leading companies in domestic and international industries

Data Review

Sustainability reports, business reports

Media Research

Analysis of issues related to KT&G reported by major media outlets



Through stakeholders research, we analyzed 15 issues based on their relevance (relevance to sustainability) and impact (impact on sustainability) then separated them into 9 high-priority and 6 low-priority issues.

KT&G Materiality Issue Map



High-Priority Issues

- Stronger business capabilities
- Social contribution activities
- Accountable marketing
- Eco-friendly product development
- Anti-corruption
- Value distribution
- Fun workplace
- Management innovation
- Win-win

Low-Priority Issues

- Fair performance evaluations
- Quality improvement
- Healthy labor-management relations
- Human resources development
- Customer satisfaction
- Energy conservation

KT&G shares with stakeholders the “Seed” to create a sustainable society and create positive “Effects” through a variety of “Activities”.

Sustainable Seed for the Society



Seed	Provide stable and sound investment opportunities	Increase happiness by meeting customer needs	Provide opportunities for growth through mutual cooperation
Activity	<ul style="list-style-type: none"> -New product development -Enhancing brand competitiveness -Cost management -New business expansion 	<ul style="list-style-type: none"> -Customer satisfaction management -Quality management 	<ul style="list-style-type: none"> -Establishing sustainable partnership for mutual growth -Implementing win-win activities for mutual benefits
Effect	<ul style="list-style-type: none"> -Provide stable revenue stream -Increase shareholder value 	<ul style="list-style-type: none"> -Satisfy customers -Increase customer loyalty 	<ul style="list-style-type: none"> -Establish symbiotic relationship with suppliers -Strengthen supplier's capabilities



Career development as expert and work-life balance

- Capability development programs
- Performance evaluation and compensation
- Corporate culture of openness and innovation

- Develop employees' capabilities
- Increase employee satisfaction
- Enhance work efficiency

Provide opportunities to realize imaginations and accountable communications

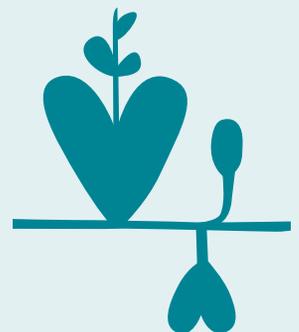
- Culture and art support activities
- Outreach activities for the socially disadvantaged
- HRD support activities
- CSR activities related to work

- Share cultural values
- Empowering the socially disadvantaged to become more independent
- Nurture future talent
- Create a non-smoking culture

Revitalize economy through business and provide opportunity to create government funds

- Commitment to tax obligations
- Full cooperation in government policies

- Contribute to national economy
- Revitalize the economy



Seed Effect:

Shareholders and Investors



Tobacco industries, both domestic and international, have monopolistic market structures. While such market structures guarantees stable sales and income, the industry has recently seen a gradual decline in tobacco consumption as the market turns into a developed market, along with the trends of health awareness and the spread of anti-smoking campaigns. Under these circumstances, KT&G is improving the profitability of its products by turning them into luxury goods and making inroads into the global market. KT&G also plans on developing its properties and expanding its business through its subsidiaries to continue its growth outside the tobacco business and contribute to the national economy and society.

Our Activity

- New business expansion
- Brand management
- New product development
- Shareholder dividend payment
- Cost management

Key Figure

Operating Income
(as of 2013 consolidated)

1,013.3
billion won

Dividend Payout Ratio
(as of Dec. 26, 2013)

4.1%

Business Strategy

By implementing its long-term strategy, KT&G will increase the sales ratio of its growing (international tobacco, red ginseng/dried ginseng, pharmaceutical/bio) businesses from 49 to 58%. Also, it will become a "Global Blue-Chip Company" by completing its businesses portfolio equipped with world-class capabilities.

Vision

Global Blue-Chip Company (KT&G Holdings)

Secure World-Class Capabilities
 (Quality/ Marketing/ Brand / R&D)

Long-term
 Business Tar-
 gets

2016 Gross Sales

4,574.2 billion won

2016 Operating Income

1,144.7 billion won

Group's Average Annual
 Growth Rate

7.4%

Group's Ratio of Operating
 Income

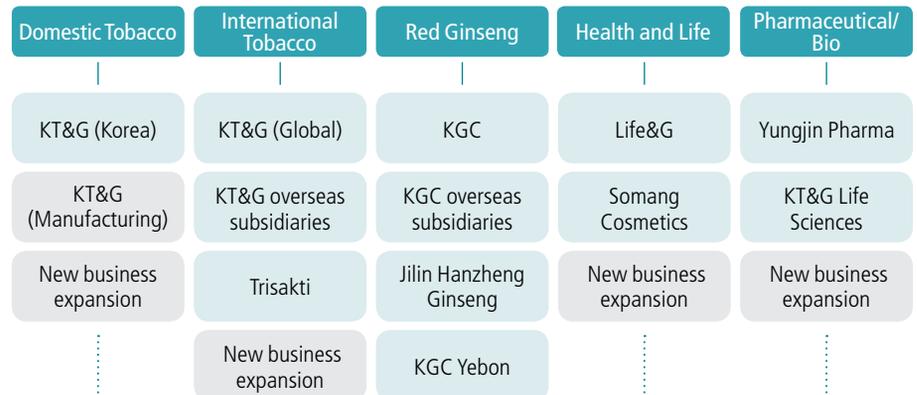
25%

Sales Ratio of Growth Drivers*

58%

*Businesses except domestic tobacco

Business
 Portfolio



Sales Ratio



Brand Management

Any brand that has long been loved and respected by consumers not only adds new value to the company, but it also leads to the creation of additional economic benefits, protecting the company against all sorts of risks. As for tobacco products, brand reputation and value as well as product quality greatly affect consumer choices. KT&G actively carries out brand management activities to compete with famous international brands.

To begin with, KT&G defines market segments by region, age and gender, then quickly analyzes the trends and preferences of each segment. After that, through marketing-based R&D and manufacturing activities, the company increases its market dominance and brand powder. It also conducts Brand Index surveys regarding its key brands twice a year and analyzes the competitiveness, satisfaction, awareness and image of each brand to measure the performance of its brand strategy and to develop a market strategy. In 2013, the company greatly benefited from the strategy of differentiating and developing its strategic brands.

In 2014, KT&G will strengthen its fundamental capabilities through the balanced growth of its strategic brands and produce sustainable results by increasing its dominance in the premium market.

KT&G's rank among domestic brands (2014 Best Korea Brands)

27th place

ESSE's rank among domestic brands (2013 K-BPI)

place 1st
for 6 consecutive years

Overview of Major New Product Launches (2012/2013)



Feb. 2012

'BOHEN CIGAR Cubana Double' is a product that conveys the fresh, distinct aroma of Cuba. Launched in June 2011 as an extension of the Cubana 6mg line, it contains a Cubana Ball capsule. The capsule ruptures just when the consumer craves a stronger taste, making the aroma of the Cubana product twice as strong.



Jul. 2013

Using a special filter developed from a result of a 4-year research, RAISON PRESO provides the deep aroma of the Presso product that you can never experience with regular cigarettes. Following the release of RAISON PRESO in July 2012, its family products, RAISON PRESO 1mg and RAISON ICE PRESO, were launched. Widely enjoyed by cigarette lovers, these three products together sold a total number of about 130 million cigarettes.



Overview of Major Brands

ESSE

The world's top-selling super-slim brand; Korea's best-selling brand and the world's Number One brand representing Korea

RAISON

Most preferred brand by college students; the brand that appeals to consumers in their 20s with creative sensibility



Premium brand for domestic and global markets with a top-tier blend and a design with Italian touches

PINE

Top brand in the Middle East enjoyed by a wide range of consumers in many countries.

THE ONE

Cigarette brand using activated oxygen filters containing double-O2-treated particles

BOHEM CIGAR

Containing 30% premium cigar leaves, the brand's unique aroma and taste attract consumers with sophisticated tastes

THIS PLUS

Brand for young people who pursue self-confidence, passion, and independence

Jun. 2013

With 'ESSE Change', KT&G became the first tobacco company to develop a super-slim cigarette containing a capsule. The taste of ESSE Change changes from soft to fresh when the embedded capsule ruptures. Its package is also designed to contain an image of a bursting capsule.



Jul. 2013

'THE ONE Impact' is a renewed version of the existing low-tar 'The One Impact' brand. Using holographic paper, the package design is distinct and sophisticated. This 1 mg product also uses the 'Hard Filter' to offer firmness and the 'Impact Leaf', which ripens well under sufficient sunlight.



Sept. 2013

'THIS Africa' contains a tobacco leaf that is fire-cured, which is a traditional African tobacco manufacturing process. This unique, fire-cured tobacco leaf is very rare and represents a mere 1% of global tobacco leaf production. It provides a pleasant and sweet taste with a unique after-taste. The package was co-designed by the famous British illustrator Papaboule and the street fashion magazine "Crack Your Wardrobe".



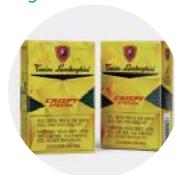
Nov. 2013

'ESSE Golden Leaf' was developed to meet the needs of customers who want low-tar, high-quality cigarettes. Blended with the top-grade tobacco produced in Korea, the product conveys a soft, deep taste and aroma. The package was co-designed by the lacquer ware master Park Jae-Seong to express the product's dignity and confidence as a top brand. The limited edition in a case made from a special material was simultaneously released.



Nov. 2013

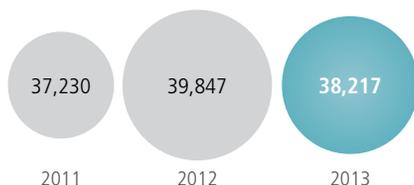
'TONINO LAMBORGHINI Crispy' reflects the new trends of young consumers and offers the soft and unique taste of hand-made fire-cured tobacco leaves. The package has a dynamic design co-created with an Italian design company. This is also the first regular cigarette brand using a solid tube filter. The filter structure prevents the filter from becoming soft even when the cigarette is smoked for a long time, and conveys the original taste and aroma of the cigarette.



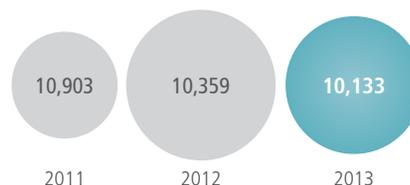
Financial and Sales Analysis

As the domestic tobacco market experiences a decline in tobacco consumption due to health-conscious trends and becomes an advanced market structure, total demand has gradually decreased since 2000. Long-term prospects for the market predict show that the market is expected to either stagnate or continue to decline. Despite such touch conditions as a declining market size and intense competition, KT&G has improved profitability by launching high-price brands to meet customers' preferences for luxury, differentiated products.

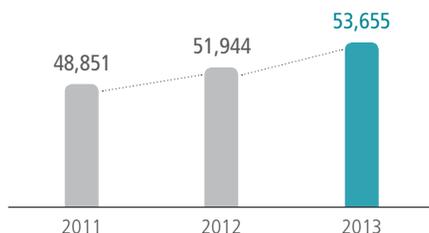
Revenue (Unit: 0.1 billion won)



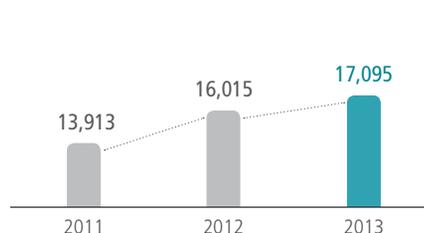
Operating Income (Unit: 0.1 billion won)



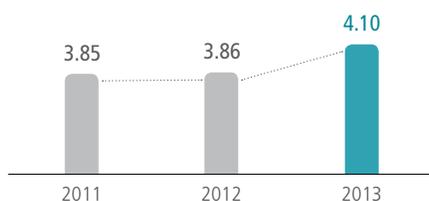
Equity (Unit: 0.1 billion won)



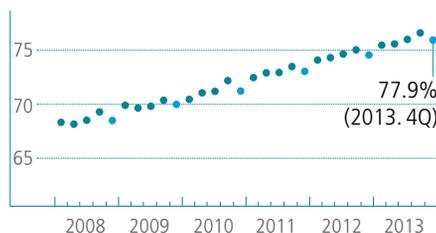
Liabilities (Unit: 0.1 billion won)



Dividend Ratio (Dividend/stock price as of dividend date) (Unit: 0.1 billion won)



Sales Ratio of High-Priced Cigarettes (Unit: 0.1 billion won)



*All financial data are based on consolidated financial statements.

*Mid- and high-price products: Over 2,500 won per pack

In the global tobacco market, KT&G reported 452.7 billion won in sales and 125.8 billion won in operating income for 2013. To pave the way for the sustainable growth of its overseas business, the company has heavily invested in potential markets, such as the Asia-Pacific region, Europe, and the Americas. Furthermore, KT&G has created new sales channels in China, Indonesia, and Southeast Asia, and continues to make overseas forays in Europe, Africa, and Latin America.

Results by region

(Unit: 1,000 dollars)

Results by region	Middle East	Central Asia	CIS*	Americas	China	Southeast Asia/Other	Total
2012	382,280	13,209	61,730	43,645	78,420	54,758	634,042
2013	211,234	19,035	70,846	51,676	76,164	88,069	517,024

*CIS(Commonwealth of Independent States)

Cost Management through Overseas Material Procurement

KT&G has worked hard to procure high-quality tobacco leaves that meets consumers' needs and the requirements of different products. From 2012 to 2013, in particular, the company focused on securing stability in procuring tobacco leaves. Its efforts include local production projects through partnerships with international suppliers and increasing long-term supply contracts. As of late 2013, independent procurement from major tobacco leaf producing areas represented over 20% of total purchases. The company plans on gradually increasing the ratio of overseas tobacco leaf purchases to over 30% by increasing the number of producing areas and consolidating existing partnerships.

KT&G also carries out proactive cost-reduction activities such as tobacco leaf supply surveys, market analysis and trend predictions. Furthermore, despite rising prices in the global tobacco leaf market, KT&G has kept the procurement cost of international tobacco leaf at an average level over a three-year period (2010-12), through its purchase portfolio, the development of alternative grades and the stabilization of project prices.

Inclusion in DJSI World Index for 4 Years Straight

KT&G was listed, for four consecutive years, on the highest World index of the DJSI (Dow Jones Sustainability Indexes), which evaluates the performance of global companies in governance, economic, social and environmental aspects. Among the global tobacco firms, only KT&G and BAT were included in the DJSI World Index. Through this, KT&G was recognized for its excellence in sustainability.

Its inclusion in the DJSI World Index is used by investment institutions as the basis of SRI (Socially Responsible Investing) evaluations. Since it is now capable of attracting domestic and foreign investments in related areas, KT&G is expected to have a positive impact on the stock market.



Seed Effect:

Customer



KT&G announced its customer service strategy “Customer Value 2.0” and has since performed a variety of related activities. To increase customer satisfaction, the company has continuously carried out quality management and customer relations management activities. It also works hard to develop products that meet customers’ needs. By creating a diversity of channels and implementing open communication efforts, KT&G will become a company that is attentive to customers’ needs.

Our Activity

- Quality management
- Customer satisfaction management

Key Figure

Ratio of customer complaints handled (via website and Sinmungo)

100%

National Customer Satisfaction Index (NCSI) ranking

1st place

Quality Management

KT&G conducts strict quality management and provides customers with the best products to increase customer satisfaction.

Infrastructure for Quality Enhancement

Taste-Quality Assurance System Through real-time monitoring of the entire production process, we maintain the finest taste and quality that customers want. We also operate the Taste-Quality Assurance System, which immediately stops a production line with any problem and resumes its operation only after the problem is solved.

Double Verification System The Double Verification System is designed for a highly skilled expert to conduct a final verification of a product using the latest quality measurement equipment before the product is shipped. Through the system, we enhance the quality of our products.

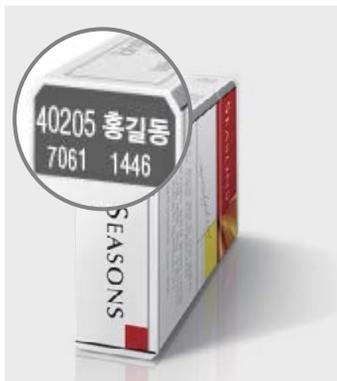
Quality Improvement Activities

Real-Name Quality System We are the first tobacco firm to adopt the Real-Name Quality System, through which to label the date of manufacture and the name of the manufacturer on the bottom of all cigarette packs sold in Korea. Through this system, plant employees are now able to use their best efforts to maintain the best quality of products and feel more proud to be part of the process. Furthermore, the Real-Name Quality System has dramatically reduced customer complaints about older products and made it easier to track non-conformities. This helped the company strengthen its ability to cope with quality management issues.

Production Quality Analysis To provide customers with perfect products, KT&G conducts a real-time analysis of production quality in the latest clean manufacturing facility. If any product does not conform to 395 items on the quality checklist, we immediately stop the equipment and only resume its operation after solving problems. In the shag manufacturing and material processing process, we operate a real-time automatic blending/flavoring accuracy verification system to guarantee consistent taste and flavor in cigarettes. Using the automatic detector of 31 non-conformities, we perfectly prevent the occurrence of non-conformities and make sure that only those products whose taste, aroma and quality have been tested by sensory test experts can be provided to customers.

Safe and Quality Materials To supply safe and quality products, we only select high-quality tobacco leaves and the use tobacco leaves that meets the safety criteria (118 items) of CORESTA (Cooperation Centre for Scientific Research Relative to Tobacco) through chemical analysis. In addition, we only use products that meet the US FDA's safety standards and have passed quality system conformity testing (71 items).

Accountable Disclosure of Product Information KT&G applies warning statements to all products and complies with international standards for any statements that may confuse customers. As for cigarette packs/packages and advertising materials distributed in Korea, the company labels warning statements in accordance with the Tobacco Business Act and the National Health Promotion Act. For products sold abroad, the company also indicates warning statements in accordance with the applicable laws of the countries in question. KT&G also applies warning statements to respect consumers' rights to know even in countries where warning statements are not a legal requirement. Additionally, the company discloses tar and nicotine levels to protect consumers' rights to information.



생산자 실명이 들어간 KT&G 담배



Number of customer complaints received

(Unit: Case)

Classification	2011	2012	2013
Website	1,951	1,483	1,148
Product inquiries	-	126	79
Sales activities	-	220	175
Facility inquiries	-	14	24
Outside complaints	-	19	14
Manufacturing process	-	41	38
Social contribution	-	26	21
International cigarettes	-	2	3
Subsidiaries	-	11	10
Other	-	1	8
Total	701*	460	372

*Since 2012, complaints received via Sinmungo have been categorized to effectively handle them.

NCSI Results

(Unit: Score)

■ KT&G ■ A Company



*A Company: Top-ranking company on the NCSI

Holding Regular Meetings of CS Centers

KT&G holds meetings for the CS departments of the group's companies to establish a service strategy for meeting customers' varying expectations and needs. Meetings are attended by CS officers from KT&G, Ginseng Corporation, KT&G Life and Gin, and Somang Cosmetics. They meet on a quarterly basis to share benchmarks and CS information on best practices of CS. They also discuss all sorts of CS issues such as CS evaluation systems and customer satisfaction surveys.

Customer Communication

Website KT&G regularly updates its Frequently Asked Questions section on its website so that customers can easily find the information they need on brand, product, quality, and other company-related issues. The company also responds to inquiries through its customer center or through the Q&A section on its website. The results are sent back to customers via the website or by e-mail.

Sinmungo KT&G operates the Sinmungo where customers submit their complaints or report any wrongdoings committed by KT&G. Through this, the company conducts deterrence audits. Complaints received through the Sinmungo are directed to the CEO by e-mail. Various stakeholders can report bribery, budget waste and other wrongdoings, then recommend best practices or best employees. Since 2013, the company has operated the Sinmungo more systematically so that complaints can be effectively handled. Until now, the company has processed 100% complaints.

External Advisory Committee To collect diverse views from outside of the company, KT&G operates an advisory committee comprised of experts from different fields. The committee consists of 5 members—two experts in marketing strategy, one brand expert, one design expert, and one consumer research expert. They provide practical assistance in developing and executing strategic insights group-wide by offering advice from a comprehensive perspective on marketing. In 2013, there were 9 regular advisory meetings, 18 special advisory meetings, and 7 lectures by the advisory group. During those meetings, the experts gave advice on brand portfolio, anti-smoking regulations and shifting patterns in tobacco consumption.

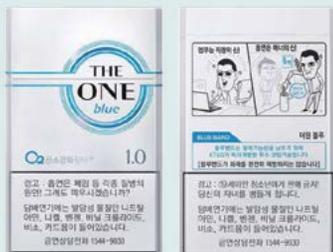
Outcomes of Customer Satisfaction Activities

In the 2013 National Customer Satisfaction Index (NCSI) survey among customers who have used KT&G's products and services, KT&G ranked first place for the second consecutive year (2012 and 2013). This was the culmination of the company's efforts to continuously develop and present unique new products, meet customers' preferences and implement the Real-Name Quality System, designed to maintain and increase trust with customers.

Contest for Communication with Customers

KT&G held the 'Smoking Etiquettes Pictograms' contest to openly communicate with customers and raise awareness for the Smoking Etiquettes campaign. A compound word of picture and telegram, Pictogram is defined as a pictorial expression of an object to help better understand its meaning. As part of its public campaign, in 2011, KT&G adopted pictograms to convey non-smoking messages and has since applied pictograms to all its products sold in Korea.

Through the contest, about 600 original pictograms were collected and 10 of them have been used in our products. We plan on using the smoking etiquettes pictogram on the back side of the package of the renewed 'THE ONE' product. The contest provided KT&G with the gateway to communication with customers, and will continue to be used as a communication channel.



THE ONE containing pictograms

Special Issue

A Story about 'Blue Band' Development

To fulfill its social responsibilities, KT&G developed and proactively adopted "Blue Band", a technology that makes low ignition propensity (LIP) cigarettes. Using cigarette papers coated with special materials, low ignition propensity cigarettes are designed to extinguish more quickly under certain conditions. By reducing oxygen supply to a burning LIP cigarette, the technology can dramatically lower the risk of fires caused by burning cigarettes.

KT&G completed five patent applications for its innovative technology called online coating process. As part of its CSR efforts, KT&G, the largest Korean tobacco firm, plans on applying this technology to all its products by 2014.



Members of study group "Big Smile" are debating



Research on an appropriate coating process

1 Beginnings of Blue Band development

It has long been a dream for every tobacco firm including KT&G to make fire-safe cigarettes. As international laws mandating low ignition propensity cigarettes took effect, the company had no choice but to develop LIP cigarettes. However, outrageous development costs and technological barriers posed great challenges. Just then, KT&G's study group called Big Smile chose the development of LIP cigarettes as its study goal and started dealing with the challenges.

2 Only brave ones can dream

Big Smile's passion and struggles to develop LIP cigarettes made the impossible possible. Started by a small group, the project became an issue recognized company-wide and, with the company's support, gave rise to Task Force Team 'Y-Project'. Y Project Team began research and focused on producing a machine based on a number of designs.

The development of Blue Band is not just another success story of technological development. It demonstrates KT&G's commitment to social responsibility to fulfill its future-oriented business philosophy and serve the public good.



Y-Project Technology Meeting



Pilot testing of the On-line equipment



Research on producing low ignition propensity cigarettes



THE ONE: The first Korean LIP cigarette

3 Tenacity: There is always a way out.

Through many attempts and constant struggles, the team finally developed an innovative coating process taking the technology to the next level. The team began to develop and make 'On-line' equipment for cigarette manufacturing and cigarette paper coating.

4 The Power of 'Us': Built from the ground up

To enhance the drying capacity of the on-line equipment, eminent scholars at KAIST and the Korea Institute of Machinery & Materials worked together to run a number of tests. Through these tests, they were able to resolve technical challenges.

5 Excitement comes from challenges

With the company's trust and support, the team members were able to bring their individual abilities to the research and endure those struggles during difficult times. Finally, they succeed in the test production of low ignition propensity cigarettes with their sophisticated and advanced technology.

6 What is visible is no longer a dream

KT&G successfully developed a more evolved form of low ignition propensity cigarette technology than existing LIP technologies. The company named it "Blue Band". On July 23, 2013, KT&G launched three types of THE ONE, the first Korean LIP cigarette brand, and completed five patent applications, both domestic and international. The company plans on increasing the brand's production and gradually making only LIP cigarettes.

Seed Effect:

Employees



KT&G Realizes Employees' Imagination

Employees are KT&G's most valuable assets and future. Through different open channels, the company applies a fair hiring process. To support global talent development, KT&G provides capability development programs so that employees can improve their skills and contribute to the organization's business performance. The company's competency-based compensation and 'Fun' management serve to increase employee satisfaction. KT&G is also a committed advocate of the principles on labor and human rights set forth by international organizations and initiatives such as ILG (International Labor Organization) and UNGC (UN Global Compact).

Our Activity

- Hiring diverse talent
- Developing employees' capabilities
- Performance evaluation and compensation
- Employee health management
- Corporate culture of openness and innovation

Key Figure

Number of people who completed training

24,136
people

Average annual number of training hours per employee

69.1
hours per person

Ideal Talent and Human Resources (HR) Philosophy

Employees are KT&G's most valuable asset and future. KT&G places greater emphasis on the future of employees than their present and hires people who best fit the image of the company's ideal talent—"I am C.E.O."



Under its performance- and job-based HR philosophy, KT&G is devoted to establishing an appropriate hiring culture and enhancing the expertise of its employees. Through a fair evaluation, the company takes steps to establish a culture where employees get better compensation based on their performance and capabilities. It also assigns jobs that best suit employees' individual abilities and develop individual capabilities through CDPs to increase job satisfaction.



Inclusive Talent Hiring

Hiring socially disadvantaged people (Unit: Person)

Classification	2011	2012	2013
Women	438	462	447
People with disabilities	141	136	139
People with high-school diplomas	-	19	17

KT&G hires all employees fairly, regardless of their gender, education, region of origin and disabilities. Through the diversification of a hiring process and hiring channels, the company embraces diversity in its hiring practices and actively fulfills its social responsibilities by hiring people with high school diplomas.

Hiring Socially Disadvantaged People Committed to corporate social responsibility, KT&G enforces a hiring policy for socially disadvantaged people, including women, people with disabilities and people with high school diplomas. To help resolve social problems, such as academic inflation and youth unemployment, the company created a hiring channel for people with high school diplomas to secure good, young talent and provide an HR foundation for sustainable growth.

Employee Capability Development

KT&G’s talent development programs are largely divided into core value dissemination, job capability and leadership programs. KT&G nurtures suitable talent for the company by instructing employees to internalize the KT&G Way. Through job training, the company trains experts in different fields; through leadership training at each level, it develops the capabilities of those who will become leaders responsible for KT&G’s present and future.

Core Value Dissemination Programs

To produce desired results and achieve sustainable growth based on the company’s vision and strategy, employees should align their thoughts with their actions. KT&G’s core value dissemination training allows each employee to internalize the company’s core values. The company created the KT&G Way Internalization Road Map and provides educational programs accordingly. During the ‘Ignition’ phase, the company conducted activities to raise the awareness and understanding of the core values, including the development of dissemination courses, recurrent education and training of in-house instructors. During the ‘Dissemination’ phase, the activities performed include running cyber courses, producing work books, finding and sharing best practices to motivate employees to get involved and practice what they learned. Lastly, during the ‘Settlement’ phase, the company encourages employees to participate in actual jobs to help internalize the KT&G Way and establish it as part of the corporate culture. At the same time, it also jointly developed and disseminated practice programs that take into account the business and cultural aspects of KT&G’s affiliated companies. To boost internalization of the core values and reinforce practical activities, KT&G plans on creating programs and systemic infrastructure, including a portal and performance evaluations.

Job Capability Programs

KT&G overhauled a job specialist development system, which allows employees in different jobs to strengthen required capabilities. The aim of the job specialist development system is to develop global talent. The program includes sales, business management and global job specialist courses.

Leadership Capability Programs

To secure competent talent, KT&G provides leadership capability development programs at different levels, including group managers, next-generation leaders, and new recruits. Through the next-generation leader development program connected with HR, the company pools next-generation leaders and branch managers and nurtures their abilities. In addition, the New Employee Care program is designed to help new employees adapt quickly to their jobs and optimize new hires for the company.

Establishing KT&G Leadership System KT&G established a leadership system to develop results-oriented leaders, who will lead change and innovation in the organization. The company provides programs focused on debates and the execution of tasks to create a leadership role model, lay the leadership ‘pipeline’ and develop leadership capabilities. According to the leadership system, the company runs four new employee care/capability development courses and the courses for sharing and practicing the KT&G Way.

The KT&G Way is the code of conduct by which all members of the KT&G Group must abide; in other words, it is the right way to work.

Case Study

KT&G’s Self-Directed Learning Infrastructure



Since KT&G’s core values center on human resources, the company carries out a wide range of activities to develop top talent. To help study groups improve their quality of learning and establish the study group culture in the organization, the company provides self-directed learning infrastructure.

- | | | |
|---|---|--|
|  <p>Ensure stable development and operation of cyber education</p> <ul style="list-style-type: none"> · Operate learner-centric cyber courses · Develop and operate strategic cyber courses at the corporate level |  <p>Help establish company-wide study group culture</p> <ul style="list-style-type: none"> · Assist activities of study groups in improving quality of learning · Revitalize study groups · Identify and share best practices of study groups |  <p>Reinforce unconventional learning</p> <ul style="list-style-type: none"> · Increase opportunities to participate in BIS (Business Information Service) learning · Open the reading management academy (book review contest, summary service, new book previews) · Produce and share company-created contents such as videos for OJT learning · Increase the use of comprehensive search features for educational information in the KISS (KT&G Innovative Supreme System) |
|---|---|--|

성과 평가 및 보상



번역누락

Under the company's policy, all employees at KT&G are evaluated in an objective and fair manner through the standard evaluation process.

Performance Evaluation

To ensure performance management and capability development, evaluations are divided into performance and competency evaluations and a 5-level relative grading system is applied across all HR programs. KT&G also provides coaching and mentoring and guarantees fair evaluations by disclosing results, holding interviews, and running an appeal system. Objective evaluations are ensured through evaluator training and an evaluation auditing and warning system.

Compensation

To motivate its employees, KT&G uses its best efforts to ensure that all employees receive systemic evaluations and reasonable compensation according to the performance evaluation criteria. As of 2013, the salary levels for new hires with university degrees were about 282% of the legal minimum wage and there was no gender-based wage discrimination.

Benefits Plans KT&G offers benefits plans to improve employees' quality of life. Benefits are determined based on employees' age, years of service and life-cycle decisions. There are also several benefits plans for employees' family members.

Retirement Benefits KT&G provides retired employees with retirement benefits and operates a retirement pension system to protect their rights to those benefits. Depending on their personal tendencies and preferences, employees may sign up for either DB (Defined Benefit) plan or DC (Defined Contribution) plan.

Wage Peak System To reduce labor costs and secure new employment costs, KT&G adopted the Wage Peak System designed to cut the wages of employees when they reach a certain age, instead of guaranteeing their employment until retirement. In 2014, the company began to gradually extend the scope of assistance for regular employees at or lower than salary level 3 and the retirement age of union members, and pay them 80% of the basic wage.

Improvements in Benefits Plans

2012

Prepare improvement measures for the operation of the employee welfare fund

- Changes to the eligibility criteria, creation of a partial payment system, improvement of the computer medical aid system

Running as many leisure facilities as possible to improve employees' needs and quality of life

- Selective provision of leisure facilities to provide facilities preferred by employees

Self-actualization through social contribution activities and volunteer activities to establish values

- Taking care of kindergartens at HR centers/ cleanup and environmental activities / weeding

Improvement of the guidelines for the employee welfare fund

- Addition of assistance in the purchase of employee share ownership

Purchase of membership for leisure facilities to provide facilities preferred by employees

- Maximizing efficiency and cutting costs by reducing the budget to a minimum

2013

Increase employee satisfaction by improving the benefits plans

- Medical expenses: Providing full amounts owned by insured employees
- College scholarships: Payments of college tuitions based on tuition bills
- Payments for special occasions: Payments for special occasions such as happy events or bereavement
- Improving the quality of congratulatory and sympathy gifts and systematization of the gift handling process

Employee Health Management

Improvement of the MSDS (Material Safety Data Sheet) Management Process

An increase in health problems caused by chemicals has made it more important to inspect the company's MSDS management and improve its management process. KT&G has taken measures, such as double-checking applicable substances, training KT&G officers in departments possessing such substances and labeling MSDS warning statements.

Prevention of Noise-Induced Deafness

KT&G prevents noise-induced deafness in the workplace and carries out activities such as preparing protection equipment kits and signs to protect employee health. Focusing on workplaces with high noise levels based on work environment analysis results, the company measures noise levels twice a year. For the workplaces in need of noise control, it seeks fundamental solutions and prepares preventive statements, signs and protection equipment kits.

Operation of Health Promotion Programs

KT&G is spearheading the Make a Healthy Workplace movement by working with outside organizations. To take care of employees' mental health and job stress, the company invites experts to conduct related training and campaigns, which help increase interest in health care, reduce job stress and improve efficiency at work. KT&G also provides regular medical check-ups for its employees and their spouses, helping them with medical payments exceeding the amount of their co-pays.

Organizational Culture of Openness and Innovation

Implementation of 'Fun' Management

KT&G tries to create a fun workplace through "Fun" business management. By increasing the engagement of employees in both full-time and part-time positions, the company consolidates a bond among employees and improves their morale. To activate Fun management, the company built a basic operating system called the Happy-K website, to post related information and programs. Each year, it chooses and conducts key implementation activities. In 2013, aside from the pre-existing activities such as Lucky Show and K-Score Quiz, KT&G hosted 'Challenge Kick'. This activity is designed to create a corporate culture where employees take up challenges and cooperate with each other.

Improvement of Corporate Culture

KT&G launched a campaign about smoking etiquettes, which recently became a social issue. To claim their rights to smoke, smokers should take the initiative and show how responsible they are. Through the in-house EIP, the company posts webtoons about smoking etiquettes on the website as part of its efforts to improve its corporate culture. KT&G will continue to promote the webtoons in and outside of the company and use social media to extend the efforts to its plants, retail stores, and the group's affiliated companies.

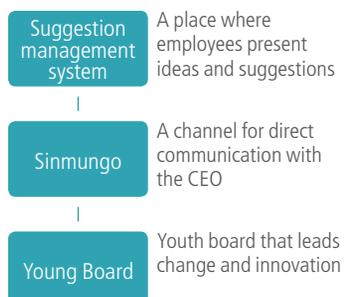
Active Employee Communication

To create a culture where employees are respected, we always pay attention to their complaints and suggestions. We hold labor-management council meetings where major issues in business operations are discussed. At meetings, we communicate with employees about important changes to the working conditions, occupational safety and compensation. Through the ombudsman system, we handle employees' grievances and complaints.

Conducting Employee Awareness Survey

KT&G conducts an employee survey to identify their needs and improve their working conditions. The survey is largely comprised of questions about the core values, organizational operation, human resources, and satisfaction, and is conducted throughout the company. The 2013 survey results found that 69.1% of the respondents responded positively. In the future, the company will continue to conduct surveys to reflect their opinions and increase their morale.

Employee communication channels



Special Issue

Fun and Exciting Workplace

KT&G makes every effort to create an environment where all employees enjoy their jobs. To create an enjoyable workplace, the company conducts activities such as revitalizing a culture of communication and corporate culture innovation.

Revitalizing a culture of communication

KT&G runs the Young Board to create an organizational culture, which centers on communication, autonomy and creativity. The Young Board complements decisions made by senior boards (existing decision-making bodies) such as executive meetings and the board of directors. The board also presents ground-breaking ideas to bring change to the organizational culture. They aim to become 'Knowledge Explorers', who perform research projects from a macro perspective to develop capabilities for future growth, 'Change Agents' who undertake activities to change employees' perceptions and improve the corporate culture and 'Communication Messengers' who listen to employees' various opinions (VOE) and deliver management's feedback.

In 2013, KT&G held 'Sotong Bibimbap: Top Management Meeting', a communication effort designed to deliver employees' opinions to management and management's business philosophy to employees. The meeting was divided up into small meetings for employees and for management, respectively. At the employees' meeting, the company visits local offices every other month to have breakfast with employees and listen to their stories. At management meetings, the company meets with officers at least 6 times a year to listen to their business philosophy based on KT&G's core values.

Corporate Culture Innovation Activities

According to its corporate culture innovation strategy, KT&G appoints CAs (Change Agents) from different offices, who disseminates and promotes the company's organizational culture. Each year, a total of 43 CAs are nominated and appointed by the managers of the offices in question. To improve their abilities to execute, the agents are selected among the heads of business units.

2013년에는 의사소통, 교육(역량강화), 학습조직 등 조직 이슈 130개 중 84개 조직 이슈를 개선활동으로 진행하였으며, 핵심가치 실천강화를 위한 다양한 활동도 진행하였습니다. 향후 KT&G Way 실천, 즐거운 일터 구현을 공동 개선과제로 진행하고, 기관(실) 단위의 개별 활동을 수행할 예정입니다.



Roles of CA

Establish a performance-oriented organizational culture through innovation activities carried out by offices

Establish the KT&G Way	Solve the organization's issues	Revitalize communication	Other
Organize core value internalization activities	Organize improvement activities based on survey results	Organize active horizontal and vertical communication activities	Assisting the manager in executing innovation, working with the Young Board and managing corporate culture indicators
Identify examples of dissemination	Identify issues/ select and execute an action plan	Managers' meeting, GWP, etc.	

Seed Effect:

Suppliers



KT&G Imagines a
Win-Win Relationship
with Suppliers

KT&G continuously conducts activities for win-win partnerships. By actively implementing the government's win-win policy, the company is taking steps to create a win-win culture with suppliers and build trust-based partnerships through a variety of win-win activities.

Our Activity

- Strengthening win-win infrastructure
- Win-win programs
- Creating win-win partnerships

Key Figure

Domestic tobacco leaf purchase price (2012~2013)

147.4
billion won

Ratio of continuing contracts with materials suppliers (as of Dec. 2013)

92%

Supply chain financing (early payments for supplies from 2012-2013)

690
billion won

Strengthening Win-Win Infrastructure

Win-Win Programs

Responsible Organization

KT&G installed a supplier management committee for fair and reasonable supplier selection and management. The committee consists of managers of the Materials Department, the SCM Office, the Production Management Office, the Quality Control Office and the Procurement Department. The aim of the committee is to maximize the value of suppliers. The committee confirms supplier qualification evaluations and selects or cancels the selection of suppliers.

Strengthening Infrastructure

KT&G created a process for material supply and procurement through technology-based SRM (supplier relationship management). SRM is a web-based system that shares manufacturing data. Using this system, suppliers are able to manage their businesses as planned by checking KT&G's production plan and material inventory in real time, which helps improve the quality of KT&G's products.

Assistance to Domestic Tobacco Farms

KT&G provides tobacco farmers with assistance through cultivation consulting, technical research, and fundraising. Even though domestic tobacco leaf is twice to three times as expensive as foreign tobacco leaf, the company purchased domestic tobacco leaf worth about 65.1 billion won in 2013. Other than that, the company also contributed about 150 million won to tobacco growers in 2013 to provide them with economic stability.

Customized Consulting for Farms During purchase, targeting 18 shipping areas across the country, KT&G identifies the quality characteristics of farms and provides customized consulting on matters in need of improvement. As part of its consulting service, the company conducts a chemical analysis of tobacco leaves for every farm and gives feedback to help farmers strengthen their abilities.

Consignment Sale on Credit KT&G enforces consignment sale on credit to create a culture of advanced trading. Consignment sale on credit is an advanced form of purchase and sale in which an audit is conducted independently without farmers attending. As of 2013, 430 farms from 8 unions participated in consignment sales on credit.

Contribution paid
to disadvantaged
tobacco farmers

154
million won

Case Study

KT&G's Win-Win Management Activity: "Helping Tobacco Farmers"



KT&G implements outreach activities for tobacco farmers who have labor shortages while harvesting. Since it is difficult to use machines when cultivating tobacco leaves, harvesting and drying are carried out by hand. However, due to a declining and aging farm population, farmers experience serious labor shortages. About 70 employees at Gimcheon Plant, KT&G's materials plant, volunteered in different areas a total of three times. Through the volunteer activities, employees were able to understand the difficulties farmers were having while farmers had the opportunity to learn skills and know-how in produc-

ing high-quality tobacco leaves. By purchasing the entire tobacco production and contributing to farmers' incomes, KT&G demonstrated its sense of responsibility as a domestic tobacco firm. The company's efforts to cooperate with farmers continue through medical check-ups for farmers and the provision of school uniforms to their middle and high-school children.



Building Win-Win Partnerships

Financing KT&G offers various financing plans to support suppliers' financial soundness and stable growth. The company pays its material supplies with 100% cash within 5 business days of the following month, and recommends primary suppliers to pay secondary suppliers with cash. Furthermore, to ensure smooth liquidity during New Year's, year-end and statutory holidays, the company makes early payments to reduce the financial burden on suppliers. When material costs increase, KT&G adjusts the purchase price to work with suppliers through the difficulties and ensures transparency by indexing price adjustment methods.

Implementation of Benefit Sharing System KT&G and its suppliers implement the target cost system to strengthen cost competitiveness and share the benefits. By working with suppliers, the company reduces costs and incorporates 50% of cost savings into suppliers' profits as part of its win-win efforts.

Technology Development Support KT&G supports suppliers' technology development to help strengthen their capabilities and provide long-term driving forces for growth. The company helps suppliers enhance their competencies by rewarding excellent ideas and paving the way for joint research and development for active new product development.



Supplier Sustainability Assessment KT&G assesses subsidiary material suppliers to determine their suitability and strengthens their capabilities. During a supplier assessment, the company not only evaluates the supplier's business management and quality, but also takes into account sustainability aspects such as society and environment. The evaluation items are largely classified into human rights, financial condition, quality and management. If the supplier does not conform to the human rights and financial criteria, then its business relation with KT&G will be terminated. The assessment is not a short-term or temporary process. During an audit conducted 2 years after each assessment, the company checks improvements and measures relative to the previous assessment and prompts the supplier to take improvement measures.

Implementation of Supplier Qualification System KT&G builds long-term business relations with suppliers and attracts stable investments. Strategic partnerships are formed every three years. In 2013, 8 companies completed long-term supplier qualifications. Through the Supplier Qualification System, suppliers can focus on developing production and technology development, while KT&G can secure stable suppliers.



Organizing Education for Win-Win

As part of its win-win partnership efforts, KT&G conducted training on 'Good Sales Activities' to change sales representatives' attitudes. This training was organized and held so that sales employees who are closest to customers could build proper win-win partnerships with customers and change their mind-sets and attitudes.

Special Issue

Win-Win Partnership

Joint Technology

Development with

Suppliers

In rapidly changing and complicated market and technological environments, evolution for survival cannot be achieved by a single company's innovation. Through joint technology development with its suppliers, KT&G increases its corporate value and shares the benefits of growth.

In 2013, by working with the venture firm AT Lab, KT&G became the first Korean company to develop a 'Seamless Aroma Capsule' for cigarette filters and entered into a technology transfer agreement. This capsule contains a mixture of aroma and natural oil covered with a seamless and thin film. When the capsule ruptures from a cigarette filter, it produces a unique taste.

KT&G provided about 400 million won to AT Lab to apply the firm's aroma capsule manufacturing technology for cosmetics to cigarette filters. After 6 months of joint research, the company succeeded in developing the product. This allowed KT&G to independently produce aroma capsules to reduce costs and foreign money, while AT Lab laid the foundation for growth and forays into a market worth billions of won through the buildup of applied technologies. This development remains one of the best practices where two companies created synergy through cooperation and will be the basis of R&D activities for continuous win-win partnerships.

Besides the aroma capsule development, KT&G jointly developed cigarette materials like filters with two other small enterprises, including KPT last year and early this year. Then it applied the development results to its products. The company remains committed to win-win management to grow its business with small and medium enterprises, and will continue related activities.



Ratio of savings against import cost

60%

Estimated annual savings

7 billion won



Seed Effect:

Community



KT&G Realizes
Its Vision of
Love and
Sharing

As the need for corporate social responsibility continues to grow, a company's economic responsibilities including making money and creating jobs, as well as its social responsibilities to communities and the environment have become the essential conditions for sustainable management. To fulfill its philosophy, 'Righteousness, Enlightenment, and Companionship', KT&G has made humble and sincere efforts to the cause. For example, the company supports the growth of non-mainstream culture and arts in a variety of ways and carries out talent-sharing volunteering through which employees make the best use of their talent and personal qualities. To build a society with companionship, the company, as a corporate citizen, will be aiming for sustainable development by fulfilling its social responsibilities.

Our Activity

- Strengthening social contribution infrastructure
- Supporting culture and arts
- Sharing hope with disadvantaged groups
- Fostering future talent
- CSR activities for the public good

Key Figure

Social contribution expenses

52.7
billion won

Hours of social work by employees

25,325
hours

Strengthening Social Contribution Infrastructure

Through the KT&G Way, KT&G has systematically maintained and developed existing social contribution activities and carried out unique social contribution activities such as mecenat activities. Major areas of activity include 'Contribution to Culture and Arts', where the company supports and creates new cultures under the keyword 'Sangsang'; 'Welfare Foundation', the company's happiness network for supporting disadvantaged neighbors; 'Scholarship Foundation' for the nurturing of creative top talent in this global age; and finally, 'Employee Volunteering', which is a talent-sharing activity performed by employees.

Welfare		Value Creation	
Donations & Volunteering (KT&G Way) 	Welfare Foundation (Productive welfare) 	Sangsang Madang (Supporting culture and arts) 	Scholarship Foundation (Fostering next-generation leaders) 
Create a unique donating and volunteering culture through the KT&G Way	KT&G Welfare Foundation implements productive welfare benefits, including supporting our future generation (children and youth)	Through 'Sangsang Madang', the company supports creativity, young artists and provides citizens with diverse cultural benefits.	Implement total-care scholarship business, including providing disadvantaged youth with opportunities to receive stable education

Social Contribution Financing and Management

Instead of company-led donations, KT&G created *Sangsang Fund as part of its donation culture, which encourages employees to voluntarily participate in donations and have a rewarding experience. Currently, 98% of all employees take part in Sangsang Fund, which operates at an annual cost of 3.5 billion won. To efficiently manage the Sangsang Fund, the company created the Donation Application Program and established a donation culture where employees play a leading role. In 2013, to ensure transparency and instill employees with a leadership attitude, the company organized the Fund Management Committee and held workshops in which employees renewed their commitment to social responsibility activities.

Operation of Social Contribution Activity Groups

KT&G's volunteer groups are largely divided into employees' volunteer group called Sangsang Together and college students' volunteer group called Sangsang Volunteer. Through Sangsang Together, employees are directly involved in resolving local community problems and for the purpose of returning corporate earnings to society. The group makes the best use of employees' talent and personality traits. The company also runs Sangsang Volunteer to provide college students interested in volunteering with opportunities to practice sharing.

*Sangsang Fund is a matching grant through which the company matches the donations of employees and contributes an additional amount after converting each hour of employee volunteering into 10,000 won.

Case Study

'Donation Application Program': A new donation culture for practicing sharing

Instead of focusing only on the primary method of monetary donations, KT&G created a new donation culture where donors are allowed to choose an item to donate, a place receiving donations, a donation method. For instance, KT&G introduced the Donation Application Program to streamline the Sangsang Fund. Here is the process of participating in the Donation Application Program: Once a donation suggestion comes in through the KT&G intranet, you can apply for a donation by posing a comment. If more than 200 'Recommend' comments are posted, then the suggestion is adopted. After due diligence is conducted, the amount of donation is determined using the Sangsang Fund. The Donation Application program is especially important because the Sangsang Fund is the source of financing created by employees, allows employees to better incorporate their voice into the program. KT&G expects the program to become a unique part of the company's donation culture, where employees do not merely donate but actively engage in donations.



Donation Application Program Process



Supporting Culture and Arts

KT&G generously supports arts and cultural efforts so that everyone can enjoy culture and arts in everyday life. For instance, through the Sangsang Madang and the Sangsang Art Hall, the company sponsors relatively underfunded arts and cultural areas.

Sangsang Madang

One of KT&G’s mecenat activities and one of the best arts and cultural centers in Korea, Sangsang Madang greets around 1.2 million visitors each year and provides diverse programs, such as performances, exhibitions, festivals, experiences, and culture and arts education.

Business Areas of KT&G
Sangsang Madang



Performance
Band incubating, special performances, rental performances



Cinema
Movie screenings, production, distribution, Cine Lab



Visual Art
Fine art exhibitions, exhibitions of nonmainstream 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 culture talents, creative activities for youths and lectures business

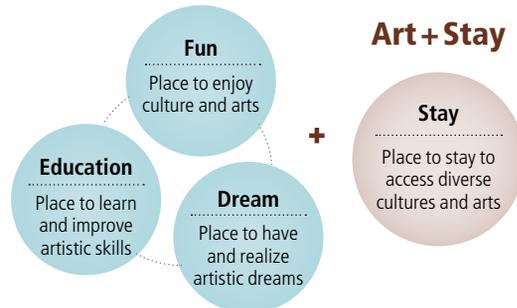


Communication
Citizen-participation programs, events, space tours, community FAM Tour membership and supporters

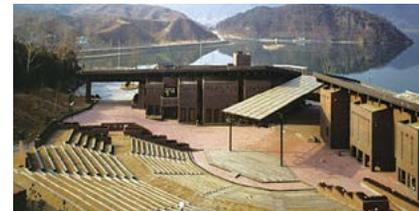
Opened in 2007 near Hongik University, ‘Sangsang Madang Hongdae’ supports emerging creative artists and provides citizens with opportunities to enjoy diverse cultures and arts. In 2011, to extend the opportunities to enjoy culture and arts to other communities, KT&G opened the Sangsang Madang Nonsan by remodeling an abandoned school and started running programs in which a variety of groups so that college students and families can participate.

‘Sangsang Madang Chuncheon’: Multi-Art Space with a mix of nature and culture

Begun as the concept of multi-art space connecting nature and culture, the Sangsang Madang Chuncheon was created to contribute to culture and arts by supporting cultural and artistic creations in hopes to increase opportunities for experience. Aside from experience facilities such as a stage, exhibition hall, lecture rooms and studio, the space is also expected to feature a myriad of amenities. Focused on promoting the public good, the admission fee is reduced, participants in local cultural and arts events keep the space open 24/7, and expands to children’s programs. The Sangsang Madang Chuncheon hires a local workforce with the exception of a few specialized positions to help revitalize the local economy.



Where you stay in an artistic space, meet an artist in yourself, and continue artistic activities.



Sangsang Art Hall

The Sangsang Art Hall is a special performance stage that can accommodate about 120 plays, concerts and musicals each year. Aiming to popularize high culture and elevate pop culture, the art hall selects and presents quality and popular art works to the public. Various domestic and international performances were staged at the Sangsang Art Hall, including ‘Hedwig’, ‘Toxic Avenger’, and ‘Without you’, ‘Finding Kim Jong-wook’, and ‘막돼먹은 영애씨’. The art hall also sponsors avant-garde productions to contribute to the development of performing arts in Korea.

Sharing Hope with Disadvantaged Groups

Through its Welfare Foundation, KT&G actively fulfills one of its business principles, 'Companionship'.

KT&G Welfare Foundation

After forming partnerships with local social service centers and civic groups, KT&G manages 8 Happy Network Welfare centers. Since it views social contribution as a key aspect of business management, the company undertakes social work and health care activities seriously. The company provides aid for disadvantaged people and for facilities and organizations contributing to social welfare and enhances basic social services through medical care for serious diseases.

Car Donations to Social Service Centers KT&G Welfare Foundation has given generous support and love for neglected and disadvantaged people. Among its efforts, KT&G Welfare Foundation is particularly proud of the car donation project for social service centers. Since 2004, the company has donated 100 high-performance and cost-saving passenger cars to underserved areas with poor road access. By 2013, the company has provided 1,000 cars.



Car donation project

Medical Aid Project KT&G Welfare Foundation has provided medical aid across the country and extended the project abroad. In 2013, the foundation performed medical volunteer work in Indonesia, a country with insufficient medical service. Indonesia does not have an adequate health care delivery system or technology to reach out to its entire population, leaving low-income people neglected. The foundation offered examinations and surgical operations to Indonesian residents, who did not receive medical benefits due to their hardships. It gave practical medical help to 30 patients suffering from common diseases such as heart disease and cheilitis. They also visited a nearby orphanage to provide examinations like heart ultrasounds. During this activity, the foundation fulfills the company's business principle of companionship and is expected to improve local residents' health and the company's image.



Medical Aid Project

Fostering Future Talent

Through its Scholarship Foundation, KT&G offers systemic and continuous talent development programs. The company's effort not only present a new vision for the scholarship business, but also shows that the company supports the future of our next-generation talent and is committed to helping Korea provide equal educational opportunities.

KT&G Scholarship Foundation

KT&G Scholarship Foundation undertakes differentiated scholarship projects to resolve the educational attainment gap and provide educationally disadvantaged people with reliable educational opportunities. For example, the foundation implements two Sangsang scholarship programs respectively for high-school students and for college students.

Sangsang Scholarship Programs

High-school Sangsang scholarship recipients

Comprehensive educational support ("Total care") for selected children of socially disadvantaged families who are poor but show excellent academic performance

College Sangsang scholarship recipients

Support for selected students among Sangsang scholarship recipients, who pursue post-secondary education after graduating high school



Sangsang Scholarship Camp

We support a bright future for youth.

KT&G created the Sangsang Scholarship Camp where Sangsang scholarship recipients gather and form a bond. Students who graduated using the Sangsang scholarship, become mentors and give advice about study and life. 260 selected Sangsang scholarship recipients attended the camp in 2013 and offered education on self-directed learning, which they need to realize their dreams. KT&G Scholarship Foundation continues to support talented students and their futures and plans on carrying out a variety of support activities.

Participants' comments



"I am very happy to join the camp today. It was particularly great because I made some new friends. For the next three years, I will work hard as a KT&G Sangsang scholarship recipient. What is my dream? I will soon start to think about that!"

"I gained confidence, 'I can do it too', while attending lectures by successful, eminent guest speakers who overcame their own difficulties when they were younger."

Knowing Our Culture Well In collaboration with the Korean Scholarship Foundation, KT&G runs the Sangsang, Pride of Korea project designed to explore Korean cultural artifacts in Japan. The project is financed by the Sangsang Fund, a funding initiative created voluntarily by KT&G's employees. It is sponsored by the Northeast Asian History Foundation to nurture talent who knows Korean history well and individuals who feel proud about the history.

As a group of Korean citizens, this was created to promote Korea's historical values, 'Sangsang Expedition' performs activities to evoke attention to Korean history and preserve its cultural heritage by going on an expedition overseas and producing promotional content. With the aim of exploring long-forgotten Korean cultural artifacts and historical sites in Korea and abroad, the group serves as a messenger of Korean history and its values by planning trips and producing related content.

Seed Effect:

Government



The government is a very important stakeholder for KT&G, so the company continuously implements activities to share growth and benefits with the government. By always paying its taxes on time, the company contributes to creating a climate of punctuality in tax payments and to the nation's economy. It also fully cooperates with the government's legal and policy-making processes. KT&G will build a collaborative relationship with the government through a wide array of win-win activities.

Our Activity

- Laying the foundation for fair trade
- Contributing to the nation's economy

Key Figure

Amount of contribution to the government

4,100
billion won

Building a Partnership with the Government

Laying the Foundation for Fair Trade

Under its philosophy of Righteousness, 'Enlightenment', and 'Companionship,' KT&G established basic rules for purchasing based on its Code of Ethics to ensure fair transactions. The company guarantees equal participation and opportunity when conducting business with other companies. It also complies with laws relating to fair trade and promotes transparent and fair transactions, building trust and collaborative relationships.

Implementation of Compliance Program (CP) After adopting the Compliance Program, KT&G appointed the Compliance Officer to voluntarily comply with applicable laws and promote the establishment of market order.

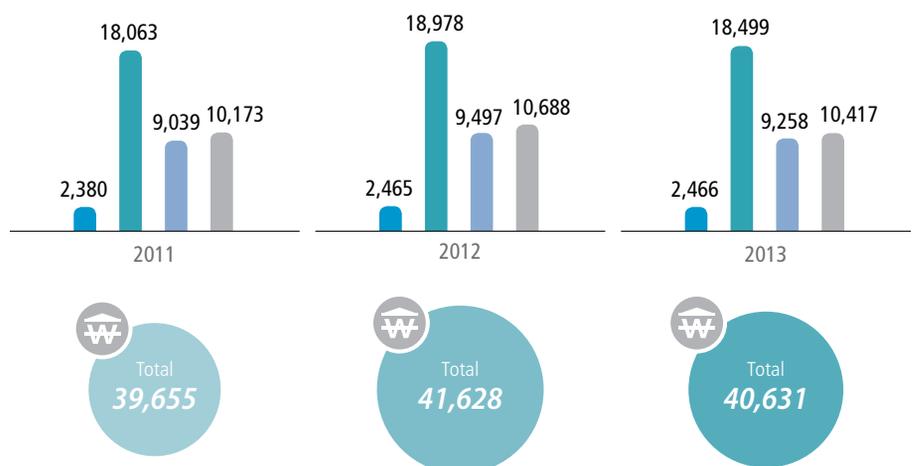
Complying with Fair Trade and Collaboration Laws KT&G complies with applicable laws and regulations to establish fair and horizontal partnerships with suppliers and establish a fair purchase process. The company is particularly committed to the Monopoly Regulation and Fair Trade Act, the Fair Subcontract Transactions Act, and the Act on the Promotion of Collaborative Cooperation between Large and Small to Medium Enterprises.

Contributing to the Nation's Economy

KT&G always pays its taxes on time to maintain its collaborative relationship with the government. By making timely payments for corporate and other taxes, the company contributes to the nation's economy. In 2013, the amount that the company contributed to the government* was 4,100 billion won, including corporate and other taxes.

* Payment of taxes and charges of approximately 154.9 billion won per pack of cigarettes

Tax Payments (Unit: 0.1 billion won) ■ Corporate tax ■ Tobacco consumption tax ■ Education tax ■ Other taxes



* Based on actual tax payments

* Other taxes: Waste charges, National Health Promotion Fund

ESH Report



Environment



Safety



Health

Through environment/safety/health (ESH) management, KT&G creates new value and opportunities to achieve growth and another leap forward. The company runs an integrated environmental management system and mitigates environmental impacts through workplace pollutant discharge/management and through the development of eco-friendly products. In addition, the company exerts leadership in environment/safety/health through proactive and preventive safety risk management, safety accident prevention activities and open communication.

Our Activity

- | | |
|-------------------------------------|--|
| -Environmental management practices | -Implementation of safety and health management |
| -Eco-friendly workplace | -Development of eco-friendly technologies and products |
| -Response to climate change | -Prevention of safety accidents |

Key Figure

Environmental protection expenditure and investment cost

4.4
billion won

Ratio of water recycled

37%

Environmental Management Practices

Environmental Management

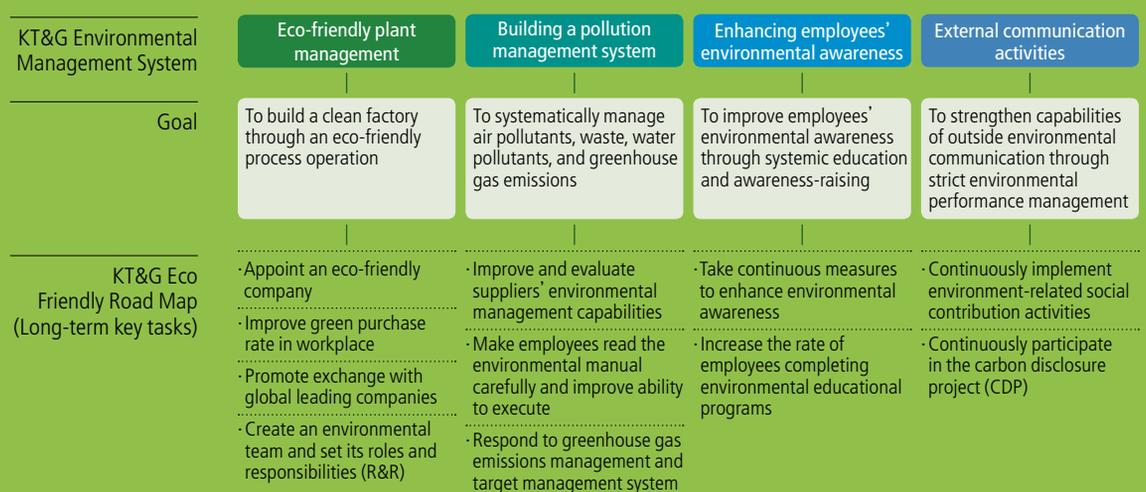
Goals of Environmental Management

To meet growing environmental demand across society and increase its long-term corporate value, KT&G regards environmental management as a social responsibility. To implement integrated and systematic environmental management, the company mitigates environmental impacts throughout the entire process of its business activities and develops/applies various eco-friendly technologies to support society's growth into a green society.

Environmental Management System

Under its environmental management framework, KT&G is taking steps to establish and extend company-wide its environmental management. Major activities that the company selected include managing eco-friendly plants, building a pollution management system, raising employees' environmental awareness and communicating with outside parties. The company takes a long-term perspective in carrying out the aforementioned activities.

KT&G Environmental Management System Chart



Running an Environmental Management Team

To implement environmental management, manage workplace environments and mitigate greenhouse gas emissions throughout the company, KT&G created Green Business Management Team to be responsible for strict environmental performance management.

Climate Change Risk Management

Climate change caused by global warning increases uncertainty in a business environment and affects the entire business. KT&G responds actively to the government's climate change-related policies and regulations and manages climate change risks by carrying out GHG mitigation activities, developing eco-friendly products, and proactively responding to climate change-related initiatives.

Developing a Greenhouse Gas Inventory

After being designated as a target company for the GHG & Energy Target Management System, KT&G is building a GHG inventory through which to identify, record and report all GHG emissions arising from business activities. To effectively develop inventory, the company set up a close collaborative process among teams and officers of related teams and organizations, including strategy, sales, manufacturing, materials and R&D. The company also created a TFT to conduct comprehensive searches of target areas for emission aggregation and define a method for aggregating activity data. By appointing officers for different areas and assigning roles, the company tries to increase efficiency in operation. Moreover, to ensure effective use of the inventory, KT&G conducts job training and benchmarking of leading companies under the target management system.

Response to Climate Change

Direct/indirect greenhouse gas emissions (Unit: tCO₂)



Greenhouse Gas and Energy Management

Response to greenhouse gas and energy regulations KT&G created summer/winter emergency power saving scenarios to establish a corporate response system and support stable power supply in uncertain business conditions, such as national power supply problems. During peak hours from 10AM to 11 AM and 2PM to 5 PM, the company strengthened its response capabilities by stopping several systems including refrigerators/heaters, air-conditioners, and lighting fixtures, and running sequential control of other equipment and emergency self-generators, depending on the circumstances. Last summer, in 2013, during power-saving periods, the company achieved 29.1% saving rate, 10% higher than the average mandatory saving rate, saving 124MWh power, through the adjustment of working hours and the use of holidays.

Energy consumption and GHG emissions To manage greenhouse gas emissions and energy in hopes to actively engage in the government’s green growth policy, KT&G classified energy used at four plants into LNG and electricity to aggregate and manage power consumption. In 2012, as plant streamlining was completed, the production system at each plant entered the stabilization stage. Since then, energy consumption and GHG emissions have steadily declined. As part of its energy-saving efforts, the company is expected to expedite GHG emissions reduction by conducting an energy assessment of each plant.

Plant energy assessment To push forward the efficient energy use project, KT&G worked with an outside expert agency to conduct an energy assessment of each plant. Targeting heat-emitting/transporting, power and electrical equipment running at plants, the company assessed operating efficiency compared with input energy, analyzed energy loss and developed improvement measures to create several projects. Under its thorough plan, the company is devoting itself to its energy conservation business. Once all its projects are successfully executed, the total energy savings rate is expected to reach 8.9%.

Case Study

Implementing an efficient energy use project

KT&G is actively involved in the government’s energy policy efforts, including the Energy Use Rationalization Act and the Low Carbon Green Growth Framework Act. In particular, the company undertakes efficient energy use activities that reduce manufacturing costs by mitigating energy losses and improving efficiency.

Current status After conducting energy assessments of four manufacturing plants in Korea, the company developed a total of 42 projects, and is currently implementing the efficient energy use project.

Assessment results

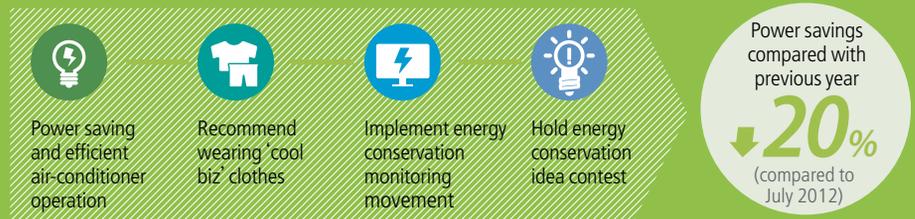
Plant	Major improvements	Number of improvements	Ratio of savings against total energy consumption (%)	Amount of savings (million won per year)
Sintanjin	‘Adoption of a cold storage system’, ‘Replacement of a high-efficiency turbo refrigerator’, etc.	15	10.0	1,669
Yeongju	‘Recovery of re-evaporated steam in a boiler condensate tank’ and recycling high-pressure steam’, etc.	10	5.7	503
Gwangju	Improving operation of an air compressor and air dryer, etc.	9	12.5	357
Cheonan	Recovery of waste heat from an air pollution prevention facility, etc.	8	8.8	415

Plan The company is expected to complete 30 cases of equipment improvements and 12 cases of adoptions and equipment replacements. It will conduct activities to promote its efficient energy use project in the manufacturing area and improve the company’s image.

Total number of improvements **42** cases Ratio of savings against total energy consumption **8.9** % Amount of savings **2.9** billion won

Reinforcing Eco-Friendly Communication

Energy Awareness Campaign Under the slogan 'This Summer, KT&G's Good Wind', KT&G implemented company-wide intensive energy conservation measures to overcome a national energy crisis. It reduced its power consumption in the offices by 15%. When compared with the previous year, it reached an exceeded last years' target of 14% reduction in manufacturing plants. During peak hours and lunch breaks, the company implemented energy conservation efforts and efficient air-conditioner operation. In the offices, some or all of lights by the windows, in the corridors and washrooms were turned off, or alternately turned on. KT&G also launched the energy conservation monitoring movement with a 'power-saving messenger' in each business unit. The company also recommended wearing "Cool-Biz" clothes such as shorts and tie-less suits and held an energy conservation idea contest, leading the national energy saving movement.



Workplace energy consumption

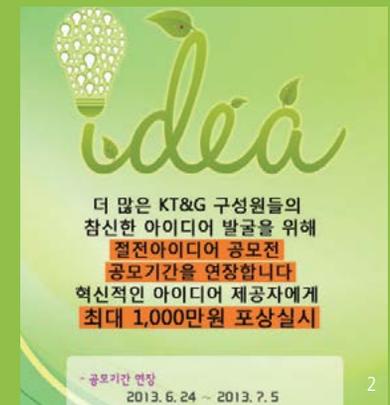
(Unit: TJ)

■ LNG ■ Electricity



Education on Carbon Management KT&G provides education to emphasize the importance of climate change responses and raise employees' awareness of company-wide greenhouse gas reduction. The company held a quarterly 'Greenhouse Gas/Energy KT&G Officer Workshop' for KT&G energy officers in manufacturing plants, where it shared best practices, exchanged technologies, and conducted benchmarking of each other. As part of the nation's power supply stabilization efforts during the summer, the company carried out in-house education/training on energy conservation.

Participation in Carbon Disclosure Project The Carbon Disclosure Project (CDP) is a climate change response project being implemented in over 60 countries around the world. Since 2010, KT&G has disclosed its GHG emissions and relevant strategy through the CDP.



1. Employees wearing KT&G's Cool Biz clothes
2. Company-wide energy conservation idea contest (organized by the Department of Benefits and Welfare)
3. Sangsang Volunteer's Energy Awareness Campaign

Group-wide Integrated Logistics Operation

Since the second half of 2012, KT&G has worked with KGC Ginseng Corporation to implement integrated logistics operation in hopes to create synergy in logistics among the group's affiliated companies and minimize GHG emissions. Through the group's integrated logistics operation, the company not only lowers shipping costs but also reduces GHG emissions occurring during the shipping stage through increased efficiency.

Eco-Friendly Technologies and Products

Development of Eco-Friendly Technologies and Products

KT&G reduces resource consumption and greenhouse gas emissions by developing eco-friendly materials and technologies. To increase the recycling rates of products, the company makes products by taking into account nature and the environment and improves the environmental friendliness of products by reducing resource consumption. It plans on developing and applying materials that become decomposed faster than regular vinyl and mitigate effects on nature.

Improvement of cigarette packing material (inner liner material: aluminum + paper ▶ paper)

Since tobacco is very sensitive to water, we have used aluminum to prevent water in cigarette packs from evaporating. However, aluminum foil paper cannot be recycled, therefore, instead of lining a cigarette pack with aluminum foil, the company developed and began to apply an eco-friendly, recyclable paper inner liner. The new inner liner does not affect product quality and is recyclable since it is made of 100% pulp.

Aluminum

↓ 850 ton



9,200 million collagens

Greenhouse gas

↓ 2,000 tCO₂



Equal to the amount of carbon dioxide emitted by a million cars

Improvement of carton packaging material (hard case ▶ soft case)

To reduce the use of vinyl, a leading cause of environmental pollution, we replaced the vinyl-covered hard case with a vinyl-free soft case. We also reduced the use of pulp by applying the soft case, which consumes less pulp than the hard case. Additionally, we developed the technology of reusing pulp, a major casing material, to cut down on resource use.

Pulp

↓ 1,900 ton



The effect of planting 37,000 30-year pines

Greenhouse gas

↓ 4,800 tCO₂



Equal to the amount of carbon dioxide emitted by 2.2 million cars

Case Study

Development of eco-friendly water-based ink for filter tips

As part of its company-wide eco-friendly policy, KT&G developed a filter tip that uses eco-friendly ink. In 2011, by working with related teams and companies, the company began to develop water-based ink printing technology, which would dramatically reduce the content of VOCs (volatile organic compounds), and developed and applied the ink by phases. As a result of its R&D efforts, in 2013, the company successfully developed the eco-friendly water-based ink technology and has applied and commercialized the technology for all products. Furthermore, KT&G cemented its leadership in eco-friendly technology by completing Eco-labeling and a patent application for its eco-friendly water-based ink.

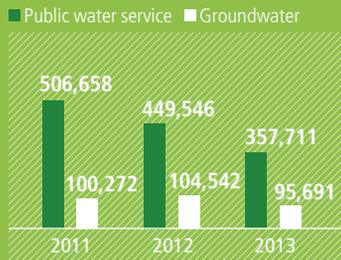


Technical characteristics | With water-based ink printing technology reducing VOCs dramatically, water-soluble ink that meets the Eco-label standard (less than 25% of VOCs) is used to print filter tips.



Creating an Eco-Friendly Workplace

Water consumption (Unit: Ton)



Recycling coolant of air compressor

KT&G carries out a range of activities to mitigate environmental impacts on local communities and ecosystems around its plants and create eco-friendly workplaces.

Water Resource Management

KT&G uses public water services to clean up the workplace for quality and hygiene purposes, eliminate odor from the workplace and the use of coolants. To ensure stable water supply during the production process, which consumes a lot of water, and to reduce the risk of water shortages, the company conducts water management. It has continuously cut down on water use by installing water-saving equipment or replacing water sources with industrial-use water or groundwater.

Recycling water coolant To use as little groundwater as possible, KT&G has recycled coolants through process improvements. By connecting pipe leakage with another cooler coolant to the underground pipe, the company reuses 100% of coolant and saves energy, while contributing to the quality of compressor air quality through sufficient coolant supply.

Wastewater Management

KT&G tries to minimize environmental impacts caused by wastewater through water discharge management. The company restricts all water pollutants to the legal limits and manages wastewater by continuously improving its processes.

Improving method for toasting process Through the improvement of the toasting process, KT&G controls wastewater discharge. By directing wastewater downward after the toasting operation, the company decreases wastewater output from the toasting process and applies the mass balance to optimize water levels in the process.

Improving wastewater piping in product cleaning room When an adhesive (PVAc) is used in cigarette packing material, its viscosity leads to the buildup of waste in the wastewater pipe and often causes a reverse flow. To ensure effective management, the company made improvements to the wastewater piping.

Water Management

To reduce the amount of waste arising from the workplace, KT&G established a thorough plan for waste management. It reduces the consumption of raw materials by developing a technology by reducing by-product from the manufacturing process. Also, using technology to recycle materials separated from a process, the company not only increases by-product recycling rates but also enhances product quality.



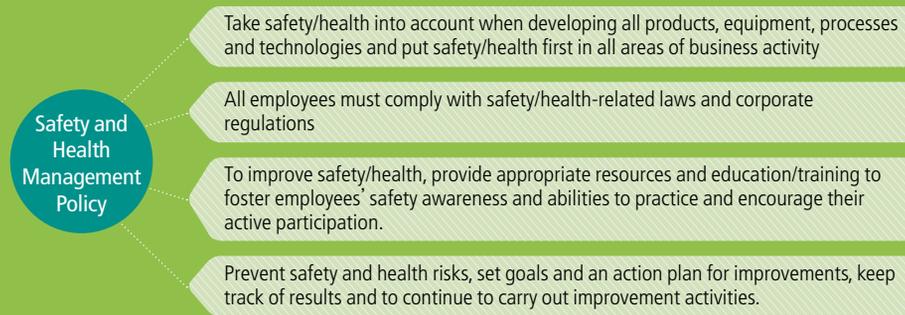
Noise Management

KT&G creates a comfortable work environment by controlling noise levels in the workplace. To reduce workplace noise, the company established a mitigation plan for workplaces and has systematically performed related activities. The company installed mufflers in the tobacco transportation line and in the air supply part of the box packing room to prevent noise. It also takes noise-mitigating measures such as noise absorption/sealing inside machinery. Other activities include installing covers on areas with high noise levels around machines and improving drive shaft couplings to reduce noise arising from manufacturing equipment.

Implementation of Safety and Health Management

Safety and Health Management

KT&G recognizes safety and health as basic elements of business management and conducts proactive safety and health management activities. Under its safety and health management policy, the company performs continuous safety and health improvements and prevents safety accidents. Its efforts also include creating a safe and healthy work environment.



Conducting Risk Assessments

KT&G conducts a risk assessment to evaluate hazards and risks in the workplace to prevent occupational accidents caused by such hazards/risks to minimize safety accidents. The company also organizes response activities based on assessment results and removes root causes of safety accidents through continuous activities and monitoring. Until now, the company has conducted risk assessments targeting five plants. Through the assessments, KT&G has not only reduced direct/indirect losses and damages from accidents, but it has increased employee morale and productivity by creating a safe and healthy workplace.

Risk Assessment Process



Convention to pledge compliance with safety rules

Enhancing Safety Awareness

KT&G organizes a wide range of activities to raise safety awareness and reinforce a safety mindset.

Safety education and training Under the Occupational Safety and Health Act, the company appoints a safety officer in each workplace and communicates the safety rules and other important information through education. Aside from the systemic education for different positions, including a supervisor, safety manager, full-time employees and interns, KT&G also provides each team with safety knowledge and visits for training to prevent occupational accidents. It also analyzes occupational accidents by type, publishes a casebook on occupational accidents, produces and hands out lesson plans for team-level training to prevent similar accidents from the past to happen again.

Active safety communication We hold four Occupational Safety and Health Committee meetings each year to discuss important issues and improvement measures related to safety/health. To raise safety awareness, all employees agree to the pledge of safety and hold a convention where they pledge to observe the safety rules. At the convention, all employees and the company's suppliers attend and take an oath. Through the meeting, the company shares an advanced safety culture with its suppliers.

Prevention of Safety Accidents

Safety Inspection Focused on Prevention

By regularly conducting joint safety/health inspections, KT&G finds out risks and makes improvements to create a safer workplace. At least once each quarter, the company carries out a joint labor-management and company-supplier inspection. During holidays longer than 4 days, such as summer vacations, Chuseok, and New Year's holidays, the company performs special safety inspections. During the inspection, the electrical safety officer, fire safety officer, dangerous articles safety officer, occupational safety officer and health officer all participate in strict inspection activities.

During periods of time with high safety risks, the company organizes the following preventive activities: 1) reinforce fire prevention during the dry winter and spring days; 2) conduct advance inspection before holiday seasons or long-term holidays; 3) seek advance safety measures to prevent car accidents and other accidents during sports events; and 4) disseminate examples of occupational accidents and conduct self-inspection.

Protective Equipment Inspection and Instructions

KT&G tries to prevent safety accidents by inspecting protective equipment and giving instructions how to correctly wear it. The company gives a warning to any employee not wearing protective equipment, regularly checks of protective equipment and recommends employees to wear it. The company also continues to monitor employees' health. For instance, if any employee is found to have a medical condition during a medical check-up, the company keeps track of the person's condition.

Fire Prevention and Security Management Activities

KT&G performs fire protection and prevention facility management to prevent fires. It conducts safety self-inspection and has its fire management activities checked by outside organizations, such as a fire station, the Fire Insurance Association and the Ministry of Labor. The company also endeavors to strengthen early response and on-site response capabilities through fire protection training such as joint fire-fighting training and emergency evacuation training. Moreover, to strengthen its security, KT&G designates and manages off-limits areas and runs a fingerprint recognition system. Its strict security enforcement efforts also include the adoption of a system for authorizing advance access to plants.

Case Study

Company cements its leadership in safety and health management after receiving the National Emergency Management Agency (NEMA) Director Award.



The government's recent push for a government project related to safety increased the importance of safety/health activities. Through proactive safety/health activities, KT&G prevents occupational accidents and improves safety. The company conducts risk assessments and establishes a safety accident prevention plan to prevent accidents. For its efforts, the company received the NEMA Director award at the 12th Korea Safety Awards.

The Korea Safety Awards is a prestigious event where awards are only given to organizations, which have contributed to increasing value in safety areas and spreading an autonomous safety culture. By receiving this award, KT&G received an exemption from an in-depth fire facility inspection for two years and cemented its leadership in safety management.



Appendix

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Economic Performance

Board of Directors Meetings

No.	Date	Agenda	Vote	Attendees
1	Jan. 9	Resolution #1: Organization and authorization of the CEO candidate nomination committee (proposal)	Attendees	Outside: 8 [Outside] board of directors
2	Jan. 17	Resolution #1: The 26 th financial statements, comprehensive income statement (consolidated and separate)	Proposal resolved	Outside: 8 / Executive: 1
		Resolution #2: The 26 th statement of appropriation of retained earnings	Proposal resolved	
		Resolution #3: The 26 th sales report	Proposal resolved	
		Report #1: The operating status of the internal accounting management system	Proposal received	
		Report #2: Results of evaluation of the internal accounting management system	Proposal received	
3	Jan. 23	Report #1: Results of CEO nomination	Proposal received	Outside: 8 / Executive: 1
		Resolution #1: Execution of joint liability with Andong Central Xii (proposal)	Proposal resolved	
		Resolution #2: Organization of the outside director nomination committee (proposal)	Resolved	
4	Feb. 6	Resolution #1: Determination of annual compensation limits for directors (proposal)	Proposal resolved	Outside: 8 / [Outside] board of directors
			Proposal resolved	
5	Feb. 6	Resolution #1: Amendments to the Articles of Incorporation (proposal)	Proposal resolved	Outside: 8 / Executive: 1
		Report #1: Results of outside director nomination	Proposal received	
		Resolution #2: Nomination for the audit committee members (proposal)	Proposal resolved	
		Resolution #3: Holding the 26 th general meeting of shareholders (proposal)	Proposal resolved	
6	Mar. 14	Resolution #1: Appointment of the Chairman of the board of directors (proposal)	Resolved	Outside: 8 / Executive: 1
		Resolution #2: Appointment of members and the Chairs of committees under the board (proposal)	Resolved	
		Resolution #3: Amendment to the Board of Directors Rules to change the name of a committee under the board (proposal)	Proposal resolved	
7	Apr. 17	Report #1: The 27 th (2013) Q1 settlement	Proposal received	Outside: 7 / Executive: 1
			Proposal resolved	
8	May. 20	Resolution #1: Plan for participation of KGC Life & Gin in capital increase (proposal)	Proposal resolved	Outside: 8 / Executive: 1
9	Jul. 17	Report #1: The 27 th (2013) first-half settlement	Proposal received	Outside: 8 / Executive: 1
10	Oct. 17	Report #1: The 27 th (2013) Q3 settlement	Proposal received	Outside: 8 / Executive: 1
11	Dec. 13	Report #1: Long-term and 2014 business plans	Proposal received	Outside: 8 / Executive: 1
		Resolution #1: 2014 budget (proposal)	Proposal resolved	
		Resolution #2: Plan for participation of KGC Life & Gin in capital increase (proposal)	Proposal resolved	
		Resolution #3: Plan for participation of Jilin Hanzheng Ginseng in capital increase (proposal)	Proposal resolved	
		Resolution #4: 2013 Board of Directors activity evaluation plan (proposal)	Proposal resolved	

Income Statement (Consolidated)

(Unit : 0.1 billion won)

Classification	2011	2012	2013
Non-current assets	27,610	28,382	28,864
Current assets	35,154	39,578	41,886
Total assets	62,764	67,960	70,750
Equity capital	9,550	9,550	9,550
Treasury shares	-3,435	-4,491	-3,391
Gain on sale of treasury shares	4,859	4,920	4,920
Other capital surplus	53	-46	-46
Reserve	26,633	30,111	33,688
Retained earnings	10,221	9,764	8,028
지배기업소유주지분	47,881	50,909	52,750
비지배 지분	969	1,035	905
Total equity	48,851	51,944	53,655
Non-current liabilities	3,921	5,038	5,272
Current liabilities	9,992	10,977	11,822
Total liabilities	13,913	16,015	17,095
Total equity and liabilities	62,674	67,960	70,750

Statement of Financial Position (Consolidated)

(Unit : 0.1 billion won)

Classification	2011	2012	2013
Sales	37,230	39,847	38,217
Cost of sales	16,076	17,408	16,886
Gross profit	21,154	22,439	21,331
Operating expenses	10,250	12,079	11,197
Profit from operations	10,903	10,359	10,133
Net finance income	303	-480	-1,487
Profit before income taxes	378	305	141
Income tax expenses	11,611	10,224	8,819
Profit for the period	3,441	2,973	3,226
Earnings per share	8,169	7,251	5,593
Other comprehensive income (expenses)	-794	-298	128
Total comprehensive income	7,376	6,953	5,721

Government Subsidies

KT&G benefits from economic incentives through government subsidies.

(Unit: Million won)

Classification	2011	2012	2013
Tax credit for temporary investment	1,207	728	798
Tax credit for research manpower development and facilities investment	93	102	105
Tax credit for productivity enhancement/specific facilities investment	146	0	0
Tax credit for environmental conservation facility investment	139	0	0
Tax credit for energy-saving investment	62	20	0
Tax credit for research and manpower development expenses	414	368	371

Sales of Key Brands Overseas

(Unit: 1,000 dollars)

Brand	2011	2012	2013
ESSE	324,675	404,484	347,331
PINE	120,919	141,137	51,272
CIMA	42,734	22,929	5,061
ZEST	45,216	11,212	4,513
PLEASURE	35,083	2,719	-

Sales of Key Brands in Korea

(Unit: Million won)

Brand	2011	2012	2013
ESSE	861,358	905,057	905,859
THE ONE	228,886	243,036	233,188
RAISON	159,314	180,835	187,254
BOHEM	67,288	88,477	112,707
THIS PLUS	105,991	110,193	101,944

Social Performance

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Employees

KT&G does not tolerate discrimination in working conditions based on nationality, gender, religious faith, or social class and ensures fair treatment for all. The company complies with the Labor Standards Act and the regulations of the International Labor Organization and strictly prohibits child and forced labor according to applicable law. As of late 2013, there were no reports of forced labor or prohibited labor practices at both domestic and international plants.

Classification	Unit	2011	2012	2013
Number of employees	Person	4,298	4,338	4,235
Number of women employees	Person	438	462	447
Percentage of full-time employees	%	95.7	95.7	96.9
Number of new employees	Person	151	126	47
Percentage of women employees among new employees	%	17.9	12.7	12.8
Turnover rate	%	1	0.95	0.59
Number of retirees (male)	Person	152	36	21
Number of retirees (female)	Person	9	5	4
Number of employees with disabilities	Person	141	136	139

Employee Education

KT&G provides a variety of capability development programs to foster talent equipped with world-class capabilities.

Classification	Unit	2011	2012	2013
Number of people who completed education	Person	23,779	29,869	24,136
Education and training expenses	Million won	5,242	5,045	4,762
Number of education sessions per person (number of people who completed / number of employees)	%	5.53	6.89	5.70

Strategy and Leadership Programs

KT&G focuses on developing management leaders, who will lead change and innovation in the organization according to its human resources development strategy. In addition, the company works with its departments to offer educational programs to solve a variety of problems at work.

(Unit: 0.1 billion won)

Classification	2011	2012	2013
KT&G Way dissemination	724	3,940	373
Executive seminar	664	243	237
Executive education by outside organization	13	4	10
Headquarter directors seminar	226	202	193
New deputy directors	30	16	-*
In-house academy	74	40	34
New branch managers	22	-*	8
Marketing academy	71	42	26

*Not carried out due to the absence of the person in question

Human Rights Protection Efforts

Every year, KT&G organizes an hour-long session on sexual harassment and prevention education for all employees, including full-time employees, to enhance the company's capabilities by creating a workplace free of sexual harassment. In accordance with the Labor Standards Act, the Convention Concerning the Prohibition and Immediate Actions toward the Elimination of the Worst Forms of Child Labour of the International Labour Organization (ILO), the company strictly prohibits all child labor and forced labor.

Classification	Unit	2011	2012	* 2013
Hours of sexual harassment prevention education	Hour	4,298	4,338	5,647
Number of sexual harassment prevention education participants	Person	4,298	4,338	4,235

*In 2013, sexual harassment prevention education was carried out for 1 hour and 2 minutes.

Operation of Labor-Management Council

85% of KT&G's employees are members of the labor union. According to the collective agreement, special meetings are held every quarter or whenever necessary when there are important changes to the working conditions, occupational safety and accident compensation are promptly notified. During the report period, there were no labor disputes or damages.

Eligibility	All employees of grade 3 or lower, manager-level or lower-level researchers, seasonal employees of Gimcheon plant		
Number of members	3614 full-time employees / 83 part-time employees	Affiliated organization	Federation of Korean Trade Unions
Full-time personnel	8 people in HQ's labor union	Organizational structure	26 branches
Key discussion topics	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 or improvement of processes		

Handling Employee Grievances

The company is attentive to their complaints or suggestions to create a culture of respect and communication. Aside from employees' personal problems, the Ombudsman Committee processes work-related grievances and the headquarters reviews them, and the grievances are incorporated into the employee staffing process.

(Unit: Case)

Type	2011	2012	2013
Number of complaints	19	11	10
Number of grievances resolved	10	10	6

Number of Disciplinary Actions due to Improper Conduct

(Unit: Case)

Type	* 2011	2012	2013
Dismissal	-	-	1
Suspension	5	6	2
Reduction in salary	7	5	6
Warning, etc.	7	7	7

*Reason for the discrepancy between the number of 2011 disciplinary actions and the reported data two years ago : The data reported two years ago reflected the details of disciplinary actions under review rather than final actions.

Special Medical Check-ups

(Unit: Person)

Classification	Description	2011	2012	2013
Persons eligible for special check-ups	Noise	617	612	721
	Organic solvent	0	267	400
	Ionization radiation	5	2	2
Results of special check-ups	Persons requiring attention for hearing problems	137	123	131
	Persons suspected of other diseases	-	1	1

Maternity Protection Activities

To help resolve problems associated with low birth rates nationwide, KT&G increases maternity and parental leave benefits to reduce financial burdens on working parents. According to the legal labor standards, the company offers pregnant female employees 90-day post-delivery leave, 3-day leave for new-father employees, and 1-year parental leave for employees with children younger than eight years old. The rate of those who return to work after parental leave and the rate of those who work over 12 months after return are all 100%.

Classification	Unit	2011	2012	2013
Those who use parental leave	Person	9	9	13
Rate of returns after leave	%	100	100	100
Rate of those who work over 12 months after return	%	100	100	100

Amounts of Social Contributions

KT&G plans on establishing long-term social contribution goals and gradually increasing investment in social contributions

Classification	Unit	2011	2012	2013
Social contribution expenditure	0.1 billion won	504	551	527
Ratio of social contributions to sales	%	2.0	2.0	2.2

* According to the Federation of Korean Industries report, the average ratio of a Korean company's social contribution expenditure to total sales is 0.24% (as of 2010).

Amount of Social Contribution by Item

(Unit: 0.1 billion won)

Classification	2011	2012	2013
Welfare Foundation	161	131	105
Scholarship Foundation	109	154	37
Culture and art	166	131	257
Employee donation and volunteering	20	38	42
Social responsibility projects	48	98	99

* Reason for the discrepancy between the 2011 culture and art cost and the reported data two years ago: Contribution items are sub-divided into cultural contributions and social responsibility projects, and the existing sports contribution activities were transferred to the subsidiary company Ginseng Corporation as of October 1, 2010.

Operating Status of Scholarship Foundation

(Unit – Million won)

Classification	2011	2012	2013
Sangsang scholarship project (high school students)	464	1,366	2,231
Scholarship for Korean graduate students	162	160	171
Scholarship for Korean students studying overseas	239	183	142
Scholarship for foreign students studying in Korea	309	22	-
Special scholarship projects	96	-	-
Funding of research activities	68	-	-
Other expenses	187	151	165

Environmental Performance

Water Use Data

(Unit: Ton)

Plant	2011*		2012		2013	
	Public water service	Groundwater	Public water service	Groundwater	Public water service	Groundwater
Sintanjin	162,820	43,136	181,128	44,068	134,323	42,361
Yeongju	49,121	57,136	65,005	60,474	67,110	53,330
Gwangju	156,114	0	153,478	0	122,142	0
Cheonan	36,369	0	32,366	0	34,136	-
Wonju	102,234	0	17,569	0	0	0
Total	506,658	100,272	449,546	104,542	357,711	95,691

*Reason for the discrepancy between the 2011 water use and the reported data two years ago: The estimated data generation date was changed to the water use request date

Wastewater Discharge Data

(Unit: Ton)

Plant	2011*	2012	2013
Sintanjin	54,436	50,508	46,346
Yeongju	27,900	28,676	28,528
Gwangju	41,486	40,684	49,369
Cheonan	0	0	0
Wonju	70,509	0	0
Total	194,331	119,868	124,243

*Reason for the discrepancy between the 2011 wastewater discharge and the reported data two years ago: The data generation method was changed from wastewater inflow to wastewater discharge.

Effluent Quality Data

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

Data	Limit	PH	BOD(PPM)	COD(PPM)	SS(PPM)	N-H(PPM)		TN(PPM)	TP(PPM)
						Mineral oils 1 or lower	Animal/vegetable oils 5 or lower		
2011	Sintanjin	7.9	6.5	11.1	7.6	0.3	0.6	19.1	0.1
	Yeongju	7.2	7.7	13.3	10.1	0.4	0.3	7.7	0.1
	Gwangju	7.2	1.9	4.5	3.3	0.4	0.0	4.6	0.6
	Cheonan	0	0	0	0	0	0	0	0
	Wonju	7.0	1.5	5.8	3.7	0.0	0.7	7.9	0.5
2012	Sintanjin	7.2	8.7	17.2	16.8	0.3	0.5	19.8	0.3
	Yeongju	7.3	6.9	13.1	5.9	0.4	0.2	9.9	0.1
	Gwangju	7.1	2.4	7.4	6.9	0.3	0.0	5.7	1.3
	Cheonan	0	0	0	0	0	0	0	0
	Wonju	0	0	0	0	0	0	0	0
2013	Sintanjin	7.1	4.8	13.5	6.2	0.5	0.4	3.5	0.1
	Yeongju	7.4	3.7	11.7	4.5	0.2	0.1	7.8	1.0
	Gwangju	6.9	1.9	5.6	9.2	0.3	0.0	9.0	1.0
	Cheonan	0	0	0	0	0	0	0	0
	Wonju	0	0	0	0	0	0	0	0

Material Use Data

Classification	Unit	2011	2012	2013
Tobacco leaf consumption	Ton	50,689	51,249	43,008

Waste Discharge Data

KT&G establishes a strict reduction plan and restricts the generation of waste from plants. Using the technology of recycling materials separated from the process, the company increases the recycling rate of by-product and contributes to improving product quality.

(Unit: Kg)

Classification	2011*	2012	2013
Tobacco powder	544,358	691,547	441,064
Waste synthetic resin	758,239	929,473	1,026,606
Waste synthetic fibers	258,380	447,690	317,420
Sludge	207,860	346,640	344,230
Other general flammables	309,030	472,594	505,246
Waste synthetic resin (plastic)	139,897	153,240	124,670
Other	220,606	453,460	319,360

*Reason for the discrepancy between the 2011 waste discharge and the reported data two years ago: The data generation method was changed from in-house aggregation method to "All Baro" system.

Energy Consumption and Greenhouse Gas Emissions

To actively engage in the government's green growth policy as a designated company of the Greenhouse Gas and Energy Target Management System, KT&G classified energy used at four plants into LNG and electricity to aggregate power consumption. Based on the results, the company measures and manages GHG emissions.

Classification	Unit	2011*	2012	2013	
Energy consumption	LNG	472.07	464.08	398.19	
	Electricity	TJ	923.53	874.50	784.58
	Total		1,395.60	1,338.58	1,182.77
Greenhouse gas emissions	Scope1		24,902	23,885	20,494
	Scope2	tCO ₂	44,854	42,472	38,105
	Total		69,756	66,358	58,599

*Reason for the discrepancy between the 2011 energy consumption and the reported data two years ago: Data re-generated through advanced management.

Occupational Safety and Health Data

Classification	Unit	2011	2012	2013
Number of work-related accidents (victims)	Person	2	5	6
Absence rate	%	0.008	0.029	0.034
Number of work loss days	Day	91	359	467
Accident rate	%	0.04	0.1	0.11

UNGC Principle

Support for UN Global Compact

KT&G has publicly supported the UN Global Compact Principles. The UN has asked companies to comply with the 10 universally accepted principles in the areas of human rights, labor, environment and anti-corruption by supporting the UNGC.

Since joining the UN Global Compact on March 2012, KT&G has respected human rights and basic labor rights, it has fulfilled its responsibilities to cope with the global environmental crisis, and actively engaged in monitoring and management activities to eliminate unethical practices. To fulfill and comply with the UNGC 10 Principles, the company pledges to continue its related programs and monitoring activities.

UN Global Compact Principles and Related Activities

Classification	Principle	Related Activities	Result (GRI Page)
Human Rights	1. Businesses should support and respect the protection of internationally proclaimed human rights; and	<ul style="list-style-type: none"> · Comply with International Labor Organization rules and the UN Global Compact principles 	61 →
	2. Businesses should support and respect the protection of international proclaimed human rights; and	<ul style="list-style-type: none"> · Conduct sexual harassment prevention and human rights-related education · Implement employee benefits plans for education on work and life 	33 →
Labor	3. Businesses should support and respect the protection of international proclaimed human rights; and	<ul style="list-style-type: none"> · Manage the labor union · Hold labor-management council meetings 	
	4. The elimination of all forms of forced and compulsory labour	<ul style="list-style-type: none"> · Comply with International Labor Organization rules and the UN Global Compact principles 	
	5. The effective abolition of child labour; and		60-61 →
	6. The elimination of discrimination in respect of employment and occupation	<ul style="list-style-type: none"> · Prepare an internal anti-sexism and anti-discrimination policy · Prohibit gender-based wage discrimination · Hire employees from various classes 	
Environment	7. Businesses should support a precautionary approach to environmental challenges	<ul style="list-style-type: none"> · Develop a greenhouse gas inventory · Strengthen eco-friendly communication · Water resource management 	
	8. Undertake initiatives to promote greater environmental responsibility; and	<ul style="list-style-type: none"> · Create an eco-friendly workplace 	49-53 →
	9. Encourage the development and diffusion of environmentally friendly technologies	<ul style="list-style-type: none"> · Develop eco-friendly technologies and products 	
Anti-corruption	10. Businesses should work against corruption in all its forms, including extortion and bribery	<ul style="list-style-type: none"> · Manage an ethical management organization · Reinforce ethical management education · Assess ethical management status 	10-11 →

Third Party Assurance

Foreword

DNV Certification Co., Ltd. (“DNV”) was commissioned by KT&G Co., Ltd. (KT&G) to conduct an assurance of the 2012/13 Sustainability Report (“Report”). The assurance focuses on the business and report processes related to the data provided in the Report.

KT&G is responsible for the collection, analysis and aggregation to report all the of data contained in the Report. The assurance was carried out based on the assumption that the data and information provided to DNV are complete, adequate, and true. Readers of KT&G’s Report are the company’s stakeholders.

Scope of Assurance

The assurance by DNV includes data reported from 2012 to 2013. The reporting scope of KT&G is limited to the activities at KT&G’s headquarters, branches in Korea, overseas subsidiaries and branches/offices.

DNV reviewed the following:

- Sustainability-related data and activities during the period from 2012 to 2013
- Evaluation of the sustainability report content and quality definition principles according to GRI G3.1
- The degree to which the principles of materiality, completeness, and responsiveness defined in DNV’s Sustainability Report Assurance Protocol are applied. The information contained in the report is found to be relatively reliable.
- The degree to which the principles and requirements of the Global Reporting Initiative (GRI)’s Sustainability Report Guidelines (GRI G3.1)

Limitation

The assurance does not cover the sustainability, performance, and reporting practices of any organizations, suppliers, vendors or third parties which KT&G does not have substantial control as specified in the Report. DNV does not interview external stakeholders during the assurance period. This assurance does not include the KT&G business reports, disclosed data from 2012 to 2014 and financial related data. The company’s economic performance that includes financial data has been compared with KT&G’s internal documents and the financial statements audited by an accounting audit organization and our Assurance Team reviewed and tested the data aggregation and calculation processes used to prepare economic performance results.

Assurance Method

The assurance was conducted in accordance with DNV’s Sustainability Report Assurance Protocol. As part of the assurance, the assurance team confirmed the statements and claims related to sustainability made in the Report and reviewed the data management systems used in the Report, information flow, and robustness of control.

The assurance team checked and reviewed the documents, data and other information provided by KT&G and confirmed them through interviews with the relevant officers. The team also applied a sampling method to the review regarding the following:

- Conduct assurance by visiting KT&G
- Review the process of deciding on the materiality of report content
- Check the accuracy of quantitative and qualitative data included in the report
- Check if the GRI application level is met

Conclusions

As a result of the assurance, DNV concluded that the Report is a fair representation of KT&G's sustainability strategy, management system and performance. Through the assurance, DNV confirmed that the Report meets the application level 'A+' required by GRI G3.1. As for compliance with the reporting principles, the assurance team draw the following conclusions:

Completeness : Good. KT&G conducted a comprehensive stakeholder engagement with regard to sustainability issues. Stakeholder engagement is implemented across the organization. The Report explains a variety of methods for stakeholder engagement. The documented stakeholder engagement process was confirmed in the management evaluation report. The Report identifies 6 stakeholder groups including employees, suppliers, community, customers, shareholders and investors, and government. Furthermore, the Report also presents communication channels related to each stakeholder group and major issues of interest by stakeholder group.

Responsiveness : Average. The opinions, interests and expectations of stakeholders were incorporated into the preparation of the Report and KT&G's systematization of sustainability. The Report largely meets the stakeholder responsiveness requirements. By providing key performance indicators for the content selected as materiality issues in this Report, the company will be able to improve monitoring of KT&G's sustainability management status. KT&G has to set goals for materiality issues, regularly monitors, measures and reports performance.

Materiality : Good. The Report clearly presents the materiality test process. KT&G's materiality test process consists of pooling issues through media analysis, industry benchmarking, and internal data review, prioritizing and developing issues through stakeholder research such as surveys and interviews. Therefore, DNV concludes that materiality issues were identified and prioritized based on stakeholders' opinions.

Suggestions for Improvement

The following summarizes the additional observations and improvements provided to KT&G's management. These suggestions do not affect the conclusions about the Report and only serve to promote continual improvements.

- We recommend setting economic, social, environmental performance goals based on the materiality issues and conducting regular checks of achievements.
- We suggest establishing a data collection process for data and information gathering and documenting the collection criteria to ensure consistent data quality.

Competency and Independence

DNV provides a variety of sustainability services including sustainability report assurance. DNV's environmental and social assurance review experts are active in about 100 countries around the world.

Except this assurance, DNV has no relationship of interests with KT&G in the preparation of the content and data described in the Report. DNV maintained neutrality during the stakeholder interviews throughout the assurance process. DNV is not held liable or jointly liable to any person or organization that made decisions based on this statement.

April, 2014
Seoul, Republic of Korea

DNV·GL

President & CEO Ahn In-Gyun



● Fully reported ● Partially reported ○ Not reported

GRI Guideline Index

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GRI Indicator	Description	ISO26000	Application Level	Page	Notes
Strategy and Analysis					
1.1	CEO message	6.2	●	2, 3	
1.2	Opportunities and challenges	6.2	●	12, 49	
Organizational Profile					
2.1	Name of the organization		●	4	
2.2	Primary products and brands		●	20, 21	
2.3	Operational structure of the organization, including main divisions, operating companies, subsidiaries and joint ventures	6.2	●	6, 7	
2.4	Location of organization's headquarters		●	4	
2.5	Countries where the organization operates and names of countries with major operations		●	4	
2.6	Nature of ownership and legal form		●	4	
2.7	Markets served		●	4	
2.8	Scale of the reporting organization		●	4	
2.9	Significant changes during the reporting period regarding size, structure, or ownership		●	5	
2.10	Awards received in the reporting period		●	72	
Report Parameters					
3.1	Reporting period		●	날개	
3.2	Date of most recent previous report		●	날개	
3.3	Reporting cycle (annual, biennial, etc.)		●	날개	
3.4	Contact point for questions regarding the report or its contents		●	날개	
3.5	Process for defining report content		●	15, 날개	
3.6	Boundary of the report		●	15, 날개	
3.7	State any specific limitations on the scope or boundary of the report		●	15, 날개	
3.8	Basis for reporting that can significantly affect comparability from period to period and/or between organizations		●	15, 날개	
3.9	Data measurement techniques and the bases of calculations		●	전체	
3.10	Any re-statements of information provided in earlier reports, and the reasons for such re-statement		●	날개	
3.11	Significant changes from previous reporting periods in the scope, boundary, or measurement methods applied in the report		●	날개	
3.12	GRI Content Index		●	68-71	
3.13	Policy and current practice with regard to seeking external assurance for the report	7.5.3	●	68-71	
Governance, Commitments, and Engagement					
4.1	Governance structure of the organization		●	5	
4.2	Indicate whether the Chair of the highest governance body is also an executive officer		●	5	
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		●	5	
4.4	Mechanisms for shareholders and employees to provide recommendations or direction to the highest governance body		●	5	
4.5	Linkage between compensation for members of the highest governance body, senior managers, and executives and the organization's performance (including social and environmental performance)		●	5	
4.6	Processes in place for the highest governance body to ensure conflicts of interest are avoided	6.2	●	5	
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.		●	5	
4.8	Business management principles		●	8	
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		●	5	
4.10	Processes for evaluating the highest governance body's own performance, particularly with respect to economic, environmental, and social performance		●	5	

GRI Indicator	Description	ISO26000	Application Level	Page	Notes
4.11	Explanation of whether and how the precautionary approach or principle is addressed by the organization.		●	12	
4.12	Externally developed economic, environmental, and social charters, principles, or other initiatives to which the organization subscribes or endorses		●	65,68-71	
4.13	Memberships in associations (such as industry associations) and/or national/international advocacy organizations in which the organization	6.2	●	72	
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.		●	13, 14	
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 reporting		●	13	

Economic

EC1	Direct economic value generated and distributed	6.8, 6.8.3, 6.8.7, 6.8.9	●	22, 62	
EC2	Financial implications, other risks and opportunities for the organization's activities due to climate change	6.5.5	●	49	
EC3	Coverage of the organization's defined benefit plan obligations		●	33	
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.	6.4.4, 6.8	●	33	
EC6	Policy, practices and proportion of spending on locally-based suppliers at significant locations of operation	6.6.6, 6.8, 6.8.5, 6.8.7	●	37, 47	
EC7	Procedures for local hiring and proportion of senior management hired from the local community at significant locations of operation	6.8, 6.8.5, 6.8.7	●	-	No senior managers locally hired
EC8	Development and impact of infrastructure investments and services provided primarily for public benefit through commercial, in-kind, or pro bono engagement	6.3.9, 6.8, 6.8.3, 6.8.4, 6.8.5, 6.8.6, 6.8.7, 6.8.9	●	40-45, 62	
EC9	Understanding and describing significant indirect economic impacts, which includes the extent of impacts.	6.3.9, 6.6.6, 6.6.7, 6.7.8, 6.8, 6.8.5, 6.8.6, 6.8.7, 6.8.9	●	40-45, 59, 60	

Environmental

EN1	Materials used by weight or volume		●	64	
EN2	Percentage of materials used that are recycled input materials		●	-	No use of recycled materials due to the nature of business
EN3	Direct energy consumption used by primary energy source		●	64	
EN4	Indirect energy consumption used by primary source		●	64	
EN5	Energy saved due to conservation and efficiency improvements		●	50	
EN6	Initiatives to provide energy-efficient or renewable energy based products and services, and reductions in energy requirements as a result of these initiatives.	6.5, 6.5.4	●	50, 52	
EN7	Initiatives to reduce indirect energy consumption and reductions achieved		●	50, 52	
EN8	Total water withdrawn by source		●	53, 63	
EN9	Water sources significantly affected by the withdrawal of water		●	63	
EN10	Percentage and total volume of water recycled and reused		●	48	
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 for areas of high biodiversity value outside protected areas		●		Not important due to the nature of business
EN13	Habitats protected or restored	6.5, 6.5.6	●	-	
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		●	64	
EN17	Other relevant indirect greenhouse gas emissions, by weight.	6.5, 6.5.5	●	64	
EN18	Initiatives to reduce greenhouse gas emissions and reductions achieved		●	50-52	
EN19	Emissions of ozone-depleting substances by weight		●	-	Not applicable
EN20	NOx, SOx and other significant air emissions by type and weight	6.5, 6.5.3	●	-	Not applicable

GRI Indicator	Description	ISO26000	Application Level	Page	Notes
EN21	Total water discharged by quality and destination.		●	63	
EN22	Total weight of wasted by type and disposal method.		●	64	
EN23	Total number and volume of significant spills.	6.5, 6.5.3	●	-	No reported 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.		●	-	Not applicable
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.	6.5, 6.5.4, 6.5.6	●	-	Not applicable
EN26	Initiatives to mitigate environmental impacts of products and services and extent of impact mitigation.	6.5, 6.5.4, 6.6.6, 6.7.5	●	52	
EN27	Percentage of products sold and their packaging materials that are reclaimed by category.	6.5, 6.5.4, 6.7.5	●	52	
EN28	Monetary value of significant fines and total number of non-monetary sanctions for non-compliance with environmental laws and regulations.	6.5	●	-	No reported fines or sanctions
EN29	Significant environmental impacts of transporting products and other goods and materials used for the organization's operations and transporting members of the workforce.	6.5, 6.5.4, 6.6.6	●	51	
EN30	Total environmental protection expenditures and investments by type.	6.5	●	48	

Labor Practices and Decent Work

LA1	Total workforce by employment type, employment contract and region, broken down by gender.		●	60	
LA2	Total number and rate of new employee hires and employee turnover by age group, gender and region.	6.4, 6.4.3	●	60	
LA3	Benefits provided to full-time employees that are not provided to temporary or part-time employees, by major operations.	6.4, 6.4.3, 6.4.4	●	33	Ratio of employees subject to performance evaluation: 99%
LA4	Percentage of employees covered by collective bargaining agreements.	6.4, 6.4.3, 6.4.4, 6.4.5, 6.3.10	●	61	
LA5	Minimum notice period (s) regarding significant operational changes, including whether it is specified in collective agreements.	6.4, 6.4.3, 6.4.4, 6.4.5	●	61	
LA6	Percentage of total workforce represented in formal joint management-worker health and safety committees that help monitor and advice on occupational health and safety programs.	6.4, 6.4.6	●	61	
LA7	Rates of injury, occupational diseases, lost days, and absenteeism, and number of work-related fatalities by region and by gender.		●	64	
LA8	Education, training, counseling, prevention, and risk-control programs in place to assist workforce members, their families, or community members regarding serious diseases.	6.4, 6.4.6, 6.8, 6.8.3, 6.8.4, 6.8.8	●	61	
LA9	Health and safety topics covered in formal agreements with trade unions.	6.4, 6.4.6	●	61	
LA10	Average hours of training per year per employee by gender and by employee category.	6.4, 6.4.7	●	60	
LA11	Programs for skills management and lifelong learning that support the continued employability of employees and assist them in managing career endings.	6.4, 6.4.7, 6.8.5	●	32, 60	
LA12	Percentage of employees receiving regular performance and career development reviews, by gender.	6.4, 6.4.7	●	33	
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.	6.3.7, 6.3.10, 6.4, 6.4.3	●	5, 60	
LA14	Ratio of basic salary and remuneration of women to men by employee category, by significant locations of operation.	6.3.7, 6.3.10, 6.4, 6.4.3, 6.4.4	●	33	282%
LA15	Return to work and retention rates after parental leave, by gender.		●	62	100%

Human Rights

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.	6.3, 6.3.3, 6.3.5, 6.6.6	●	-	11건
HR2	Percentage of significant suppliers, contractors and other business partners that have undergone human rights screening, and actions taken.	6.3, 6.3.3, 6.3.5, 6.4.3, 6.6.6	●	-	100%
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.	6.3, 6.3.5	●	61	
HR4	Total number of incidents of discrimination and corrective actions taken.	6.3, 6.3.6, 6.3.7, 6.3.10, 6.4.3	●	-	No incidents of discrimination
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.	6.2, 6.3.3, 6.3.4, 6.3.5, 6.3.8, 6.3.10, 6.4.3, 6.4.5	●	61	

GRI Indicator	Description	ISO26000	Application Level	Page	Notes
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.	6.3, 6.3.3, 6.3.4, 6.3.5, 6.3.7, 6.3.10	●	-	No reports of child labor in compliance with law
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.		●	-	No reports of forced or compulsory labor in compliance with law
HR8	Percentage of security personnel trained in the organization's policies or procedures concerning aspects of human rights that are relevant to operations.	6.3, 6.3.5, 6.4.3, 6.6.6	○		
HR9	Total number of incidents of violations involving rights of indigenous people and actions taken.	6.3, 6.3.6, 6.3.7, 6.3.8, 6.6.7	●	-	No incidents of violations
HR10	Percentage and total number of operations that have been subject to human rights reviews and/or impact assessments.		●	11	
HR11	Number of grievances related to human rights filed, addressed and resolved through formal grievance mechanisms.		●	11	

Society

SO1	Percentage of operations with implemented local community engagement, impact assessments and development programs.	6.3.9, 6.8, 6.8.5, 6.8.7, 6.6.7	●	38, 40-45	
SO2	Percentage and total number of business units analyzed for risks related to corruption.		●	-	No cases of unfair competition practice
SO3	Percentage of employees trained in organization's anti-corruption policies and procedures.	6.6, 6.6.3	●	61	
SO4	Actions taken in response to incidents of corruption.		●	61	
SO5	Public policy positions and participation in the public policy development and lobbying.	6.6, 6.6.4, 6.8.3	●	47	
SO6	Total value of financial and in-kind contributions to political parties, politicians, and related institutions by country.		●	-	Not applicable
SO7	Total number of legal actions for anti-competitive behavior, anti-trust and monopoly practices with their outcomes	6.6, 6.6.5, 6.6.7	●	-	Number of offices: 155 companies, carried out 100%
SO8	Monetary value of significant fines and total number of non-monetary sanctions for non-compliance with laws and regulations.	6.6, 6.6.7, 6.8.7	●	-	In 2013, subject to a fine of 44.5 billion won by the National Tax Service; in the process of a tax tribunal application
SO9	Operations with significant potential or actual negative impacts on local communities.		●	37, 63 42-45	
SO10	Prevention and mitigation measures implemented in operations with significant potential or actual negative impacts on local communities.	6.3.9, 6.8, 6.8.5, 6.8.7, 6.6.7	●	37, 63 42-45	

Product Responsibility

PR1	Life cycle stages in which health and safety impacts of products and services are assessed for improvement and percentage of significant products with services categories subject to such procedures.	6.3.9, 6.6.6, 6.7, 6.7.4, 6.7.5	●	-	Not applicable
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.		●	-	No incidents of violations
PR3	Type of product and service information required by procedures and percentage of significant products and services subject to such information requirements.	6.7, 6.7.3, 6.7.4, 6.7.5, 6.7.6, 6.7.9	●	20, 21	
PR4	Total number of incidents of non-compliance with regulations and voluntary codes concerning product and service information and labeling by type of outcomes.		●	-	No incidents of violations
PR5	Practices related to customer satisfaction, including results of surveys measuring customer satisfaction.	6.7, 6.7.4, 6.7.5, 6.7.6, 6.7.8, 6.7.9	●	26, 27	
PR6	Programs for adherence to laws, standards, and voluntary codes related to marketing communications, including advertising, promotion, and sponsorship.	6.7, 6.7.3, 6.7.6, 6.7.9	●	26, 27	
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.	6.7, 6.7.3, 6.7.6, 6.7.9	●	-	No incidents of violations
PR8	Total number of substantiated complaints regarding breaches of customer privacy and losses of customer data.	6.7, 6.7.7	●	-	불만건수 없음
PR9	Monetary value of significant fines for non-compliance with laws and regulations concerning the provision and use of products and services.	6.7, 6.7.6	●	-	No incidents of violations

Membership / External Evaluation

Membership in related organizations

Institution	Year joined	Purpose of establishment
Korea International Trade Association	1989	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
Korean Mecenat Association	1994	Bridging businesses that support arts, culture and cultural organizations by being continuously involved in creative activities so that the economy and culture can grow by complementing each other
Korea Tobacco Association	1998	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	1999	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	2001	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	2002	Implementing right economic policies and globalizing the economy to promote the free market system and help the national economy grow in a sound manner
United Nations Global Compact	2012	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	Award organization	Year received
Economy	Received an outstanding business award for business management system	Korea Foundation for Quality	2011
Society	Ranked 1 st place in NCSI customer satisfaction survey	Korea Productivity Center	2013
ESH	Received the National Emergency Management Agency (NEMA) Director Award at the Korea Safety Management Awards	Korea Safety Certification Service, Korea Fire Institute	2013
General sustainable business management	Included in DJSI World (4 consecutive years)	DJSI, SAM, Korea Productivity Center	2013

* Limited to the awards received during the report period

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Sustainable
Seed for the Society



KT&G 2012/13 Sustainability Report