

SUSTAINABLE SEED FOR THE SOCIETY

KT&G 2014/15 Sustainability Report



CONTENTS



Sustainable Seed for the Society

1	<ul style="list-style-type: none"> 04 Message from the CEO 06 Overview of the Company 07 Value System 08 Overview and Outlook of Business
OVERVIEW	
2	<ul style="list-style-type: none"> 10 Governance 11 Ethical Management 13 Risk Management 14 Stakeholder Engagement 15 Materiality Assessment
SUSTAINABLE MANAGEMENT	
3	<ul style="list-style-type: none"> 16 Special 1 18 Special 2 20 Special 3 22 Special 4 24 Special 5
SPECIAL ISSUE	

About This Report

Report period and scope This report contains major activities and results from 1 January 2014 to 31 December 2015 and KT&G publishes the report biyearly(Previous report was published April 2014). In case of quantitative results, includes the results of the last 3 years for year-on-year trend analysis. Activities and results of 2016 deemed important to stakeholders are included in this report. This report includes the business activities of all of the domestic business places of KT&G, including head office, branches and factories, except for, mutual investment companies and subsidiaries.

Reporting standards This report was made in accordance with G4(Core) of GRI(Global Reporting Initiatives) Guideline. Further details in this standard can be confirmed in GRI Guideline Index(p.61~62) and the statement of third party assessment(p.64~65). In addition, we abided by K-IFRS, Korea-adopted International Financial Reporting Standards, for the financial performance, such as statement of financial position, income statement et al.

4

PERFORMANCE REVIEW

		Mid/Long-term Business Strategy
		Brand Management
26	Economic Performance	Customer Satisfaction
		Quality Management
		Economic Indicators
34	Environmental Performance	
		Employees
39	Social Performance	Business Partners
		Social Contribution
		Social Indicators

5

APPENDIX

61	GRI G4 Index
63	UN Global Compact
63	Aspect Boundary for each Material Issue
64	Independent Third-party Assurance Statement
66	Awards & Recognition
66	Membership

Assessment of the report Third party assessment was implemented for this report in order to enhance reliability, and details can be checked in the statement of third party assessment(p.64~65)

www.ktng.com

Enquiry Social Contribution Office of KT&G, KT Tower, 416, Yeongdong-daero, Gangnam-gu, Seoul, Korea 06176

Tel 02-3404-4586, 080-931-0399

Fax 02-3404-4579

E-mail seungki0814@ktng.com

Message from the CEO



KT&G, having grown for the past 117 years with all the members' dedication and faithful service, will take a step forward in order to establish itself as a greater national enterprise leading social role and responsibility.



Dear stakeholders of KT&G

I appreciate you believing, loving and supporting KT&G as always.

Through every effort that all the members exerted in unison, KT&G attained the management objectives surpassing stakeholders' expectation under the difficult conditions. In addition, year 2015 was a year that KT&G suggested core values of transparency.

Transparency and ethics

Only righteous, clean and healthy companies can survive in the long term, which is the very starting point to the way of the great enterprise. In order to enhance status of 'KT&G, the righteous enterprise', KT&G reestablished its discipline of ethics and reinforced the independency and professionalism of the relevant organizations. Through this, KT&G paved a way to manage the risk to the unethical behavior in advance and internalize the compliance management in the company.

Communications and empathy

KT&G strives to foster a sound organizational culture in which all the members are in a win-win position with the site-oriented communicational management. For this, KT&G creates a win-win synergy effect by organizing 'Imagination Realization Committee, a communication platform in which both experts and employees participate. Also, in the social contribution field, KT&G has performed faithfully the social responsibility as a corporate citizen.

Autonomy and performance

In order to grow continuously in both domestic and international markets, KT&G set up an independent management system by business unit and linked it with evaluation and remuneration by introducing the responsibility management system. In addition, KT&G improved personnel management system in order that majority of members can feel empathy and immerse themselves in the work, and rescheduled the educational system for employees' competency development, thereby laying the groundwork for fostering talented individuals internally.

KT&G is ready to enter a new era on the foundation of the said three values for change and innovation. The new KT&G, considering economy, society and environment, will try to become a national enterprise leading social role and responsibility.

Economy

KT&G will establish the foundation of growth as a global enterprise by solidifying the market control base of the existing business and concentrating on the global market of high growth potential. In addition, for securing new growth engine for the Group, KT&G will establish a balanced business portfolio through active exploration of opportunities for new projects and prompt decision making.

Society

By clarifying KT&G's new message of social contribution activities as 'KT&G, Korea's representative cultural contribution enterprise' and preparing for typical social contribution programs related to culture, KT&G will arrange a foundation for advancing toward a society which enjoys diverse cultures and arts. In addition, by expanding joint activities for solution of global social issue, KT&G will implement close contribution activities reflecting stakeholders' needs and create share value.

Environment

In order to practice the integrated environmental management, KT&G will control discharge of pollutants throughout the whole process of business activities and apply various technologies for responding to climate change, thereby standing as an eco-friendly enterprise. KT&G, as an enterprise thinking of customers with eco-friendly materials and development of new technologies, will carry out its social responsibility in order to hand over clean and beautiful nature to our descendants.

And, employees

New KT&G begins with its members. Through the harmonious corporate culture centered on respect and engagement, KT&G will concentrate on securing dynamics of the organization. Especially, it is expected that the system invigorating various leaves of absence and vacations newly implemented this year will improve members' living quality and put new energy into the organization.

Please keep on watching the step of KT&G, the national enterprise carrying out its social role and responsibility.

Thank you.

October 2016

Bok-in Baek

President and CEO of KT&G

Overview of the Company

Under the management principle of 'righteous enterprise', 'conscious enterprise', and 'sharing enterprise', KT&G takes the initiative in stabilization of domestic consumption and export for the indigenous tobacco business and, furthermore, leads domestic pharmaceutical technology through pharmacy and health & beauty business, and strive to help the People's health and beauty. At the same time, through vitalizing the ecosystem of the relevant industries, KT&G is meeting its responsibility and duty as the enterprise representing Korea. KT&G will keep on enhancing the enterprise value and becoming a global excellent company through active implementation of balanced business portfolio, integrity management and ethical management.

Company name KT&G Corporation

Year of establishment 1 April 1987

Location 71, Beotgot-gil,
Daedeok-gu, Daejeon
Metropolitan City, Korea

Homepage <http://www.ktng.com>

Main business Production and sale of tobacco

Number of employees(persons)

4,102

Turnover
(KRW100 million)

41,698

Business profit
(KRW100 million)

13,659

Net profit
(KRW100 million)

10,322

Credit rating
(as of 2015)

AAA

As of December 31, based on consolidated financial statement

Overseas subsidiaries and branches

- Overseas subsidiaries and branches
- Raw material-related subsidiaries and branches

● Brazil subsidiary (Korea Tabacos do Brazil. LTDA.)

Rua Ernesto Alves 620, Bairro Centro,
Santa Cruz do Sul, RS, Brazil, CEP 96810-060
Tel +55 51 3902 6269

● IRAN subsidiary

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

● IRAN factory

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

● 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)

● TURKEY factory

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

● USA subsidiary

1601 East Plano, Pwky Suite 110 Plano, Tx 75074
Tel +1 580 231 1834

● RUSSIA subsidiary

Estate 3, 2nd East Way, Dobrino Village,
Borovsk District, Kaluga Region, Russia
Federation 249020
Tel +7 919 039 8835

● RUSSIA factory

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

● CHINA branch

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

● INDONESIA subsidiary

Plaza Sentral Lt.17 Jl.Jend. Sudirman
Kav.45, Jakarta Selatan, Indonesia
Tel +62 21 2995 0118

● INDONESIA branch

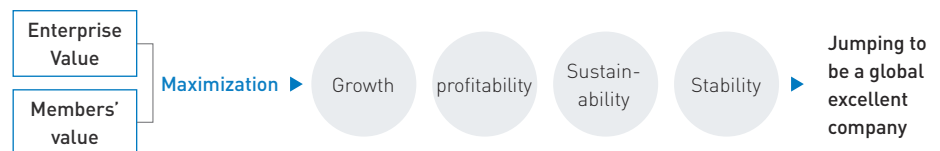
Water Place Tower Unit A-20, Jl.
Pakuwon Indah Lontar Timur, No.3-5,
Surabaya, Indonesia
Tel +62 31 739 3402

Value System

Under the management principle of 'righteous enterprise', 'conscious enterprise', and 'sharing enterprise', KT&G strives to fulfill the vision of 'Jumping to be an excellent company through maximization of enterprise value' by pursuing the enterprise value and the members' value altogether. For this, KT&G set up 'the KT&G WAY' for connecting business strategy with corporate culture, and is continuously creating performance through internalization and practicing of 'KT&G WAY.'

KT&G Way

Vision	Jumping to be an excellent company through maximization of enterprise value and members' value		
Management principle	Righteous enterprise	Conscious enterprise	Conscious enterprise
	<p>As 'a righteous enterprise'</p> <p>KT&G will become an enterprise faithful to social norms and logic. KT&G will establish the responsibility management system emphasizing on autonomy and creativity, and realize the right path of future-oriented management.</p>	<p>As 'a conscious enterprise'</p> <p>KT&G will not pursue change and innovation as a means to the desired end, but aim at "change and innovation" itself. Through this, KT&G will continuously improve and develop a go-ahead and creative corporate culture.</p>	<p>As 'a sharing enterprise'</p> <p>KT&G will become an enterprise contributing to public interest and carrying out social responsibility in order to not only create the supreme rewarding and value, but also make a society living with other members.</p>
Philosophy of the business	Completion of better life		
Core values	<p>Human resources-centered</p> <p>Regarding the person as the source of growth, KT&G attracts and cultivates outstanding human resources, thereby growing together.</p>	<p>Challenging spirit</p> <p>KG&G has a right critical mind, approaches the issue creatively, and drives change with enthusiasm and tenacity.</p>	<p>Customer-intimate</p> <p>KT&G provides customer value by thinking from customers' point of view and practicing customer satisfaction form the customer-intimate basis.</p>
	<p>Result-oriented</p> <p>KT&G creates result-oriented and continuous performances by practical approach and prompt implementation.</p>	<p>Mutual cooperation</p> <p>KT&G pursues total optimization of mutual cooperation through mutual respect, consideration and open communication.</p>	<p>Pursuing win-win</p> <p>KT&G pursues win-win and carries out social responsibility and liability through transparent and ethical management and practice of sharing.</p>



Enterprise value

KT&G aims at the global excellent enterprise through 'maximization of the enterprise value.' In the tobacco business, KT&G will reinforce the role of value-based business through intensive investment in R&D, brand, and marketing and both quantitative and qualitative change of overseas projects. KT&G will foster the ginseng business(KGC) intensively as the value-growth enterprise, leading growth of KT&G. As for the pharmaceutical business(Yeongjin Pharmaceutical Co., Ltd.), KT&G will secure the competitiveness through strong restructuring and enhance synergy with affiliates in order to make it play a role of value-catalyst business.

Members' value

Members' value requires each individual member's endeavor for exhibiting their ability, along with revolution of the management system which can support such endeavor. For this, KT&G will realize human-centered management philosophy along with cultivation of human resources coming up to the era of globalization. In addition, KT&G will maximize members' creativity based on the strong responsibility management system and continuously pursue creation of corporate culture enabling the cutting-edge-oriented corporate management to get settled.

Overview and Outlook of Business

Despite of difficult conditions including but not limited to low growth trend, MERS epidemic, and various changes of governmental policies, KT&G evenly grew in all sectors of tobacco, ginseng, pharmacy, cosmetics et al.



Tobacco



Ginseng

Overview

Despite of harsh market conditions including but not limited to cigarette tax hike, tightened regulations, sales decrease, and intensifying competition, KT&G enhanced competitiveness of strategic brands and seated new products successfully on the market. Export also increased due to vitalization of new market development, such as Asia-Pacific, Central and South America, Africa et al. Production department helped overcome crisis through productivity enhancement, and efficient plant operation.

Thanks to expansion of functional products and effective market entry, turnover increased by 12.9% compared with the previous year. KT&G purchases clean raw material stably through contract cultivation and possesses the facility producing 8,000 tons annually. KT&G enhanced marketing activities focused on Greater China, broke into product-oriented markets including Japan, Southeast Asia et al, and strived to glocalization. As a result, as of the end of 2015, overseas sale takes up about 8.9% of total turnover.

Outlook

It is expected that total demand of tobacco, which decreased due to governmental policy in January 2015, will be picked up from this year. Last year, KT&G newly established a team dedicated to the tax-exemption market, striving to enter duty-free shops in Europe, such as Germany and England. Also in the US. KT&G is seeking to enter duty-free shops in big cities such as Chicago, Seattle et al, following the existing market of Los Angeles and San Francisco.

In order to grow as a global comprehensive health company, KT&G carries forward business diversification, such as strengthening the status of the existing red ginseng business and, along with it, innovating new distribution, and enhancing non red ginseng business. In terms of overseas business, KT&G strives to establish a business model of market-customized and on-site completion type by implementing the phased advance strategy of overseas market.

KOREA GINSENG CORP



Company name	KGC
Type of biz	Production and sale of ginsengs and ginseng products
Share ratio	100.00%
Turnover (KRW1 MM)	917,786

YUNGJIN PHARM



Company name	Yeongjin Pharmaceutical Co., Ltd.
Type of biz	Production and sale of druggery and its raw material, and chemical
Share ratio	53.00%
Turnover (KRW1 MM)	170,203

TAE A INDUSTRIAL



Company name	Tae-A Industrial Co., Ltd.
Type of biz	Production of tobacco sheet
Share ratio	100.00%
Turnover (KRW1 MM)	13,727

KGC LIFE & GIN



Company name	KGC LIFE & GIN Co., Ltd.
Type of biz	Sale of red ginseng product and health functional food
Share ratio	100.00%
Turnover (KRW1 MM)	52,468



Real estate

In order to jump as the core business group of KT&G Group, the real estate business sector carried forward its business focused on 3 strategies of 'maximizing the value of owned real estate', 'reinforcing sustainable growth base', and 'strengthening infrastructure of group's objective project'. In spite of tightening market, rental business attained high turnover and business profit through active rental marketing, tenant CRM*, and cost saving.

* CRM(Customer Relationship Management)

For growth of the rental business, KT&G purchased Euljiro Tower, which is in the process of extension and remodeling work, and is carrying forward construction of a rental warehouse at the site of the Group Logistics Center. KT&G has established a master plan for developing company-owned large sites in Sejong, Suwon and Gwangju, and is proceeding with licensing procedure in earnest.



Cosmetics

Change occurs quickly, such as increase of diverse distribution channels including but not limited to advertisement of online shopping mall, multi shop (drugstore) et al, and turnover of duty-free shops targeting tourists.

In 2015, MERS epidemic caused drastic decrease of Chinese tourists. KT&G focused on enhancing the business competitiveness by expanding distribution foothold while concentrating on the growth channel.

Somang Cosmetics Co., Ltd will consistently develop marketing activities for enhancing brand awareness and focus on promising accounts in the Middle East as well as Southeast Asian countries, such as Vietnam, Myanmar, Malaysia based on China. Also Somang Cosmetics Co., Ltd will concentrate all its energy for securing future growth engine through reinforcement of on-off line customer encounter point and ODM sales growth.



Pharmaceutical

Governmental policy and business environment have been changing drastically ranging from en bloc medicine price reduction implemented in 2012 to rebate out system, and to the recent MERS epidemic. In spite of such difficulties, turnover and business profit increased by 1.6% respectively compared with the previous year.

The phase 1 clinical studies of YPL-001 (medicine for COPD), has been completed by US FDA, and now phase 2a of the clinical study is progressed by US FDA.

The ratio of export to turnover in 2015 was about 43%, KT&G expand the ratio of export all the more. In addition, KT&G will discover growth engines through policy support, such as fostering the fund supporting pharmaceutical R&D. KT&G will strive to become a global pharmaceutical company by expanding R&D investment ratio to more than 10% compared with the turnover.

SOMANG COSMETICS

Company name	Somang Cosmetics Co., Ltd.
Type of biz	Production of cosmetics
Share ratio	97.76%
Turnover (KRW1 MM)	76,037

* Name of the company was changed to Cosmocos since September 1st, 2016.

KT&G LIFE SCIENCES

Company name	KT&G Life Science Corp.
Type of biz	R&D of druggery et al
Share ratio	59.48%
Turnover (KRW1 MM)	1,237

KGC YEBON

Company name	KGC YEBON
Type of biz	Production of health functional food
Share ratio	100.00%
Turnover (KRW1 MM)	13,072

상상스테이

Company name	SangSang Stay Inc
Type of biz	Hotel business
Share ratio	100.00%
Turnover (KRW1 MM)	-

Governance

KT&G operates the Board of Directors ("BOD") for major decision making, and implements professional and transparent management by separating ownership and management. KT&G's BOD is comprised of 2 executive directors and 7 independent nonexecutive directors. BOD operates 4 standing subcommittees and non-standing subcommittees including Non-executive Director Nominee Recommendation Committee and CEO Nominee Recommendation Committee. BOD implements self-evaluation of performance and individual mutual evaluation on annual basis and the following year, analyzes and reports the evaluation result.

Evaluation result of Korea Corporate Governance Service

A+ 2014	A+ 2015
-------------------	-------------------

(As of 31 December 2015)

Composition of BOD

Remuneration paid to BOD (KRW1 million)

Category	Last quarter of 2015	First quarter of 2016
Number of persons	8	9
Total remuneration	3,972	199
Average remuneration per person	497	22

Name	Gender	Date of birth	Position	Careers
Bok-in Baek	Man	1965. 09	President& CEO	<ul style="list-style-type: none"> Director of Strategy and Planning Headquarters, KT&G Director of Marketing Headquarters, KT&G
Hueng-ryul Kim	Man	1961. 03	Vice-president	<ul style="list-style-type: none"> Chief of Global Market focus Headquarters, KT&G Support Director of Marketing, KT&G
Eop-gyo Song	Man	1941. 05	Non-executive director	<ul style="list-style-type: none"> Advisory Member of National Assembly Committee for Constitutional Amendment Director of Asia-Pacific Economic Research Institute
Jun-gyu Lee	Man	1957. 12	Non-executive director	<ul style="list-style-type: none"> Executive Director of Hanwha Securities Co., Ltd / Auditor of Hanwha Investment & Trust
Tae-gyu Sohn	Man	1956. 08	Non-executive director	<ul style="list-style-type: none"> Professor of Undergraduate Studies of Communication, Dankook University
Gyeong-won Choi	Man	1946. 10	Non-executive director	<ul style="list-style-type: none"> Lawyer of Kim&Chang Law Firm Minister of Justice
Hae-su Yoon	Man	1952. 02	Non-executive director	<ul style="list-style-type: none"> President of Seoul University of Foreign Studies Chairman of the Hae-Kwang Academy Foundation
Sang-gon Ko	Man	1953. 11	Non-executive director	<ul style="list-style-type: none"> Chairman of public relations of Eden Welfare Foundation Invited professor of Sung Kyun Kwan University
Eun-kyung Lee	Woman	1963. 05	Non-executive director	<ul style="list-style-type: none"> Managing Director of Finance and Management, PVH Corp. Korea

(2016.4.21)

Constitution of BOD

	BOD (Board Of Director)			
	Strategy Committee	Investment/Growth Committee	Auditing Committee	Evaluation Committee
Purpose of installation	Deliberation of corporate management strategy	Investment/social contribution/risk management, and requirement	Feasibility review of finance/accounting, Evaluation	Management evaluation/rewards of employees
Members	3 non-executive directors and 2 executive directors	3 non-executive directors and 2 executive directors	4 non-executive directors	4 non-executive directors
Name of the members	Eop-gyo Song, Gyeong-won Choi, Tae-gyu Sohn, Bok-in Baek, Hueng-ryul Kim	Hae-su Yoon, Sang-gon Ko, Eun-kyung Lee, Bok-in Baek, Hueng-ryul Kim	Tae-gyu Sohn, Jun-gyu Lee, Sang-gon Ko, Eun-kyung Lee	Gyeong-won Choi, Eop-gyo Song, Jun-gyu Lee, Hae-su Yoon

Ethical Management

Under the management principle of 'righteous enterprise', 'conscious enterprise', and 'sharing enterprise', KT&G strives to contribute to customers, shareholders, country and public welfare. For this, KT&G recognizes transparent · ethical management as a core factor for sustainable growth and development.

Infrastructure of the ethical management

Based on the criteria of ethical behavior and value judgment of ethics charter, ethical norm and ethical practice guidelines, KT&G develops various activities headed by the team dedicated to the ethical management.

Manual of the ethical management

KT&G established and practices ethics charter, ethics norm and ethical practice guidelines as the criteria of righteous behavior and value judgment that all employees should abide by.

<http://www.ktng.com/ethicsMng>



Ethics charter

Connoting KT&G's management principle and core value based on the ethical management



Ethical norm

Defining the criteria of righteous act and value judgment to stakeholders

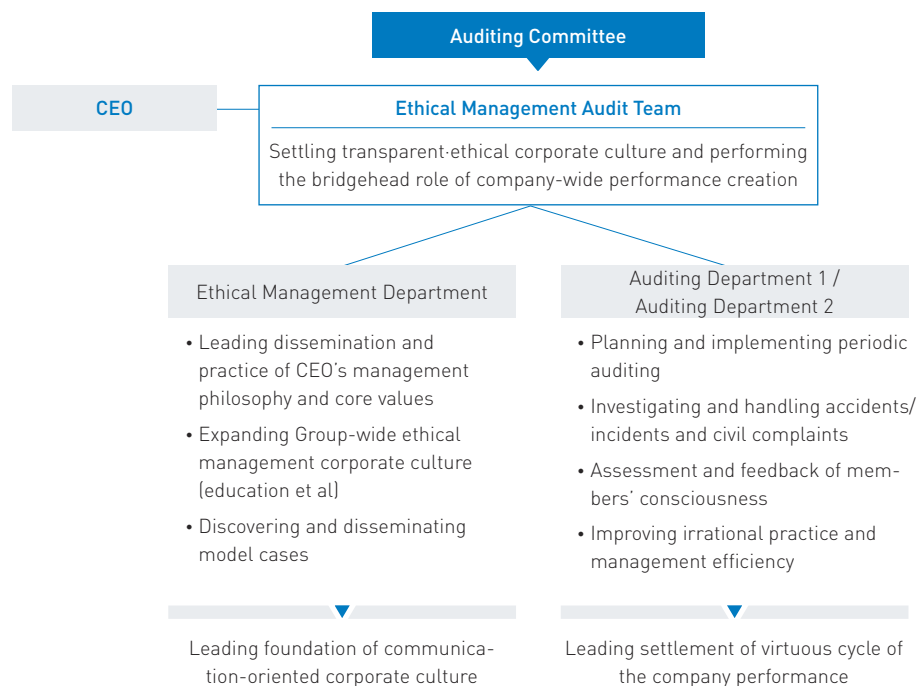


Ethical practice guidelines

Setting up concrete criteria and behavior for substantive practice of the ethical norm

The team dedicated to the ethical management

In order to respond to issues of the ethical management, the Ethical Management Audit Team under the Auditing Committee plays a key role in developing relevant activities. Especially, as the control tower of transparent · ethical management, the Ethical Management Audit Team develops various activities including but not limited to expansion of the ethical management, expansion and enhancement of business risk monitoring, expansion of subsidiary assessment field, periodic assessment, and investigation · response of accidents and/or incidents.



Upgrading of the ethical management system

KT&G develops various activities in order to make the ethical management continuously practiced and upgraded. Especially, KT&G establishes the ethical management culture while continuously operating such activities as ethical management education, preemptive business risk management, periodic assessment et al.

Ethical pledge

All employees promise to be well informed of ethical norm and ethical practice guideline and take the leading role in the ethical management when performing a job at home and abroad, and make a written ethical pledge at the beginning of each year.

Ethical management education(activities for preventing sexual harassment)

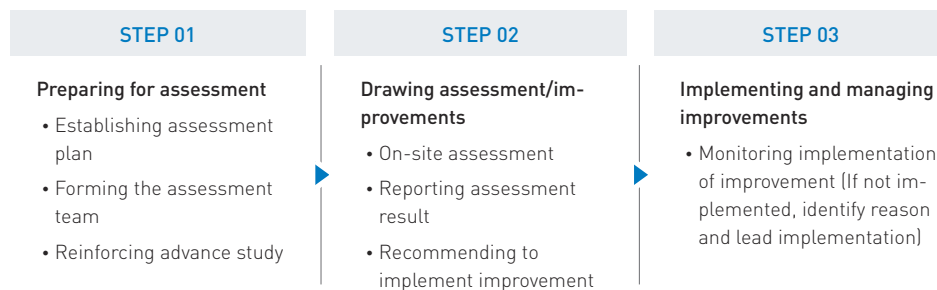
KT&G develops activities for preventing sexual harassment in order to rectify perception and practice on gender discrimination and foster beautiful and healthy workplace culture. Especially, KT&G is preparing for 'prevention measures of sexual harassment' based on analysis of relevant laws and regulations, cases of other companies and internal system, and implement internal cyber education for members once a year, thereby cultivating employees' consciousness of human right and ethics.

Think Twice Campaign

By sharing cases of accidents and incidents by type biannually, KT&G alerts all employees' attention and prevents recurrences of similar cases.

Implementation of the ethical management assessment

KT&G checks the ethical management status through frequent assessment of issues pending in management and business process. The assessment process is comprised of preparation for assessment, deduction of assessment and improvement, implementation and management of improvement, thereby contributing to creation and promotion of continuous performance. Especially, after assessment, KT&G manages history thoroughly for problem, improvement, implementation result and reason of non-implementation, and leads implementation of pending improvements through discussion and mediation with relevant departments.



Risk Management

KT&G has scientific risk management system in order to maintain sustainability. By preparing for company-wide level of risk management policy and procedure, KT&G minimizes negative impact through preventive countermeasure against risk factors.

Countermeasure for financial/non-financial risk

In order to enhance the financial risk management system, KT&G frequently monitors current situation of fund transactions, and reduces fund management risk and improves transparency of transaction through operation of conference comprised of persons in charge. KT&G identifies the potential risks affecting financial performance such as market risk like change of exchange rate or price, credit risk and liquidity risk, and strives to reduce, eliminate and avoid such risks to the acceptable level. Along with these, KT&G defines non-financial risks by type and prepares for countermeasures. In addition, internal auditor of the company consistently examines risk management policy, compliance with procedure, and risk exposure limit.

Main financial and non-financial risks / factor / countermeasure

Type	Main risk	Risk factor	Countermeasure of risk
Financial risk	Tax risk	Managing national and local tax	<ul style="list-style-type: none"> Analyze the target business through tax review and consultation and rationalize tax report Enforcement of tax reviews in advance through the management of tax consultation service
	Foreign exchange risk	Complying with Foreign Exchange Transaction Act	<ul style="list-style-type: none"> Enhance accessibility and utilization of exchange rate management menu, and improve exchange risk management system like supplementation of foreign exchange record analysis Invite external instructor and implement education on Foreign Exchange Transaction Act
Non-financial risk	Corruption risk	Controlling corruption/irregularity	<ul style="list-style-type: none"> Monitor regularly abnormalities related to corruption through operation of E-auditing system and manage the audit data
	Human risk	HR management, health care of employees	<ul style="list-style-type: none"> Manage personal data, breakdown of reward, welfare program information through HR management system(E-HRM)
	Information & security risk	Cybercrime, information leakage	<ul style="list-style-type: none"> Establish information security policy, educate operation guideline, and implement security monitoring Operate information protection system against external invasion and internal leakage
	Legal risk	Legal risk relating to domestic and international tobacco business, new project, M&A et al.	<ul style="list-style-type: none"> Integrated management of various legal data, intellectual property rights et al in a database Classify accident/incident types, comprehend related legislation systematically, and analyze and utilize risk factors by business unit
	Restraint risk	Implementing FCTC treaty	<ul style="list-style-type: none"> Observe related legislation for FCTC(Framework Convention on Tobacco Control) treaty implementation

Cases of responding to risk

Operating company-wide handling manual of legal affairs for responding to legal risk

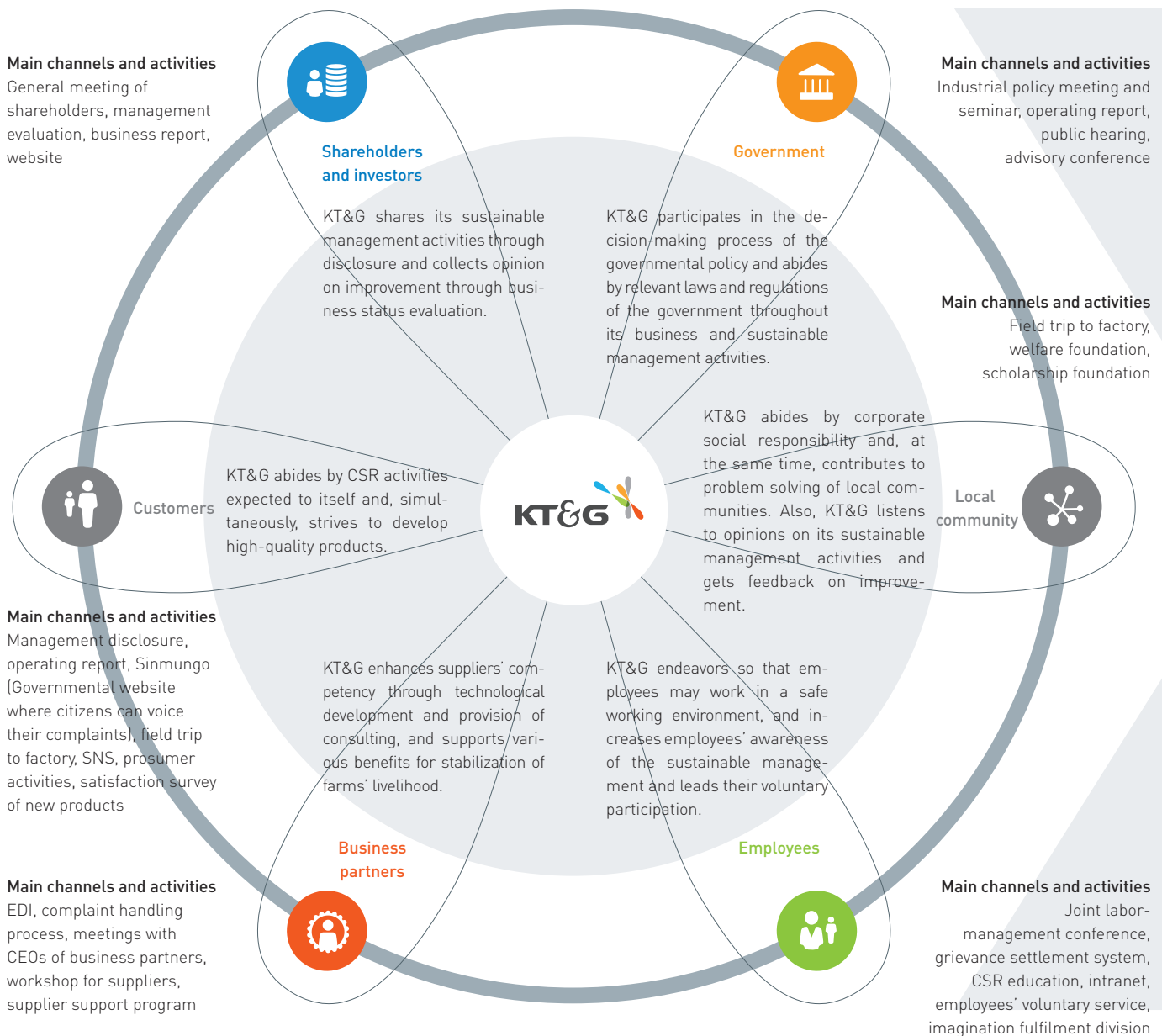
KT&G established and operates the company-wide manual for handling legal affairs in order to preemptively manage legal risk related business.

Main contents of the manual

Contract business	Legal advice	Commercial registration	Third debtor case
<ul style="list-style-type: none"> Suggesting guideline of contract business Making legal review and registration of contract compulsory Managing history by contract for business efficiency 	<ul style="list-style-type: none"> Suggesting guideline of request for legal advice(the method of using legal advice system) Regulating settlement procedure and instructions when accident/incident occurs 	<ul style="list-style-type: none"> Guiding essential commercial registrations Guiding deadline of commercial registration Stipulating the handling procedure of commercial registration 	<ul style="list-style-type: none"> Definition and department in charge of third debtor case Implementation procedure of distraintment Method of handling distraintment money

Stakeholder Engagement

KT&G identifies expectation and requirement of various stakeholders for fulfilling the sustainable management and reflects them in the management activities. Considering impact and importance on the management activities, KT&G defines customers, business partners, employees, local communities, government, shareholders and investors as major stakeholder groups, and operates the communication channel according to characteristic of each stakeholder group, thereby listening to shareholders' opinions.



Materiality Assessment

KT&G implemented materiality assessment in order to identify the impact which its sustainable management activities have on stakeholders and prepare for criteria by which it can manage significant issues systematically. Total issue pool used in the materiality assessment was comprised by referring to main issues dealt in the guideline of the Global Reporting Initiative(GRI) and ISO 26000, and then 19 issues appropriate for KT&G were classified through discussions with the internal sustainable management TF. KT&G analyzed media and sustainability reports of overseas enterprises belonging to the relevant industry in time for the reporting period. In addition, KT&G selected important issues in its business through investigation of TF target and discussion along with internal documents, and then selected significant issues by applying the analysis result.



Media analysis

KT&G collected and analyzed articles introduced in major medias from 2014 to 2015, including the reporting period of this report. As a result of media analysis, it showed that the contents on management performance, social contribution, and transparent · ethical management were exposed most frequently.

Benchmarking

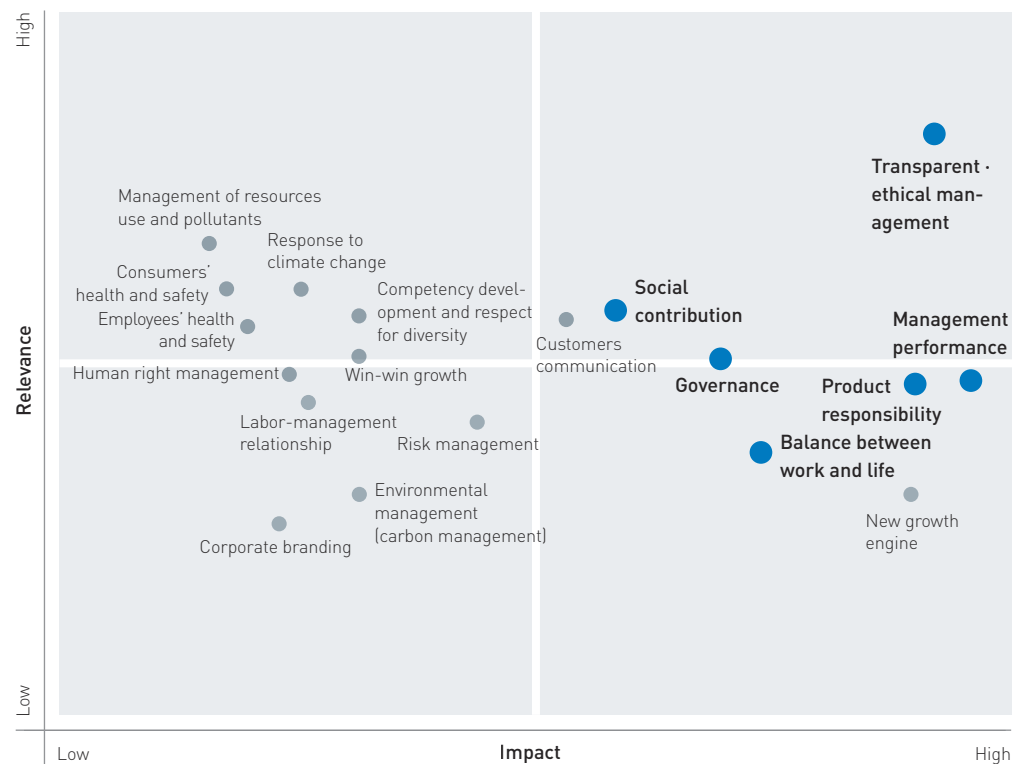
KT&G compared and analyzed the sustainability report of global tobacco companies, such as BAT, JT, IT(Imperial Tobacco) et al. As a result of benchmarking, communication with customers, win-win growth, resources use, and management of pollutants were selected as main issues.

Norm analysis

KT&G considered universal global issues by comparing main content of Global Reporting Initiative(GRI) G4 and ISO26000 with KT&G's issue pool.

Survey on business importance

KT&G implemented a participatory workshop redefining the sustainable management aimed at sustainable management TFs, and prioritized depending on the importance of business. The result of survey showed that management performance, new growth engine, product responsibility, and transparent · ethical management were thought important.



Seed On News Highlights : 2014-2015

Seed On News is KT&G's own broadcast aired within the company.

2014

'FAST', KT&G's learning organization

The learning organization sought by KT&G is FAST(Focus, Ask, Serve and Try). KT&G cultivated future-oriented human resources and learning team by making learning organization among employees and prepared for a guideline of "FAST 5 Action" in order to consequentially attain performance creation and enhancement of its competitiveness. KT&G will consistently foster and discover performance-aiming learning organizations, such as selecting excellent learning teams including production team of manual which is site-oriented and easy to understand.

Restart of 2014 KT&G learning organization

FAST learning organization

Focus

Ask

Serve

Try

5 Action

- 1 Learning team noisy with questions and discussions
- 2 Learning team looked forward to like Wednesday and Thursday drama
- 3 Fruitful, rather than showing off, learning team
- 4 Learning team cherishing contrary opinions
- 5 Learning team of which work, learning and education constitute a whole

2015

Low ignitable 'Blue Band' applied to all products

'Blue Band' initiated by KT&G's learning club is now applied to all products. 'Blue band' is KT&G's own low-ignition coating technology that has been developed to reduce the risks of fire due to a disposal of a burning cigarette. Especially, KT&G had developed 'Blue Band' technology actively in order to practice social responsibility before it became compulsory and, as a result, achieves import-substitution effect of saving foreign currency amounting to more than KRW40 billion each year.



President & CEO Bok-in Baek assuming office

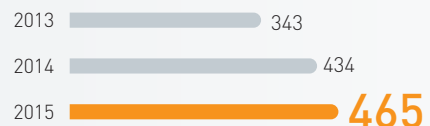
The new age of KT&G led by president & CEO Bok-in Baek has dawned. In his inaugural address, CEO Baek revealed his duty that he "will lead a new KT&G forward sustainable growth with the motto 'Righteous Management Leaping Forward the Future Altogether'". At the same time, he talked about his aspiration that he will preferably carry forward three management agenda of transparent · ethical management, communication · empathy management, and autonomy · performance management.



Length of exported tobacco can revolve around the earth 1250 times.

In 2015, KT&G's accumulated tobacco export exceeded 500 billion cigarettes. In addition, overseas sales volume outstripped domestic sales volume for the first time in 2015, and export was expanded to more than 40 countries. Shifting from existing Middle East-focused market, KT&G has been consistently cultivating new market in Asia Pacific area, Central and South America, and even Africa.

Global number of units sold (100 million cigarettes)

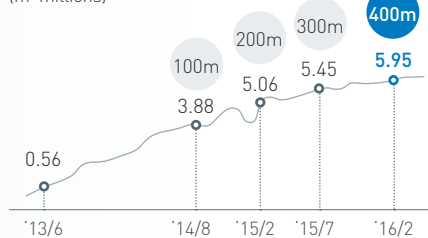


Sales of ESSE Change exceeding 100 million packs in 14 months

ESSE Change with ultra slim capsule cigarette was launched in June 2013 for the first time in the world, and its accumulated sales volume exceeded 100 million packs in 14 months after release. This means ESSE Change was sold 0.24 million packs a day, and it enjoyed high market share and repurchasing rate in university towns with its young and modern image. ESSE Change has been gaining market share consistently until now after release.

Esse Change Market Shares (%)

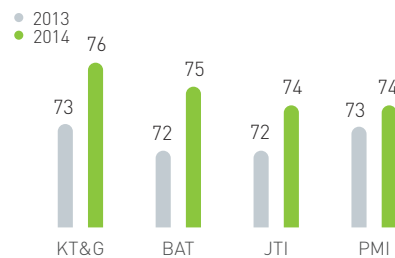
(m=millions)



1st Place in NCSI - the Result of 'Customer Value 2.0'

KT&G took 1st place in the tobacco sector with the record of highest score at 2014 National Customer Satisfaction Index(NCSI) for the 3rd year in succession. Quality management through continuous technological innovation and an accurate market trend analysis led to such achievement. Especially, KT&G makes an effort to raise the customer value in terms of social responsibility such as a development of 'Blue Band' and constant launch of new products to adjust to customers' preferences like Esse Change.

Result of NCSI 'Customer Recognition of Quality' Evaluation (point)



KT&G, Excellent in Energy and Eco-friendly Management

KT&G received citation from the Minister of Trade, Industry and Energy in 'the 36th Energy Saving Promotion Contest'. KT&G carried forward 'the Energy Use Efficiency Project' of collecting totally 241 ideas by opening internal 'Contest of Ideas for Saving Energy' in 2013, and practicing 38 energy tasks through energy assessment of 4 manufacturing plants throughout the country in 2014. Since 2012 when full-scale energy · eco-friendly management became operative, KT&G has achieved the energy-saving effect of more than KRW3 billion just in manufacturing sector.

Energy saving activities and results

- Energy use efficiency project
- Establishment of GHG inventory
- Completion of low-carbon green line
- Implementation of ESCO project
- Participation in winter/summer restriction of energy use
- Operation of Group Energy Conference

Effect of saving KRW3 billion

Released 5.55 million packs of RAISON Only One Edition

For the first time in the tobacco industry, KT&G implemented digital printing to deliver different package design of 5.55million packs. It became an opportunity to imprint creative sensitivity of RAISON on consumers based on distinctive idea and KT&G's technological prowess. As different design was applied to each package, there is no same shape of package, and each package can be identified with its unique number.



KT&G received presidential citation in MECENAT Awards

KT&G received Grand Prize for distinguished services of contributing to society and enhancing national competitiveness through MECENAT activity specialized in promotion of non-mainstream culture. KT&G supports non-mainstream cultural activities and provide the public with opportunity to enjoy culture through SangSang Madang(Imagination Yard).



Implementing leave of absence system in 2016 for balance between work and life

From 2016, maternity leave is newly established and child-care leave is extended to 2 years. During the leave period, KRW1-2 million is paid monthly. In-house venture leave is available to employees who have been with KT&G for 5 years or longer. Total amount of salary is supported up to 2 years, and venture incorporation expense is also provided. Finally, leave for supporting job change provides the opportunity of business start-up and helps employees change career during their term of office.

Sustainable Farming Life

Protecting farming villages through support of farm families cultivating tobacco

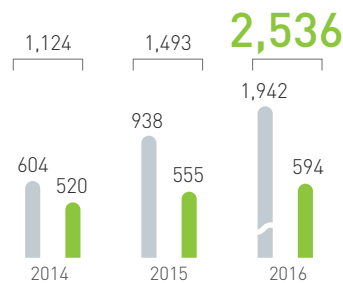
It is an important factor in KT&G's product competitiveness to get supplied with high-quality raw material of tobacco consistently. KT&G co-operates with domestic tobacco leaf cultivators by conducting a joint research to be able to produce high-quality tobacco and the purchase of entire stock helps the sustainability of the farms.

Cultivating farms and planted area



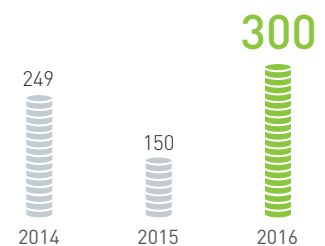
Accumulated number of supported low-income, aged farms

- Physical examination (persons)
- Scholarship / school uniform (persons)



Supported amount

(KRW1 million)



Promoting cultivators' health is the way to increase KT&G's competitiveness

The low birthrate and rapidly aging population is also an issue directly connected to KT&G. Actually, growing-tobacco farms and planted area have decreased drastically by more than 80% since 2002, and average age of growing-tobacco farmers increased rapidly from 56 years old in 2002 to 61 years old in 2016. Considering this, in May KT&G implemented comprehensive physical exam-

INTERVIEW



Interview with Mr. Jeong-hun Hwang who cultivates tobacco.

“ I have been cultivating tobacco for 6 years with my parents. Though I am very busy as these days are harvest time, I am going for physical examination with my mother. In tobacco farming, labor costs are high and it is difficult to hire workers. I have a backache during the harvest time. I thank KT&G for supporting the physical examinations like this. I hope that my children might be eligible for the benefit of scholarship from KT&G when they become students. I would like to keep on producing high-quality tobacco leaves by maintaining consistent cooperative relationship with KT&G. ”



ination targeting 1004 domestic leaf tobacco cultivators. As leaf tobacco is a labor-intensive farm work which is difficult to mechanize, all process is done manually. Also, the work is concentrated in mid-summer of July and August, preserving cultivators' health is important to KT&G. In addition, KT&G supported scholarship to 39 children of low-income farm families.

Vitalizing local economy through purchase of entire quantity

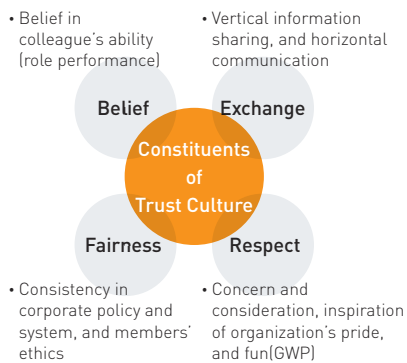
KT&G purchases the entire quantity of domestic leaf tobacco every year, and pays 30% of expected sales price of leaf tobacco in advance in April-June period by cultivator in order to lessen farm families' burden. In 2011 and 2012, KT&G supported about KRW3.4 billion additionally for stabilization of farm families, including support of decreased production damage caused by unusual weather phenomenon.

The volunteer corps comprised of KT&G's employees has been proceeding with harvest of leaf tobacco every year for leaf tobacco cultivators suffering from labor shortage, and in 2016 volunteer service will proceed in July and August when work is concentrated with the employees of Gimcheon raw-material factory as the central figures.



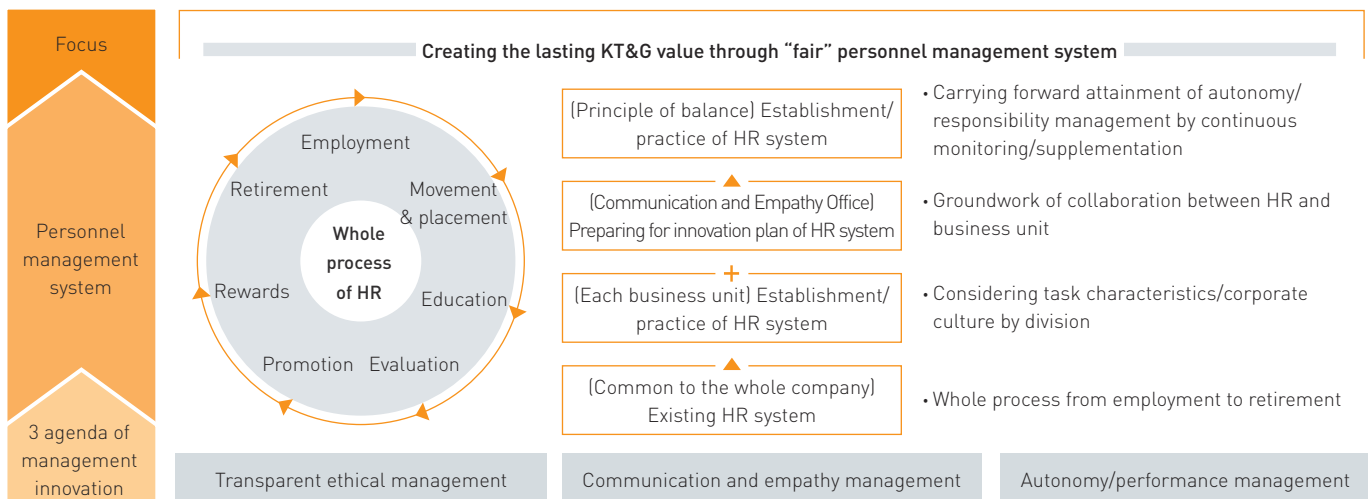
Communication and Empathy Office of 'Trust'

The most important thing in corporate culture is trust. KT&G created the Communication and Empathy Office in 2015 in order to make a strong enterprise having high trust and cohesiveness through assessment of current corporate culture and management proposal suitable for the corporate culture. The Communication and Empathy Office is comprised of the Future HR Department in charge of establishment of HR system suitable for KT&G and the Open Culture Department responsible for revitalization of organization through communication. The Communication and Empathy Office develops the followings activities based on the 4 trust-culture constituents of 'belief, exchange, fairness, and respect.'



Assessment of corporate culture / implementation of improvement works

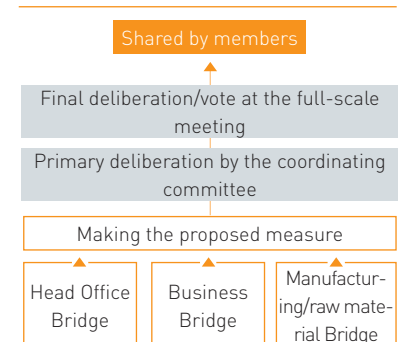
For KT&G's lasting value, the Communication and Empathy Office is making a fair personnel management system suitable for the performance management system based on autonomy and responsibility and corresponding to the corporate culture. As the personnel management system is the best means changing members' consciousness and behavior, a long-term endeavor including phased and consistent implementation and monitoring from systematic planning is required. KT&G is strengthening its competitiveness through introduction of the absolute grading system which can bring about actual enhancement of competency/performance, vitalization of job market/posting and implementation of job fair for fair movement and placement of employees, delegation of authority to adjust service allowance of administrative position for responsibility management by business unit, improvement of rewarding system for inspiring members' pride et al.



Imagination realization committee

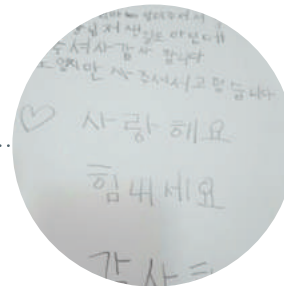
The Imagination Realization Committee is KT&G's platform of company improvement operated aiming at 'Establishment of KT&G's unique and strong corporate culture converting members' imagination into reality.' The Imagination Realization, headed by CEO as the chairman, appointed external expertise of corporate culture and receives support related to its activities. 'Imagination Bridge' comprised of 32 employees discovers improvement tasks and implements improvement work, and 'Adjustment Committee' comprised of 9 heads of the Head Office department level or higher primarily deliberates the proposed measure discovered by the Imagination Bridge. The proposed measures finally passed at the full-scale meeting are transferred to the relevant divisions for review/implementation.

Deliberation process of proposed items



Family-and leisure-friendly management

After getting selected as 'the family-friendly enterprise' in 2015, the Communication and Empathy Office is striving to balance work and family and complete leisure-friendly management. KT&G introduced and is operating the members caring program balanced by age for enhancing family-friendly management targeting all employees in accordance with diversification of the members. KT&G will support the family-friendly management to be more vitalized and strive to make a workplace where all the members feel happiness and self-respect by themselves through constitution and implementation of the care program fit for the members life cycle from employment to retirement.



Proposal management system

KT&G operates the proposal system in order to foster a culture of growing members' small ideas into big ones and stimulate business communication between upper and lower classes. KT&G established the proposal management system and strives to make the process ranging from registration to deliberation, reward, and sharing of proposals progress efficiently. In addition, through 'selection of the proposer of the month' on monthly basis and 'the challenging spirit award of the proud KT&G people' annually, KT&G fosters the environment for the members to propose voluntarily and actually implement continuous reward to excellent proposers. In 2015, 63% of the total employees registered 5,633 proposals, thereby creating KRW6.6 billion of financial effect.



▲ 'Morning opening mind', video contents introducing the institution



▲ 'Radio Endorking(endorphin + king)', a member participating radio broadcasting

Team building

Breaking from the past fragmentary workshop, KT&G planned and operates a team building program named as 'the value workshop' in order to share work experience with other colleagues, understand colleagues' emotion, and accumulate pleasant memories of life with colleagues as partners in life. The program is diversely comprised of 'Indoor rowing', 'Enthusiastic running man', 'Della transformer', 'To the forest', 'Correct understanding between you and me', and selects programs reflecting the purpose and characteristic of applicants and proceeds with them. In the first half of 2016, about 323 employees from 28 divisions participated and KT&G will keep on discovering and supporting new programs reflecting members' demands.

Operating the online communication channel

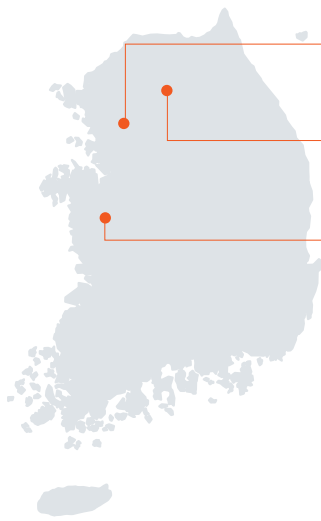
KT&G operates 'Communication and Empathy' bulletin board in order to vitalize all members' communication. The 'Communication and Empathy' bulletin board is comprised of 'Idea of KT&G' enabling employees to express diverse opinions, 'Sound of Mind' sharing members' stories, and 'Imagination Realization' sharing activities of the Imagination Realization Committee. In addition, KT&G assigns the function of posting under the pen name. KT&G plans to generate synergy with off-line communication through periodic reorganization of the online communication channel.

Establish the Infrastructure of Imagination “for Enjoying Diverse Cultures Anywhere”!

‘We secure diversity by supporting artists of non-mainstream culture and arts field, and expand the opportunity for anyone to come upon culture and arts.’

KT&G wishes to make various arts contents enjoyed universally through the management of ‘SangSang Madang’ and ‘SangSang Art Hall’.

By opening SangSang Madang Chuncheon in 2014, following SangSang Madang Hongik University in 2007 and SangSang Madang Nonsan in 2011, KT&G turned them into representative cultural platforms of the relevant regions. As a result, ‘SangSang Madang’ has grown a complex cultural space having 1.8 million visitors a year, thereby becoming a foothold for a development of regional culture and arts and stimulation of the economy. Henceforth, KT&G will keep on supporting various artists and popularizing non-mainstream arts through nation-wide expansion.



SangSang Madang Hongik University

65, Eoulmadang-ro, Mapo-gu, Seoul, Korea,
Sangsangmadang Building

SangSang Madang Chuncheon

25, Sports town-gil 399beon-gil, Chuncheon-si,
Gangwon-do, Korea

SangSang Madang Nonsan

15-20, Hancheon-gil, Sangwol-myeon, Non-
san-si, Chungcheongnam-do, Korea



▲ SangSang
Madang Hongik
University



▲ SangSang Madang Nonsan

“Neither neglected artists, Nor isolated area”



▲ SangSang Madang Chuncheon

About the cultural space named SangSang Madang

Through SangSang Madang, KT&G brings up and supports creators of various fields including but not limited to indie music, independent movie, animation, design, and independent press, thereby leading popularization of the relevant genre. Through programs like ‘Surround’ et al supporting musicians with high potential of growth, KT&G helps creators get real help, and provides the public with opportunity to experience various cultures. KT&G strives to develop performance area through operation of ‘SangSang Art Hall’ capable of performance of various genre including play, concert, musical et al. KT&G will keep on providing regional residents with opportunities to enjoy diverse cultures through operation of culture and arts infrastructure representing Korea and support to creators.



“Receiving 2015 MECENAT Award(presidential citation)”

Getting credit for contribution to development of culture and expansion of arts enjoyed by the people, such as SangSang Madang and SangSang Art Hall et al, KT&G received the grand prize in MECENAT Awards in November 2015. KT&G received high score in the way that it supported creators in the areas of indie music, independent movie, visual arts and design, and provided the space for cultural experience and reproduction by making the public and rising artists interact with one another. KT&G will keep on playing the role of MECENAT enterprise faithfully by concentrating on the specialized area of ‘bringing up non-mainstream culture.’

Interview with CEO

Q. What is the reason that you decided to support non-mainstream genre, such as ‘experimental’, ‘indie’, ‘independent’ arts?

The national prestige of a country depends on how diverse is the people’s thought going through the country. In the same vein, when the genre of culture and arts are diverse and plentiful, the society’s thoughts and sensitivity enjoying such culture and arts can be diversified. As mentioned earlier, when SangSang Madang Hongik University was opened in 2007, culture and arts were limited to popular entertainment. Thus, as it seemed that culture and arts needed to be more diverse, I decided to support the non-mainstream genre.

Q. What influence do you think KT&G’s MECENAT had on culture and arts world?

I look forward to the day when all the People enjoy diverse cultures and communicate one another at ‘KT&G’s SangSang Madang’. For the sake of ‘popularization of non-mainstream culture and arts’, KT&G has supported creative work of new artists who belonged to non-mainstream field and were unnoticed by the public, such as performance, independent movie, design, visual art et al, and provided the general public with the opportunities to enjoy such culture and arts. Through this, in my opinion, the culture and arts world which had been confined to certain fields came to have more diversity.

The Whole Creating Process of KT&G's Products

KT&G controls the whole process until tobacco leaves which grew under the heat and sunlight of hot summer are delivered to customers through the manufacturing process of cutting-edge facilities. KT&G purchases superior-quality tobacco leaves and raw materials suitable for customers' needs and product features, develops new technology and expands the plant capacity of main products in the manufacturing process. Thus, KT&G has the system of delivering high-quality products needed by the customers on time.

4 Tobacco retail stores

Customers can purchase KT&G's product anywhere and anytime through more than 120,000 stores throughout the country.

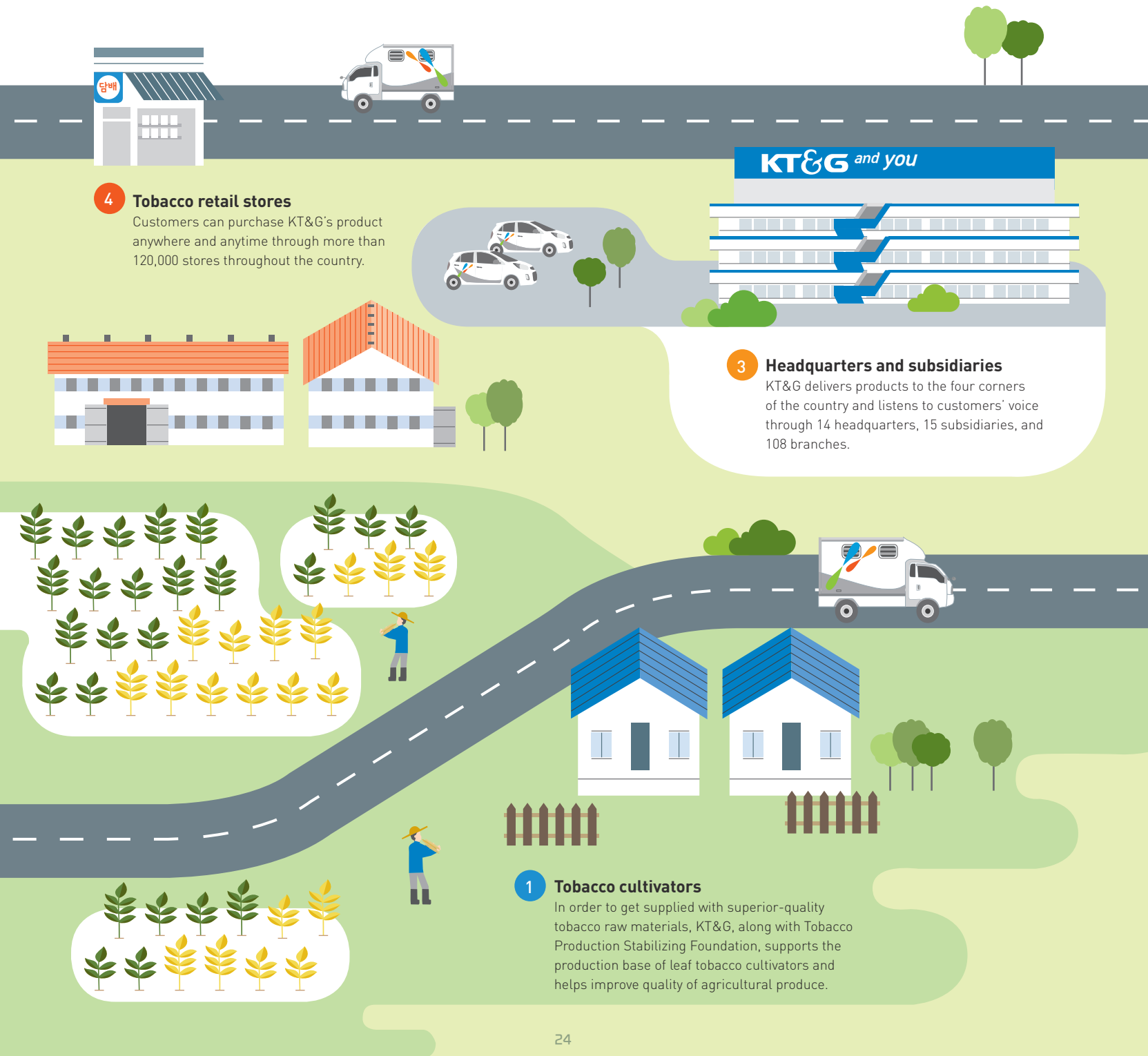
KT&G and you

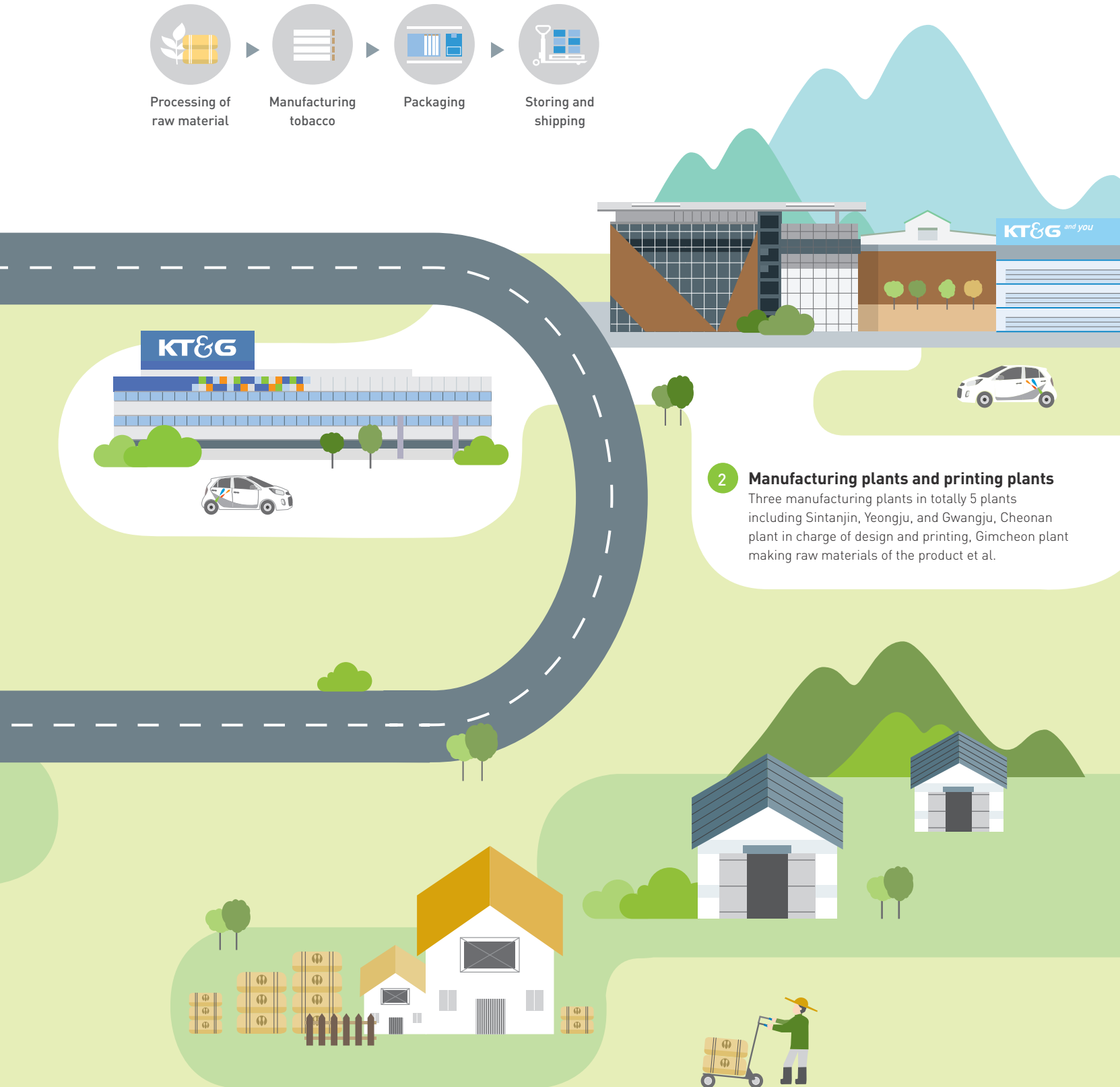
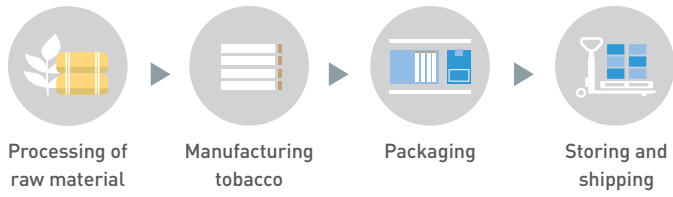
3 Headquarters and subsidiaries

KT&G delivers products to the four corners of the country and listens to customers' voice through 14 headquarters, 15 subsidiaries, and 108 branches.

1 Tobacco cultivators

In order to get supplied with superior-quality tobacco raw materials, KT&G, along with Tobacco Production Stabilizing Foundation, supports the production base of leaf tobacco cultivators and helps improve quality of agricultural produce.





- 2 Manufacturing plants and printing plants**
Three manufacturing plants in totally 5 plants including Sintanjin, Yeongju, and Gwangju, Cheonan plant in charge of design and printing, Gimcheon plant making raw materials of the product et al.

Economic Performance

Despite of difficult conditions including but not limited to low growth trend, MERS epidemic, and various changes of governmental policies, KT&G evenly grew in all sectors. At the same time, KT&G shared economic value with employees, shareholders/investors, government and regional communities, and business partners while growing with them.

KT&G will establish the foundation of growth as a global enterprise and actively explore the opportunity of new business by expanding the market control base of the existing business as well as concentrating on the global market of high growth potential.



Key Figure

Business profit

Increased by **16.6**%
(KRW1,171.9 billion in 2014
▶ KRW1,365.9 billion in 2015)

Overseas turnover

Increased by **27.8**%
(KRW533 billion in 2014
▶ KRW681 billion in 2015)







NCSI survey for 4 consecutive years

1st place
(2012~2015)

Mid/Long-term Business Strategy

For maximizing corporate and members value, KT&G will expand sales portion of growth engine business(overseas tobacco, red ginseng/healthy life, pharmacy/bio et al) and build business portfolio equipped with differentiated competitiveness of global level based on mid/long-term business strategy, thereby jumping up to be "a global excellent enterprise."

Vision

Vision	Jumping up to be a global excellent enterprise					
	Building more balanced global-centered business portfolio					
Mid/long-term business objectives*	Turnover in 2018			Business profit in 2018		
	KRW 5,374 billion			KRW 1,647.7 billion		
	Group's annual average growth rate	Group's business profit rate		Sales costs of growth engine**		
	8.6 %	30.7 %		67 %		
Business portfolio						
	Domestic tobacco	Overseas tobacco	Red ginseng	Real estate	Cosmetics	Pharmaceuticals
	KT&G(domestic)	KT&G(overseas)	KGC	Real-estate sales business	KGC LIFE & GIN	Yeongjin Pharmaceutical Co., Ltd.
	manufactured by KT&G	KT&G overseas subsidiary	KGC overseas subsidiary	Operation business	Somang Cosmetics Co., Ltd	KT&G Life Sciences
	Expansion of new business	Trisakti	Jilin Hanjeong	Expansion of new business	Expansion of new business	Expansion of new business
		Expansion of new business	KGC YEBON			
			Expansion of new business			
Sales portion	35 %	22 %	22 %	11 %	5 %	5 %

* Including separate financial statements

** Business excluding domestic tobacco business

Brand Management

Brands loved and trusted by consumers not only provide the enterprise with value, but also are linked to creation of economic performance and protect the enterprise from various risks. Especially, brand name and value of tobacco as well as its quality have considerable influence on customers' choice.

Thus, KT&G enhances grip on the domestic market and brand power through active brand management activities including but not limited to thorough analysis of market/trend and marketing-centered R&D/manufacturing activities. In addition, based on brand survey in various fields, such as competitiveness, satisfaction, awareness, image et al, KT&G measures the performance

2014 Major new products launched



Cigar box edition of BOHEM Cigar Master
(Limited edition, 2014. 3. 26)

Manufactured by applying high-quality wooden box containing cigars, 'BOHEM Cigar Master' is the most high-end product of all tobaccos on the Korean Market and 36% of the leaf tobacco is used with Cuban cigar leaves.



ESSE Change W
(2014. 4. 2)

It is the product equipped with space filter for the first time in the ESSE Change series, conveying clean taste through hard filter. It realized ESSE's soft and clean taste, and provides unusual and unique smoking taste of the Change series.



RAISON SUN PRESSO
(2014. 6. 18)

It is the 4th extended product of PRESSO line providing distinctive flavor unrecognizable in existing tobaccos, and is a tobacco enabling consumers to feel 2 tastes of unique and distinctive flavor and unusual crispness of PRESSO.

2015 Major new products launched



THIS Africa Mola
(2015. 1. 15)

Its features are the blending using special leaf tobacco made with African traditional manufacturing method and the filter technology providing the pleasure of choice.



Slim Fit White, Slim Fit Brown
(2015. 3. 11)

Shifting from soft and mild ultra-slim product, it is ultra slim but contains cigar leaves by 20%, thereby realizing rich and soft taste, and it is comprised of two kinds of cigarette; general cigarette(white) and cigar-wrapper cigarette(brown).



Cigar NO.6 Nouveau
(Limited edition, 2015. 11. 18)

It makes consumers feel fresh and soft taste of cigar with the blending utilizing new cigar leaves harvested in 2015, and it multiplies delicate fragrance and flavor.

of brand, establishes systematic strategy and continuously launches innovative new products. Through such endeavor, KT&G maintains undisputable first place in Korean tobacco market in the face of stiff competition with foreign tobacco companies possessing quite a lot of famous brands, ESSE, its typical brand, has become a best-selling ultra-slim tobacco brand in the world. KT&G will keep on striving for creation of sustainable performance, such as enhancing its brand competitiveness continuously and fostering premium brands el al through the differentiated brand strategy satisfying customers' needs.



THIS Africa Rula
[2014. 9. 23]

It enables consumers to feel its own sweet savory and fresh taste at the same time, and for more clean smoking, it applied the space filter not getting soft easily.



ESSE Su Masterpiece
[2014. 8. 27]

By using the highest-quality leaf tobacco it realized the natural taste of tobacco. KT&G autonomously researched and succeeded in developing the bamboo-extracted fiber filter equipped product which enhanced the neatness and cleanness.



THE ONE Change
[2014. 7. 17]

It is the product enabling consumers to feel neatness of THE ONE and unusual crispness, and its package symbolized crisp image based on the unique blue color and symbol of THE ONE.



RAISON French Black
[2015. 11. 18]

Based on the cultural code of France, a typical country of art, KT&G enhanced creative/artistic sensitivity pursued by RAISON, and provided unconventional feeling of smoking through matured black tobacco.



THE ONE Gold Label
[2015. 12. 21]

It is the product developed for dominating the 1mg high-price regular market. Hardwood charcoal granules were inserted in the triple filter, and it was launched as the traditional tobacco style favored by the consumers of their 30s and 40s. The package was developed with elaborate design mixing gold and black for realizing the sense of high grade.

Customer Satisfaction

Communication with customers

KT&G always listen to customers' voice in order to deliver the best product to customers, and consistently strive to make better products.

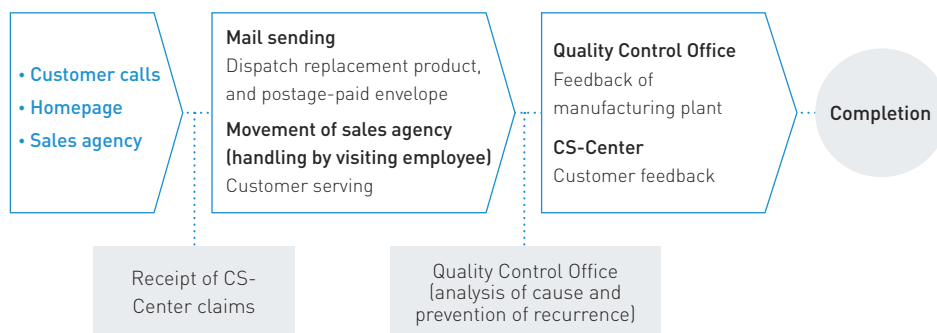
Homepage

KT&G arranges and posts 'Frequently Asked Questions(FAQ)' in its homepage in order for stakeholders to search questions about the whole company including but not limited to brand, product, quality, and recruitment. Besides, KT&G answers customers' questions through Q&A in the homepage, and posts the outcome of the handling in the homepage or informs customers by mail.

Receipts of customer counselling (items)

General counselling			Product claim		
Category	2014	2015	Category	2014	2015
Product	156	112	Recent issues	267	192
General	138	120	Health	14	8
Marketing/ business	83	92	Cooperation	149	86
License	67	81			
Policy details	20	13			
Regulations	14	12			

Business process of CS-Center



Receipts of civil complaints from customers (items)

Category	2014	2015
Kind of opinion	80	55
Exemplary cases	158	79
Sinmungo		
Various information	71	16
Misconduct	100	44
Others	382	91
Total	791	285

Result of customer satisfaction (point)



Sinmungo

KT&G implements preventive inspection by operating Sinmungo where customers' complaints or KT&G's irrationalities can be reported. Issues received to Sinmungo are delivered to CEO's email and immediately handled. Various stakeholders can inform all sorts of misbehaviors including bribery related to business, waste of budget et al, and also can recommend exemplary cases and employees related to the Company. KT&G has been systemizing operation of Sinmungo better since 2013, and endeavors to handle all of the received issues.

Results of the customer satisfaction activities

KT&G took first place for 4 consecutive years following the first place in 2012 in the National Customer Satisfaction Index(NCSI) directly evaluated by the customers who have experienced use of product and service. This is the result of customers' acknowledgement that KT&G meets customers' taste becoming more and more diverse by continuously developing and launching differentiated new products.

Quality Management

Activities for improving quality

Operation of the infrastructure for quality enhancement

KT&G is enhancing customer satisfaction by implementing thorough quality control through quality management and providing customers with the best products.

Taste-quality guarantee system

KT&G is monitoring the whole production process in real time in order to make such process correspond to standards and criteria. For the products manufactured like this, KT&G once again checks taste and quality through the sensory evaluation.

Double verification system

Double verification system is the system for highly skilled experts to verify the quality level of the product finally through precise quality analysis just ahead of product shipment. Through this, KT&G improves the quality of products.

Real-name Quality system

By adopting 'the real-name quality system' for the first time in the tobacco industry, KT&G marks the date of production and manufacturer's name on the bottom surface of the tobacco package for all the products sold in Korea. Through this, employees at the production site do their best to make the products made by themselves maintain the best quality, and their pride of product was enhanced. In addition, after implementation of real-name quality system, customer complaint caused by long-term distribution product decreased drastically and tracing of non-conforming products became easy, thereby enhancing responsiveness to the quality control.

Production quality analysis

When products unfit for 395-kind quality inspection items are found, KT&G stops the facilities immediately, solves the problem, and then operates the facilities again. In the processing of various materials for manufacturing, KT&G operates an automatic system for verifying accuracy of mixing and casing in real time in order to assure the uniformity of taste and flavor. Along with these, KT&G not only blocks occurrence of nonconforming items perfectly through 31 automatic detection devices of nonconforming products, but also experts of sensory evaluation verify final taste, flavor and quality of the product.

Safe and excellent materials

KT&G carefully chooses only high-quality leaf tobaccos and through component analysis, uses only leaf tobaccos matching the safety criteria(118 items) of CORESTA(Cooperation Center for Scientific Research Relative to Tobacco). In addition, KT&G uses only the materials produced by the companies which are in accord with the safety criteria of US FDA and passed the conformity assessment of quality system(totally 71 items). Also, for newly used materials, KT&G regulated that only the product which passed the safety evaluation should be used.

Provision of responsible product information

KT&G writes the relevant warning on all of the products and about the words which could cause confusion to consumers, abides by the international norm. In case of all wrappers of tobacco pack and advertising matters, KT&G writes words of warning in accordance with Tobacco Business Act and Regulations and National Health Promotion Act and Regulations, and also for the exported products, writes words of warning in accord with laws of the relevant countries. Even in countries where the words of warning are not compelled legally, KT&G marks the warning for consumers' right to know. KT&G has never violated laws and regulation or internal rules.



▲ Tobacco on which the producer's real name is marked

Economic Indicators

Statement of financial position(consolidated) (KRW100 million)

Title of account	2013	2014	2015
Non-current assets	28,864	30,101	31,025
Current assets	41,886	44,086	55,709
Total assets	70,750	74,187	86,734
Capital	9,550	9,550	9,550
Treasury stock	-3,391	-3,391	-3,371
Gains before sales of treasury stock	4,920	4,920	4,946
Other capital surpluses	-46	-46	-99
Reserve	33,689	34,264	37,043
Earned surplus	8,028	11,009	14,020
Equity of parent entity's owner	52,750	56,306	62,089
Non-controlling interest	905	775	666
Total equity	53,655	57,081	62,755
Non-current liabilities	5,272	5,860	5,262
Current liabilities	11,823	11,246	18,717
Total liabilities	17,095	17,106	23,979
Total equity and liabilities	70,750	74,187	86,734

Income statement(consolidated) (KRW100 million)

Title of account	2013	2014	2015
Turnover	38,217	41,129	41,698
Cost of sales	16,886	18,409	16,306
Gross profit	21,331	22,720	25,392
Selling and administrative expenses	11,198	11,001	11,733
Operating profit	10,133	11,719	13,659
Net income before income taxes	8,819	11,579	14,144
Tax expense	3,226	3,441	3,822
Current net income	5,593	8,138	10,322
Other comprehensive income	128	-684	-308
Comprehensive income	5,721	7,454	10,014

Grants from the Government (KRW1 million)

Category	2013	2014	2015
Tax credit for temporary investment	798	0	0
Tax credit for capital investment for research and HR development	105	21	14
Tax credit for productivity improvement/investment in specific facilities	0	0	0
Tax credit for facility investment for environmental preservation	0	0	0
Tax credit for energy saving investment	0	6	0
Tax credit for research and HR development expense	371	329	234

Overseas sales figures by major brand (KRW1 thousand)

Brand	2013	2014	2015
Esse	284,962	344,729	414,810
Pine	112,647	155,870	134,633
Time	35,961	51,174	77,660
Carnival	15,794	14,540	19,807
Cima	5,061	9,503	14,587

Domestic sales figure by major brand(net sales) (KRW1 million)

Brand	2013	2014	2015
ESSE	905,859	997,587	789,716
THE ONE	233,188	226,272	167,006
RAISON	187,254	186,130	141,347
BOHEM	112,707	126,811	124,342
Lamborghini	12,035	8,492	6,369
THIS	143,262	138,974	145,847

※ Data of 'This' is different from the report two years ago as such report only included 'This Plus' product but this report displays the complete addition of various 'This' products.

Environmental performance

KT&G will stand as an eco-friendly enterprise by managing pollutants discharge throughout the entire business activities in order to practice the integrated environmental management and applying various technologies for responding to weather change. KT&G will carry out its social responsibilities to the fullest in order to pass an enterprise considerate of the environment and customers, and clean and beautiful nature to our descendants on the basis of eco-friendly materials and development of new technologies.



Key Figure

Energy efficiency improvement cases
in 2015

44 items

GHG emission

Reduced by **4.2** %
[101,135tCO₂ in 2014 ▶ 96,884tCO₂ in 2015]

Field trip to the plant for eco-friendly
communication in 2015

6,918 persons

Environmental Management

Implementing and practicing the environmental management

KT&G strives to respond to climate change and minimize the environmental impact through diverse activities including but not limited to GHG management, improvement of product wrapping paper, and environmental management of surrounding areas.

Implementing direction of KT&G's environmental environment

KT&G is standing as an eco-friendly enterprise by managing pollutants discharge throughout the entire business activities in order to practice the integrated and systematic environmental management, while developing and applying technologies for responding to diverse weather changes.

Implementation system and operation of KT&G's environmental management

Based on the implementation system of the environmental management established in 20xx, KT&G strives to settle and expand the environmental management. For environmental management at the workplace and reduction of GHG emission, KT&G carries forward the environmental management in mid/long term point of view.

Implementation system chart of KT&G's environmental management

Implementation system	Eco-friendly management of plant	Establishment of emissions management system	Enhancement of members' environmental awareness	External communications activities
Implementing direction	Establishing the clean factory through eco-friendly process management	Managing systematically air, waste, water pollutants and GHG	Improving members' environmental awareness through systematic education and consciousness rising	Enhancing public communication competency through thorough management of environmental performance
KT&G's Eco-friendly roadmap (mid/long-term intensive tasks)	<ul style="list-style-type: none"> • Designated as the eco-friendly enterprise • Enhancing green purchase rate of the workplace • Establishing and setting up R&R (Role & responsibility) 	<ul style="list-style-type: none"> • Improving and evaluating business partners' ability of environmental management • Acquainting employees with the environmental manual • Managing GHG emission and participating in the emission trading system 	<ul style="list-style-type: none"> • Enhancing and continuously carrying forward the environmental consciousness • Improving employees' completion rate of the environmental education program 	<ul style="list-style-type: none"> • Continuously carrying forward social contribution activities related to the environment • Continuously participating in CDP (Carbon Disclosure Project)

Responding to climate change

Managing the climate-change risk

Climate change et al caused by global warming increases uncertainties of the management conditions, and its impact on the overall business is getting increasingly serious. Actively develops eco-friendly products in addition to direct GHG reduction activities, and preemptively responds to Government's political changes, thereby managing risks related to climate change.

Participating in the emission trading system

When the emission trading system was enforced in 2015, KT&G was also registered as the management enterprise. KT&G established the inventory of the past four, and is striving to establish the manufacturing process managing more efficiently the energy use necessary for plant operation. KT&G implemented 'the Energy Use Efficiency Project' under such directivity, and proceeded with the energy assessment to 4 plants of Sintanjin, Yeonagju, Gwangju and Cheonan along with an external professional energy assessment institute. As a result, KT&G drew 37 and 11 tasks in 2014 and 2015 respectively. KT&G plans to introduce the energy generating system with no GHG emission, thereby actively participating in Korean Government's Supply Project of New and Renewable Energy.

Main improvements and savings in the energy use efficiency project

Plant	Improvements	2014		2015	
		Case of improvement (item)	Savings (KRW10 thousand/year)	Case of improvement (item)	Savings (KRW10 thousand/year)
Sintanjin	Replaced one absorption refrigerator with the turbo refrigerator, established the infrastructure of the demand response project, introduced 16LED in the workplace et al	16	1,175	4	663
Yeongju	Replaced two absorption refrigerators with high-efficiency refrigerators, established the monitoring system of maximum electric power et al	8	321	2	10
Gwangju	Improved insufficient feed water preheat of boiler, applied FD FAN inverter of boiler et al	8	217	2	34
Cheonan	Substituted the one through boiler and installed the inverter of conditioning equipment et al	5	123	3	100
Total		37	1,836	11	807

Managing the amount of energy used and GHG emission

All of KT&G's divisions cooperate with one another closely, and KT&G counts and manages the energy used in the four plants by classifying it into fuel(LNG) and electric power. KT&G is carrying forward activities for saving energy by plant and, as a result, GHG emission in 2015 was 96,884.48(t CO₂), decreased by 4.2% compared with the previous year.

Category		2013	2014	2015
Fuel (TJ)	Fuel	721.49	664.70	720.43
	Electric power	1,282.60	1,308.17	1,207.25
	Total	2,004.09	1,972.87	1,927.68
GHG (t CO ₂)	Direct emission	40,659.73	37,600.55	38,251.29
	Indirect emission	62,292.93	63,534.67	58,633.19
	Total	102,952.66	101,135.22	96,884.48

※ The data of 2013 is different from the previous report because before, the data of only manufacturing plant has been included but this report's data extended the measure by the addition of the whole entity's energy consumption and greenhouse gas emissions.

Establishing 'the low-carbon green line'

KT&G's Yeongju Plant established 'the low-carbon green line' by utilizing the steam of about 3,300 tons thrown away by a nearby factory manufacturing aluminum products as the energy source for cooling during the summer. KT&G came to use steam with low cost by directly receiving steam from a nearby factory. As a result, KT&G enhanced the environmental soundness of the plant by saving LNG used in the boiler and, simultaneously, utilizing steam which had been thrown away as there had been no use.

Increase in environmental significance

KT&G exerts various efforts into the production, packaging, disposal of the product to fulfill eco-friendly quality management. Eco-friendly inside paper and the usage of reduced pulp material are finished to depreciate greenhouse gas emission and lightened the packaging weight of the product by improving inside and outside packing materials and wrapping paper of carton. In addition, the development of biodegradable film has diminished the degradation rate from 100 years to less than 10 years to decrease the bad effects to the soil.

Improvements	Explanation	Effect
Stencil paper made with recycled pulp	Making pulp by collecting used paper	<ul style="list-style-type: none"> Protecting forest resources by reducing use of natural pulp Reducing 400 tons of pulp use and 900 tons of GHG emission in a year respectively
Oxidized and bio-degradable OPP film	Developing eco-friendly film moving up the decomposition time and applying it to domestic products	<ul style="list-style-type: none"> Reducing burden to soil caused by landfill of waste vinyl, and improve contamination(decomposition speed: long than 100 years→ shorter than 10 years)
Improving quality of carton wrapping material(not using vinyl)	Excluding vinyl case made of petroleum and replacing it with the paper of which use of pulp is not much	<ul style="list-style-type: none"> Reducing use of resources and GHG emission Reducing 1,500 tons of pulp use and 3,900 tons of GHG emission in a year respectively
Improving inner paper of cigarette pack(not using aluminum)	Developing recyclable eco-friendly inner paper instead of unrecyclable aluminum foil, and applying it to domestic products	<ul style="list-style-type: none"> Protecting forest resources and reducing GHG emission Reducing 850 tons of aluminum use and 2,000 tons of GHG emission in a year respectively
Reducing basis weight of wrapping paper	Applying new wrapping paper which reduces pulp use	<ul style="list-style-type: none"> Protecting forest and reducing GHG emission Reducing 2,000 tons of pulp use a year
Water Base casing	Replacing alcohol with water for material used in casing	<ul style="list-style-type: none"> Reducing 2,200 tons of GHG in a year
Nude OPP for export	Reducing paper use by not applying carton wrapping paper to some exported tobaccos but by wrapping them with film only	<ul style="list-style-type: none"> Protecting forest resources and reducing GHG emission Reducing 90 tons of pulp use and 122 tons of GHG emission in a year respectively
Eco-friendly adhesive (tip paper, cigarette paper)	Acquiring eco-friendly certification from the national accredited institute for the cigarette paper/tip paper adhesive used to avoid absorption of heavy metals	<ul style="list-style-type: none"> Enhancing customers' trust by securing national institute's certification
Ink for the wrapping paper printing	Providing customers with upgraded quality by supplementing the problem of aqueous ink which received eco-friendly certification	<ul style="list-style-type: none"> Enhancing guarantee of the product quality

Enhancing eco-friendly communication

Minimizing the environmental risk of the area surrounding the workplace

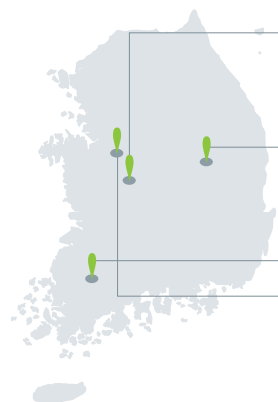
In order to minimize the environmental impact on the surrounding area caused by plant operation, KT&G is monitoring bad smell, waste water and air pollution of the area in the vicinity of the workplace in real time. In addition, KT&G is carrying forward environmental cleanup activities continuously for vacant buildings and sites for factories in order to improve the environment of surrounding area.

Implementing tour of the manufacturing plant

For opening to public the manufacturing environment by the quality and environmental system and the eco-friendly facility operation of ISO international standards, KT&G operates the tour program at 2 plants including Yeongju Plant. In 2015, KT&G proceeded with tour program for 6,918 persons.



Environmental performance



Management of water resources

In order to minimize use of underground water, KT&G has been recycling the cooling water since 2012, and each plant installs the condensed water recovery system of air conditioner, replaces the cooling tower et al.

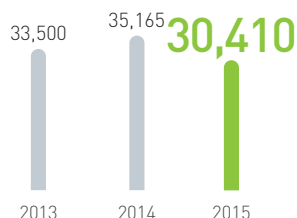
Category (ton)		2013	2014	2015
Sintanjin Plant	Amount of waterworks used	156,140	145,670	143,385
	Amount of underground water used	43,921	47,443	38,413
	Total amount of water used in a year	200,061	193,113	181,798
Yeongju Plant	Amount of waterworks used	67,108	68,571	66,871
	Amount of underground water used	53,330	47,293	52,172
	Total amount of water used in a year	120,438	115,864	119,043
Gwangju Plant	Amount of waterworks used	122,142	83,389	75,237
Cheonan Plant	Amount of waterworks used	34,136	43,470	36,966

※ Data of 2013 is different from the report two years ago because the date of data output measure has changed to the water usage charge date.

Management of waste water

KT&G minimizes generation of waste water through endeavor for waste water management, such as improvement of waste water pipe, improvement of process et al.

Amount of raw materials used (ton)



* Following the government policy in 2015, the use of raw materials declined as the total production output reduced.

Category	Sintanjin Plant			Yeongju Plant			Gwangju Plant		
	2013	2014	2015	2013	2014	2015	2013	2014	2015
COD (mg/L)	13.48	16.83	13.42	11.74	12.28	8.87	5.57	4.28	4.95
BOD (mg/L)	4.81	5.79	2.28	3.71	3.19	2.17	1.85	1.22	1.83
SS (mg/L)	6.17	9.84	7.33	4.50	9.93	6.65	9.15	7.88	9.73
T-N (mg/L)	3.50	11.14	5.63	7.78	9.04	6.04	8.99	10.08	6.96
T-P (mg/L)	0.10	0.18	0.05	1.04	0.29	0.27	1.00	1.11	1.63
Total amount of waste water (ton)	46,346	52,647	46,024	28,528	29,991	31,025	49,369	42,764	45,667

Management of the waste substance

In order to reduce and recycle the waste substance generated in the workplace, KT&G performs various activities, such as developing eco-friendly products and technologies, supporting internal learning organizations et al.

Category (kg)	Sintanjin Plant			Yeongju Plant			Gwangju Plant		
	2013	2014	2015	2013	2014	2015	2013	2014	2015
Tobacco dust	290,360	259,970	222,940	93,814	108,326	42,331	56,890	37,550	24,610
Waste synthetic resin	293,004	214,840	216,210	300,530	356,800	326,480	106,150	98,000	41,790
Waste synthetic resin (plastic)	104,270	298,271	322,953	42,510	39,155	31,970	-	-	-
Waste synthetic fiber	317,420	248,750	201,290	-	-	-	-	-	-
Sludge	205,740	161,830	130,160	120	128	110	24,110	12,500	8,170
Other general combustibles	173,350	169,640	106,620	-	-	-	32,440	64,510	3,440
Others	301,586	391,430	306,630	-	-	-	-	-	-
Total amount of waste substance generated	1,685,730	1,744,731	1,506,803	436,974	504,409	400,891	219,590	212,560	78,010

※ A few data are unreported(waste of synthetic fibers) because the classification system of Sintanjin Plant is different from Yeongju and Gwangju Plants.

Social Performance

In order to clarify its new message of the social contribution activities as 'KT&G – Korea's Typical Enterprise of Cultural Contribution' and create the shared value, KT&G carries out the contribution activities based on stakeholders' needs of the raw material cultivating area. KT&G prepared diverse leaves of absence and vacations for improving employees' living quality, and formed 'Imagination Realization Committee', a communication platform participated by experts and employees. In addition, KT&G strives to grow with business partners through win-win growth.



Key Figure

2015



Newly established Communication and Empathy Office

2015



Acquired 2015 certification of family-friendliness

2015



Established the SangSang Fund donation market

Employees

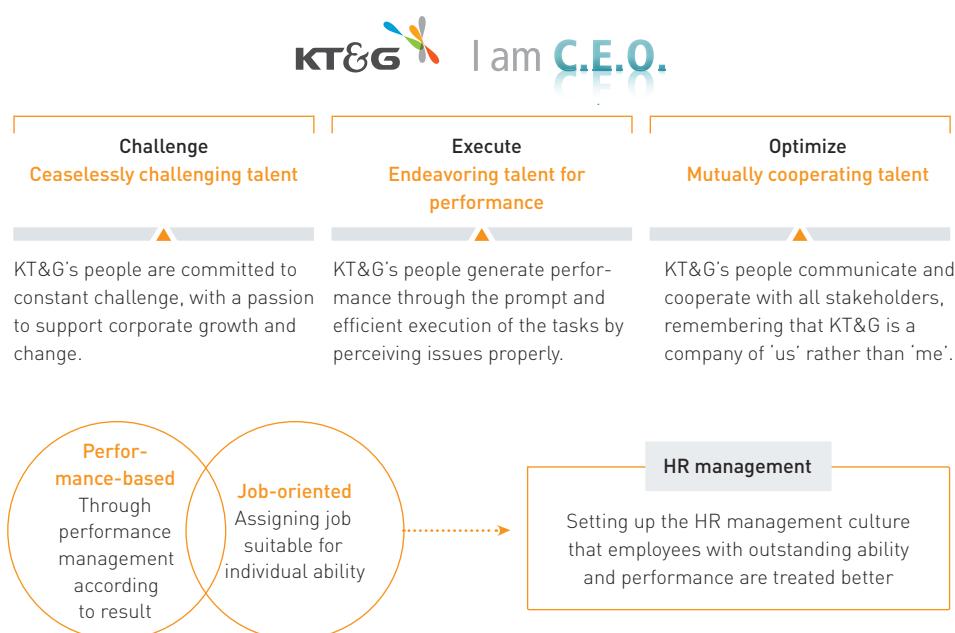
KT&G strives to develop employees' competency and harmonize work and living, and establishes the trust culture through diverse communication channels in the organization.

Fair HR management

* CDP: Career Development Program or Career Development Path applied by KT&G in various methods for transfer and job rotation

The right people for company and the philosophy of HR management

KT&G recruits and educates human resources suitable for the right people for the company of 'I am C.E.O.'. KT&G strives to set up the righteous HR management culture and enhance employees' professionalism, and enhances individual competency and improves job satisfaction through the job assignment and provision of CDP suitable for individual ability.



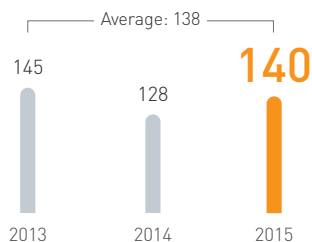
Extensively recruiting human resources

KT&G avoids discrimination of gender, religion, age, educational background, region et al, comprises human resources according to competency, and enhances diversification of recruitment by diversifying method and channels of recruitment. KT&G assures fair evaluation and equal opportunities to all the employees, and applies benefits equally without discrimination of man and woman. In addition, by implementing recruitment considering the social minority group including but not limited to women, disabled persons, and high-school graduates, KT&G recruited totally 129 persons in 2015. Also, KT&G installed convenient facilities, such as accessible toilet and wheelchair ramps et al, for disabled employees and strives to improve the work conditions.

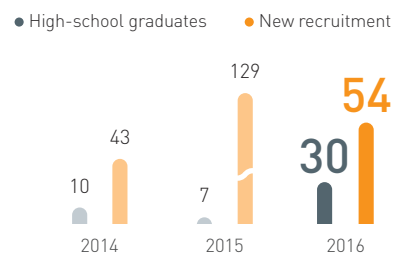
Women resources (persons)

Category		End of 2014	End of 2015	As of 2016
Regular position	Total	4,080	3,929	3,996
	Women	375	356	355
Temporary position	Total	188	266	147
	Women	67	53	24

Employment of the disabled (as of the year end) (persons)



Recruitment (including recent employment status and for regular position) (persons)

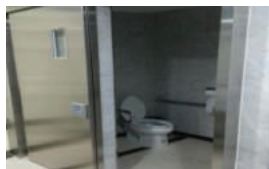




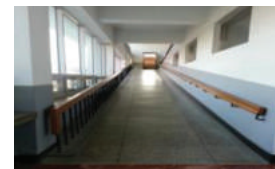
Convenient facilities for disabled employees



▲ Elevator



▲ Toilet



▲ Wheelchair ramp

Improvement of work conditions for disabled employees



▲ Lift-type loading/unloading device



▲ Movable vacuum pump



▲ Automatic packing machine



▲ Workpiece transport device



▲ Hearing protectors

Competency development for employees

Systematic talent education program

In order to educate talents having the global competitiveness and improve employees' productivity and satisfaction, KT&G operates a systematic educational program, comprised of totally 24 programs including 2 educational courses for disseminating core value, 7 educational courses for job competency, and 15 educational courses for leader's competency. KT&G also implements special educations for retirees and prospective retirees. In 2015, the education time per employee was 66 hours on average and the education cost per person was KTW1.2 million.

Sector	Course	Type	Subject
Values	Division-unit program for practicing core values	Non-collective	All employees
	Course for enhancing value-based common competency	Non-collective	All employees
Leadership	Seminar for executives	Collective	Executives
	New executives	Collective	New executives
	Seminar for head of H.O. department	Collective	Heads of H.O. department
	Seminar of plant managers	Collective	Heads of office/department
	New manager	Collective	New heads of department
	New business manager	Collective	New branch managers
	In-house academy	Collective	Selected employees
	Marketing academy	Collective	Selected employees
	Follow-up for new employees	Collective	First-year new employees
	New college-graduate employees(6th level)	Collective	New employees
	New production employees(8th level)	Collective	New employees
	Second-half new employees(10th level)	Collective	New employees
	New sales employees(high-school graduate)	Collective	New employees
	New-employee mentoring	Non-collective	New employees
	SangSang start	Collective	Internship employees

Job	BMF/Manufacturing Expert	Collective	Selected employees
	OLAP/Data analysis(Sales/manufacturing/global)	Collective	Selected employees
	Enhancement of manufacturing competency	Collective	Selected employees
	Cross-cultural education of great China region	Collective	Selected employees
	In-house language course	Collective	Selected employees
	Internal lecturer training course	Collective	Selected employees
	Facilitator training	Collective	Selected employees
Long-term commis-sioned education	CEO course for executives	Collective	Selected employees
	E-MBA course	Collective	Selected employees
	Evening college(graduate school) course	Collective	Selected employees
Reading	Reading management	All-comers	All employees
Cyber	Regular e-learning(cyber, reading communication, et al)	Non-collective	Applicants
	Compulsory education(prevention of sexual harassment/information security)	Non-collective	All employees
Special	Course of understanding labor-management relations	Collective	Labor leaders
	Education for supporting career change	Collective	Voluntary early retirees
	Overseas training for retirees	Collective	Prospective retirees
	Training by senior members	Collective	Retired senior members
	Living training/autonomous training	Collective	All employees

Establishing self-directed learning infrastructure

KT&G implements various activities for training excellent human resources based on 'the talent-centeredness', its core value. Especially, in order to provide high-quality education and set up a performance-oriented learning organization culture, KT&G established a self-directed learning infrastructure. KT&G produced and shares its own contents including video, et al for the on-site operations, and operates learner-centered cyber course, reading management, mobile course et al. In addition, KT&G actively supports members' voluntary activities of learning organization at a company level, and discovers and expands excellent activity cases.

Fair remuneration system

Performance evaluation and remuneration

KT&G implements objective and transparent evaluation for its employees through an evaluation process standardized by the HR Management Regulation and, based on this, provides rational remunerations. KT&G proceeds with both performance and competency evaluation, and enhances fairness of the evaluation result by operating the consulting and objection system. In addition, KT&G constantly operates a coaching system for the performance, and makes the employees receive rational remunerations according to the criteria of performance evaluation, thereby providing them with motivation. KT&G applies the same basic salary regardless of gender and occupational category of new employees. As of 2015, the basic salary of new college-graduate employees is 196% of the mandatory minimum wage.

* Defined Benefit(DB) system: The retirement benefits which the employees will receive (the average wage of 30 days for one year of continuous service) is fixed (increasing in accordance with years of service).

** Defined Contribution(DC) system: The retirement benefits which the employees will receive is fixed in accordance with the management result of the accumulated money that the employer pays regularly (1/12 of the total wages)

Retirement plan for guaranteed retirement income

KT&G operates retirement plan for paying pension stably and guaranteeing retirement funds. All employees can select and subscribe to either DB system* or DC system** according to personal tendency and preference.



Salary peak system

KT&G implemented the salary peak system under which the employment of all members is guaranteed until the retirement age, but their wages are cut gradually after a certain age. Due to this system, KT&G lightened the load of personnel expense and secured fund for new employment. Employees' retirement age was extended by one year to 59 years in 2014, and then 2 years from 2015, setting the retirement age at 60. Employees' wage under the salary peak system is 80% of the existing basic salary.

Balance between work and living

Certification of family-friendliness

In 2015, KT&G was selected as 'the Certified Family-Friendly Enterprise' supervised by Ministry of Gender Equality and Family. In the implementation system of the family-friendliness and the system operation, KT&G received 89.5 points in the employee satisfaction (out of 100 points), thereby achieving the certification with an evaluation superior to the average point of major companies. KT&G will keep on implementing various systems for balance of work and living including but not limited to child-care leave, and flexible working system.

Maternity protection(maternity leave and child-care leave)

For maternity protection, KT&G established the maternity leave from January 2016 and expanded child care. Maternity leave is the system for preventing miscarriage/premature birth and supporting healthy birth after getting pregnant until delivery. Also, Child-care leave is the system for helping employees with children under the age of 8 or second grade of elementary school to rear their children stably.

System for promoting use of annual leave

Through the labor-management agreement in 2015, KT&G came to manage employees' annual leave easily by changing the initial date of the annual leave from the existing date of employment to the fiscal year. In addition, in order to improve members' quality of living and enhance work efficiency, KT&G implemented the system for promoting use of annual leave from 2016.

KT&G's main family-friendly system

1. Supporting employees and their families

- Selective welfare card: KRW1 million annually per person(self-development, health, culture and leisure et al)
- Supporting medical expense: supporting KRW10 million to each employee, his/her spouse, unmarried children, supporting couple's physical examination
- Supporting family congratulations and condolences: Allowing leave and paying expenses related to the four ceremonial occasions of coming of age, wedding, funeral and ancestral rites.
- Supporting recreational facilities: supporting fees for using 86 recreational facilities throughout the countries

2. Supporting childbirth and child-care

- Supporting children's school expenses
 - Support fund for child care(birth~6 years of age)
 - School expenses of middle and high school(KRW5 million per child annually)

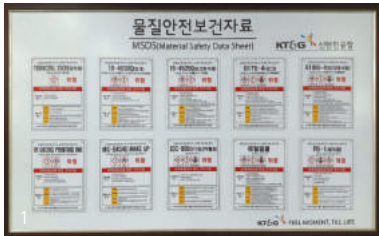
- Scholarship for university expense(four regular school years per student)

- Maternity leave: supporting KRW1 million per month from getting pregnant to childbirth in order to prevent miscarriage and premature birth and support healthy birth
- Child-care leave: usable up to 2 years for stable child care after birth, and KRW1 million and KRW2 million being paid at the first and second year respectively

3. Other leaves

- C&C leave of absence: supporting leave of absence for members' competency development and challenge. 6 months~1 year, and paying 75% of the basic salary
- In-house venture leave of absence: Supporting to establish an independent venture in the Company with a new idea
- Leave of absence for supporting career change: supporting leave of absence to long-term employees for career change or second life plan. 1~2 years, and paying 75% of the basic salary

Employees' safety



Health promotion program

KT&G pays attention to health employees' health management and strives to reduce their job stress. Sintanjin Plant instructs the method of exercise by inviting a sports-for-all coach, and Yeongju Plant operates the prevention and management program of muscular·skeletal diseases in connection with the physical therapy department of a neighboring university. In addition, Gwanghu Plant supports health consultation to nearby retail store owners.

Prevention of noise-induced hearing loss

In order to prevent the noise-induced hearing loss, KT&G formed a TFT, established measure for reducing occurrence of noise, and manages continuously the noise status of each workplace. KT&G analyzes the status by measuring the data of noise occurrence figure, provides the employees at the workplace with proper protective devices such as earplug, earmuffs et al, and implements the hearing conservation program. In addition, in order to take fundamental measures against the noise source, KT&G identified problems and established the improvement measures by consigning an external institute, and supervises high-noise facilities to be improved.

1. Bulletin board on safety and health
2. Audiometric booth

Education and management of the safety environment

KT&G holds the Occupational Safety and Health Committee in relation to improvement of safety environment and work conditions et al. The Committee is comprised of the same number of members from both labor and management with the branch head of the labor union as the co-chairman, and is held regularly once or more on monthly basis. The Committee does such activities as safety measures of the worksite, safety & health education, measurement and improvement of work environment. In addition, in order to manage the chemical substances safely, KT&G discusses major issues including but not limited to dangerousness notice of toxic chemical substances, and the outside impact statement. Furthermore, utilizing the in-house intranet education network, KT&G implements education on occupational safety and health for more than 6 hours every quarter of a year. As the health problems caused by chemical substances occur frequently, KT&G inspects and manages the Material Safety Data Sheets on quarterly basis, and makes and puts up the notice.

※ Outside impact statement

- Outside impact statement is the method of selecting the worst and alternative scenario by confirming the potential danger of facilities and equipment handling hazardous chemical substances, and of securing safety by assessing impact on the outside of the workplace
- Outside assessment includes the kind, quantity, harmfulness information of the chemical substances used, process safety data of handling facilities et al.

Open and innovative organizational culture

In order to establish the trust culture in the organization and enhance members' cohesiveness and solidarity, KT&G reorganized the existing Change and Innovation Office into the Communication and Empathy Office in October 2015. Along with this, KT&G organized and operates 'Imagination Realization Committee' headed by the CEO for establishing a bottom-up corporate culture which makes members' imaginations come true. In addition, KT&G continuously strives to listen to members' ideas related to the company development by opening 'Idea of KT&G', an online bulletin board in the in-house intranet.

Main performance of the Communication and Empathy Office

- Assessment of corporate culture: identifying the type of KT&G's corporate culture and confirming consistency of corporate culture and system
- Proposal management system: operating the platform of introducing and deliberating proposals contributive to development of the Company
- Teambuilding: establishing a desirable workshop culture having information/fun/value

Innovation activities of corporate culture

KT&G operates the Imagination Fulfillment Division for improving corporate culture and vitalizing the system. Imagination Fulfillment Division was comprised of heads of Head Office departments, heads of regional departments, and managers/manager-level employees of branch, totally making 199 persons. Imagination Fulfillment Division acts for establishing 'proposals adopted by the Imagination Realization Committee' and vitalizing various systems in the organization.

Fun Management

Since 2011, KT&G has been carrying forward 'the Fun Management' for building a glad and amusing workplace and enhancing the community spirit. KT&G built the Happy-K site for employees to actively join and posts the contents of Fun Management on the site, and selects and implements various programs every year. KT&G strive to build an amusing workplace with such events as Challenge Jump, Lucky Show of paying the winning point through draw lots, Reserve-price Auction of selling commodities of KT&G's subsidiaries by auction, and Family Photo of prizing excellent photos among the posted family photos. Especially, in 2015, 1,671 persons participate in the 'Let's praise' program, contributing to fostering the organizational culture.



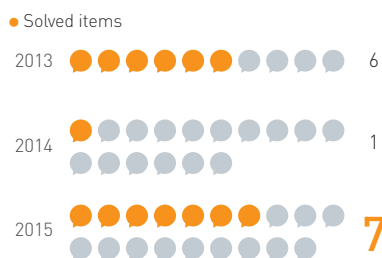
Employees' communication

Labor-management relations

In order to establish win-win labor-management relations, KT&G enhances communication at the work site, such as substantializing operation of the labor-management conference, identifying issues pending in management and supporting information to business divisions. KT&G's labor union was established in compliance with the organizing criteria of Korea Tobacco & Ginseng Workers' Union in 1958, and 3,578 employees are joined. In case that significant changes in business and organization influences on employment, both labor and management abide by the period for prior consultation and make a decision, rather than notifying of the decision-making unilaterally.

* 88.8% of the total employees and 100% of eligible union members

Received and solved number of grievance settlements (items)



Activities for labor-management cooperation and communication

KT&G holds the labor-management conference four times a year in order to solve employees' grievances. In addition, KT&G operates the Grievance Committee in order to collect employees' grievances. Major grievances were regarding transfer of workplace. There were no grievance settlements related to human right, such as discrimination et al.

Investigation of employees' awareness

KT&G carries out a survey every year in order to investigate employees' awareness of organizational management, human resources and reliability, and provide a basic data for organizational problem solving. Under such survey, KT&G analyzes how employee's awareness changes and draws improvements.

Mentoring program

KT&G implements the mentoring program in order for new employees to adapt and identify their job early, establish values, and solve grievances. In 2015, KT&G implemented mentoring to 36 new employees from April to September. KT&G awards medals to excellent mentors, and discovers outstanding cases of mentoring and shares them throughout the Company. In addition, KT&G holds conference for sharing the content of mentoring activities and listening to satisfaction and needs.



Business partners

Enhancement of the infrastructure for win-win growth

KT&G prepares for groundwork for win-win growth through sustainable partnership while performing activities necessary for growing with its business partners.

Operating autonomous delivery of material products

KT&G operates an autonomous delivery system through EDI(Electric Data Interchange) system, a web-based production information sharing system. Through this, KT&G made suppliers operate planned business by checking KT&G's production plan, inventory of material products et al in real time. This system enhances suppliers' production efficiency and reduces inventory burden, leading to improvement of KT&G's product quality and cost competitiveness.



◀ EDI(Electronic Data Interchange) system

Win-win growth program

Supporting technology development

KT&G supports technology development to suppliers in order to ensure their internal stability and provide long-term growth engine. KT&G enhanced suppliers' competency through ground-work of joint research and development for development of new technology, and developed micro-slim capsule filter, bamboo paper filter et al through joint research.

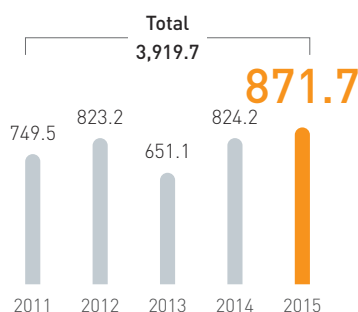
Funding

KT&G implements various financial supports in order to support suppliers' financial stability and stable growth. KT&G makes payment to suppliers of material products within 5 days(business days) of the following month in full cash, and recommends primary business partners to make payment to secondary suppliers until the 25th of the following month. In addition, during new-year holidays and on public holiday, KT&G solves suppliers' financial burden by sending delivery payment early for smooth liquidity. Along with this, KT&G adjusts the purchase contract amount when cause of cost changes occurs, such as increase of raw material price.

Execution of early payment to suppliers

Category	Lunar new year 2014	The end of 2014	Lunar new year 2015	Chuseok 2015	The end of 2015
Amount (KRW1 million)	13,092	14,219	6,467	17,350	17,607
Original payment date	'14.02.07	'15.01.08	'15.03.06	'15.10.07	'16.01.08
Actual payment date	'14.01.24	'14.12.30	'15.02.13	'15.09.25	'15.12.31

Support to domestic leaf tobacco farm families (purchase price)
(KRW100 million)



Supporting domestic leaf tobacco farm families

Though Korean leaf tobacco is two to four times as expensive as foreign one, KT&G continuously purchase domestic leaf tobacco from farm families. Also, KT&G pays 30% of the expected leaf-tobacco purchasing price in advance every April to June in order to lighten the farming burden of the cultivating farm families. In addition, KT&G helps leaf tobacco farm families stabilize their livelihood by paying donation to tobacco cultivating farm families.

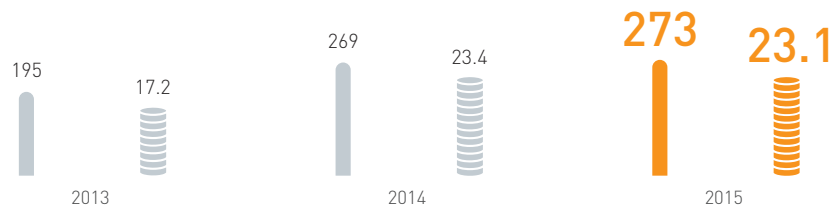
Supporting domestic leaf tobacco farm families(donation) (persons, KRW1 thousand)

Category		2013	2014	2015	Total
Physical examination	Number of persons	124	480	334	938
	Amount	37,200	144,000	100,200	281,400
Scholarship and school uniform for children	Number of persons	390	130	35	555
	Amount	117,000	105,600	50,000	272,600
Total	Number of persons	514	610	369	1,493
	Amount	154,200	249,600	150,200	554,000

Customized consulting for each farm family

KT&G analyzes components of leaf tobacco and draws problems and improvements targeting all the farm families. In addition, KT&G enhances farm families' competency by educating standard cultivating method, method of quality improvement et al targeting cultivating farm families of 15 associations in Korea and implementing customized consulting for individual farm family.

■ Quantity (kg/10a) ■ Purchasing price by farm family (KRW1 million)

**Record of voluntary activities for rural communities** (time(s), persons)

Category		2013	2014	2015
Implan- tation	Number	-	2	2
	Man-days	-	39	20
Harvest	Number	2	2	1
	Man-days	68	53	7

Employees' voluntary service

KT&G implements voluntary activities for rural communities regularly during the period of im-plantation and harvest of leaf tobacco in order to fill labor shortage of cultivating farm families. Through such voluntary service, KT&G pursues win-win with cultivating farm families and carries out its responsibilities as a company seeking coexistence in harmony with them.

Establishing the win-win partnershipa**Implementing supplier certification system**

KT&G implements supplier certification system in order to select suppliers for new transaction and establish long-term business connections with existing customers. The certification process has 4 steps, and evaluation items are comprised of the management sector and the quality sector. The certification period is 3 years. In case there is no eligible company, transaction continues for the time being. KT&G checks improvement of inadequate items through reevaluation one year later in order to lead active improvement of the supplier.

From 2011 until now, 73 companies have received supplier certifications. Through the supplier certification system, suppliers can concentrate on production and technology development and KT&G can stably secure suppliers.

Supplier certification process

Social Contribution

Avoiding one-time monetary donation, KT&G will develop and carry forward continuous and creative social contribution activities, thereby carrying out its role as a corporate citizen.

KT&G's corporate social responsibility ("CSR")

Oriented value of KT&G's CSR

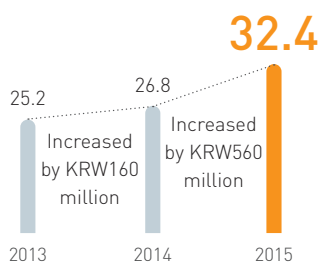
Based on SangSang Platform and value of public interest, the philosophy of the Company, KT&G carries forward CSR, and reestablished the 2016 mid/long-term CSR plan. KT&G plans to carry forward totally KRW330 billion of corporate social contribution project from 2015 to 2019 and avoiding a short-term, dispensational CSR projects, promotes programs for actively participating in solving social problems. Especially, by considering the characteristic of its business and analyzing the trend et al, KT&G set up 'Culture' as the typical CSR program to be carried forward in the future. KT&G plans to clarify its CSR message as "KT&G – Korea's typical cultural contribution enterprise" and in order to back up this, continuously develop culture-related programs. Through this, KT&G will accentuate a differentiation as a national enterprise proud of 100-year history, and take the initiative in enhancing Korea's cultural competitiveness.

CSR value system and implementation plan

Vision	By its own creative CSR, KT&G aims for Korea's typical cultural contribution enterprise through communication and empathy with the society		
CSR Slogan	"KT&G cheers for Korea's cultural prosperity"		
Core Value	Hope An enterprise creating bright future of children and adolescents all together	Creativity An enterprise providing the youth with the place fulfilling their imagination	Win-win An enterprise creating a win-win social shared value achieved by everyone
Platform	Welfare foundation/ scholarship foundation	SangSang Madang/ SangSang Univ.	SangSang Fund/global CSR/ Project for improving smoking environment et al

KT&G's creative contribution activities

Annual collection and use of SnagSang Fund (KRW100 million)



SangSang Fund

KT&G created 'SangSang Fund' in March 2011 by introducing the matching grant where all employees voluntarily participated in donation. Matching grant is based on the system that employees' donations ranging from KRW10 thousand to 500 thousand are matched by the Company with the same amount, and supports a socially neglected class of people including the lower-income group, such as providing scholarship et al. As well as Korea, overseas emergency relief activities are progressed, such as rehabilitation support of earthquake in Nepal.

As of 2015, 3860 of employees(99.5% of the total employees) prepared for KRW3.3 billion of fund and totally KRW12 billion was used based on the accumulated amount.

In order to manage the fund transparently, KT&G operates the Fund Management Committee comprised of 11 employees and hold a workshop semiannually. In addition, for proposals suggested through the frequently held Fund Management Committee, KT&G discusses the objectivity/feasibility/effectivity in depth and comes to decisions.

Warming tents supported by SangSang Fund



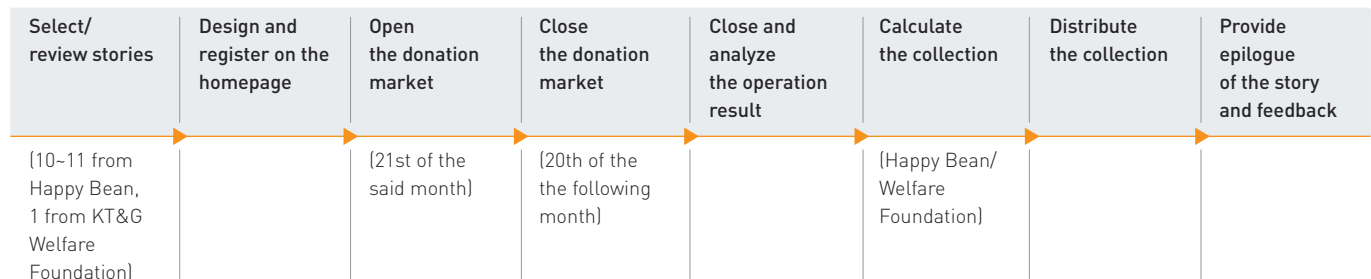
In 2014, KT&G's Daejeon Head Office and Seoul Office newly developed voluntary service targeting the energy poor besides existing gimjang(gimchi-making for the winter) and briquette service. The employees had a meaningful time of installing by themselves 500 warming tents produced by social enterprises during the festive season. In 2015, KT&G expanded the service to 5 manufacturing plants and 14 regional headquarters and after selecting 1000 households having children of near poverty group, the warming tents have been installed through a home visit.

Donation market

KT&G established the website of the SangSang Fund donation market along with NEVER Happy Bean Foundation. in September 2015. Donation market is a participation-type system that each employee can directly select the target of donation through SangSang Fund donated by himself/herself. With Donation Market, SangSang Fund is used for medical expenses support, family in crisis and emergency relief et al. 11~12 stories for collection are updated on monthly basis, and employees select directly the target to which they want to donate. Through the donation market, each employee can check directly how the SangSang Fund is used, which is linked to encouragement of employees' voluntary donation culture. Totally KRW220 million was donated from September to December 2015, and KT&G expands participation of manufacturing and business divisions by developing a mobile version which can be used regardless of time and space.



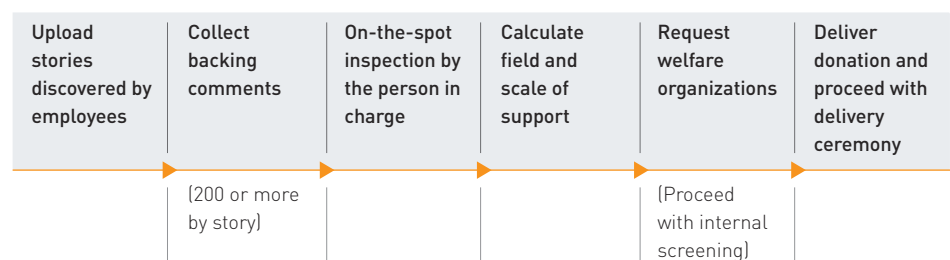
▲ Photo of the website



Donation petition system

Going one step further from the method for the Company to fix the target when practicing donation through SangSang Fund, KT&G is making a participation-type donation culture that employee directly petition donation. It is the process of deciding donation through on-the-spot inspection for the suggestions of donation recommended by 200 or more persons, and totally 24 items progressed steadily after implementation in 2103. This system means a lot inasmuch as employees' mind is positively reflected as SangSang Fund prepared by employees' donation is utilized, and it is settled as KT&G's distinctive donation culture that employees actively participate in the act of donation.

Process of the donation petition system



Report of impressive story

The 23rd recipient who applied for the donation petition in 2015 suffered from hypoglycemia caused by tuberculous pneumonia and diabetes, was given treatment and then got discharged from the hospital. However, he could not move, nor had any income source. He had two children but had to rear them by himself as his wife had run away from home. His elder daughter acquired hairdressing skill after graduating from high school and brought in income of about KRW1 million a month, but she quit her job in order to care for his ill father. In addition, his younger son, a high-school student, devoted herself to study despite the difficult surroundings. He was a part of the near poverty group and ekes out an existence with the emergency aid supported by the municipal government and private sponsorship. Though Child Fund Korea provided him with a hospital bed, overall therapeutic environment was very poor and the space for the family to live in was also extremely insufficient. For the recipient's treatment and the family's stable sustenance, KT&G supported him with medical expense and living costs out of SangSang Fund of employees' donation.

SangSang Together

SangSang Together is a voluntary corps for employees to directly participate in problem solving of the regional community and practice the social responsibility. In 2015, 2080 employees participated and each person implemented 4.8 hours of voluntary service on average per person. Volunteer activities are planned by the voluntary corps and SangSang Together selects excellent planners of voluntary service/volunteers for giving them awards as volunteer abroad program.




Voluntary services in 2015

Total service hours	Number of participants (persons)	Participation rate (%)	Service hours per person	Total number of service (items)
19,537	2,080	51	4.8	2,240

Supporting culture and arts

SangSang Madang

In order to make culture and arts a living not encountered by special people but easily experienced and enjoyed by anyone, KT&G has been operating SangSang Madang since 2005. KT&G proceeds with diverse programs at SangSang Madang of Hongik University, Nonsan and Chuncheon, such as exhibition, performance, movie, festival, experience, education et al. In 2015, about 1.8 million persons visited SangSang Madang. Especially, by supporting artists of various fields, KT&G provides creators with the opportunity to realize their imagination, and general public with the environment to encounter new ideas and fresh art and culture.

	Hongik University	Nonsan	Chuncheon
Characteristic	Vitalizing movie, design, performance, culture & arts education, and communication business	Specializing in creativity education for adolescents (in cooperation with Nonsan Municipal Government) and culture & arts education for enterprises	Realizing the space of 'Art Stay' concept connected with culture & arts contents and accommodation
Typical programs in 2015	KOPF & overseas artists' exhibition	Art tutoring	Imagination realization festival
			

Korean photography artists support program of KT&G SangSang Madang(SKOPF)

KT&G SKOPF is an artist support program for discovering and supporting young photography



artists. KT&G selected three photography artists a year and supported them with private exhibition and publication of works. Through this program, KT&G has been playing a role of the foothold for growth to 27 new photography artists from 2008 until now.

Artist Sun-tag Noh(2nd) who was selected through SKOPF received the silver prize of 'German Photo Book Award'(in 2009), was awarded 'Donggang River Photo Award'(in 2012), and was selected a nominee of the Artist of the Year by National Museum of Modern and Contemporary Art in 2014. In addition, artist Do-yeon Kwon(7th), being a new photography artist, was invited to the Houston Photo Festival of the US, 3-artist exhibition at New York Sepia Eye Gallery et al, thereby growing as a successful artist.

Overseas artists' exhibition

In order to create a new sensation in Korea's visual arts by grafting popular appeal with artistic value, KT&G SangSang Madang has planned and exhibited 'the Great Masters Series of 20th Century', the famous artists' exhibitions.

By introducing overseas great masters' works including Robert Doisneau(in 2014), Raymond Savignac(in 2015), Jean Jacques Sempé(in 2016) et al, KT&G contributes to popularization of the visual arts and base expansion of the class enjoying culture & arts.

Art Tutoring

KT&G SangSang Madang Nonsan provides culture & arts-centered workshop programs in the form of special lectures and experiences to pre-juvenile leaders who are most close connectors to the guidance site for adolescents.

KT&G aims at making a better educational environment by expanding the value of culture & arts through workshops progressed for improving knowledge of culture & arts and related practical qualifications necessary for the students who wish to work at the education site for adolescents.

SangSang (Imagination) Realization Festival

'SangSang Realization Festival', a complex cultural festival representing KT&G, is a place of 'realizing imagination' introducing new artist support programs by sector of SangSang Madang, such as 'design', 'visual art', 'movie' 'performance' et al, for one night and 2 days.

The team finally selected in the 'Band Discovery', a band incubating program of SangSang Madang, is provided with the opportunity to appear on the collaboration stage with Korea's top artists, and all of income from festival ticket sales and other events is donated to the neighbors isolated from culture & arts.




SangSang Art Hall

KT&G operates SangSang Art Hall where people can watch various genres of performance, such as play, concert, musical et al. KT&G selects works having artistic value and popular appeal and introduces them to the public, and also opens an opportunity to support newly tried works. In 2015, 16 works including 'the Dwarf who loved the Snow White' were performed totally 170 times.

Welfare foundation and scholarship foundation

Welfare foundation

KT&G established a welfare foundation in July 2003 in order to implement CSR actively. Under the mission of 'Sharing hope for happy future', KT&G operates 8 welfare centers in Seoul and metropolitan area, and implements various welfare projects by classifying the project into sharing project, hope project and professional project. The project scale of 2015 was totally KRW10 billion, and about 72,000 persons were favored with the welfare project, and henceforth, KT&G plans to continuously expand the support project for the vulnerable social group.

	Sharing welfare project	Hope-sharing project	Professional welfare project
Content	Supporting underprivileged class	Supporting children of low-income families	Specialization project
Typical program of 2015	<ul style="list-style-type: none"> • Improve residential environment • Support heating bills • Support families in crisis 	<ul style="list-style-type: none"> • Support learning and books • Career and aptitude program • Culture experience and English camp 	<ul style="list-style-type: none"> • Support compact cars to welfare organizations • Overseas relief project • College students' voluntary service activities
			

Scholarship foundation

KT&G established a scholarship foundation in 2008 for providing adolescents of underprivileged class with stable opportunities of education and contributing to development of human resources required by the society. In 2015, KT&G established a mid/long-term vision of the scholarship foundation, and newly set up a project in which the scholarship foundation cooperates with KT&G, Government, regional community, NGO et al. As of the end of 2015, the scholarship foundation supported totally KRW 150 billion, and KT&G additionally donated KRW20 billion to the scholarship foundation in order to construct the base for expansion of scholarship project.

CSR activities

Global CSR

Since 2014, KT&G has expanded the global CSR as one of its mid/long-term CSR strategies, thereby implementing active social responsibilities as a global corporate citizen. In partnership with UN's SDGs(Sustainable Development Goals), KT&G participates in solution of global issues including but not limited to poverty, environment, residential environment, and job creation. Selecting Indonesia as the first target country, KT&G carries forward SangSang Village Project and SangSang School project including Korean Language Institute, and SangSang Univ. and plans to expand these project to Mongolia and other countries.

Indonesia

Category	SangSang Village	SangSang School
Period of project	'14.10~'16.05	'14.04~present (SangSang Univ.: '15.09~present)
Contents of project	Participate in active resolution of social problems, including improvement of residential environment in slums of Surabaya area and voluntary service	Interact languages through Korean language lecturing and introduced the culture class of SangSang Univ. for supporting youth's cultural activities
Result of project	<ul style="list-style-type: none"> • Reconstructed 40 private houses, installed four public toilet, and repaired one elementary school • Participated in voluntary service(first: 55 persons in February, second: 67 persons in August) 	<ul style="list-style-type: none"> • Operating introductory/intermediate level of Korean lecture • SangSang Univ.' cultural class



Indonesia SangSang Village, the first project for expansion of global CSR, was the project for setting up the self-reliance environment through improvement of residential environment, and progressed in the slums of Surabaya area. The project contributed to setting up the self-reliance environment of slums through improvement of the social infrastructure enabling the residents to maintain a basic living, such as reconstruction of 40 private houses, repair of elementary school, maintenance of water supply and drainage et al.

Students belonging to Language School & Univ. are increasing continuously at the SangSang School in Jakarta which is operated as a way of cultural contribution. Considering the social and economic situation, KT&G selected Mongolia as its second target of global CSR project in 2016 and is carrying forward construction of a forestry and agriculture education center. KT&G came to carry forward this project based on the conclusion that global endeavor is required to solve global environmental problem getting more and more serious, and especially the desertification issue represented by the fine dust in Korea. KT&G expects the specialized forestry and agriculture education will contribute to prevention of desertification and job creation by expanding forest.

SangSang Univ.

Since 2010, KT&G has been operating SangSang Univ., a community for university students' outside activities, as a way of social contribution activities. KT&G manages various programs in 14 regions of the country, providing all of the dreaming and challenging university students with opportunities to grow and exchange one another. Over the year of 2015, totally 104,058 university students participated in SangSang Univ.

Class

KT&G operates diverse classes in 14 regions of the country, supporting university students to express their imagination and discover new possibilities. KT&G operates classes for 5 to 8 weeks by dividing the class into 4 majors of culture, art, life and career, and shares the result of learning through short-time activities. In 2015, KT&G managed totally 2,136 classes and activities, and more than 68,000 participated in various courses including barrister, infographic, wine, musical, leather crafting et al.



SangSang career camp

SangSang career camp is a program for helping students across the country in their job seeking, and diagnoses their careers and helps them prepare for job seeking through 100 hours of diagnosis program and mentoring. This career camp is comprised of personality & aptitude test, mock job interview, presentation interview et al, and totally 200 students attended in 2015.

SangSang Compass Camp

SangSang Compass Camp is a program for guiding and motivating university students afflicted with their career path and direction of duty. The SangSang Compass Camp newly initiated in 2016 is comprised of programs that the students draw the roadmap through self-analysis and duty exploration and sectoral mentors help the students establish their direction.

SangSang Marketing School

SangSang Marketing School is the first marketing educational program for university students in Korea, and KT&G operates the school for 1,200 students in 14 regions of the country. Participants attend case-centered lectures from marketers of major enterprises for 6 weeks and, at the same time, can get experienced in business while implementing team projects.

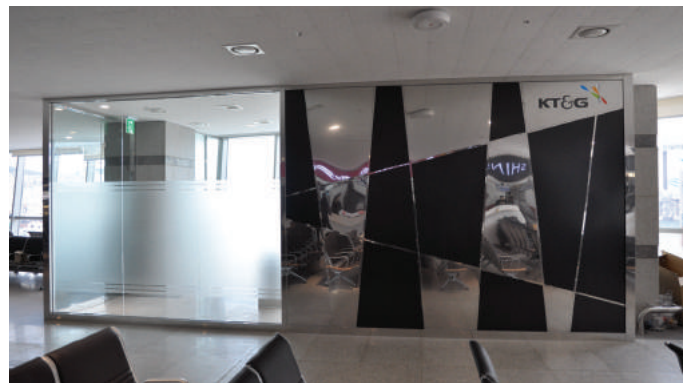
SangSang Volunteer

SangSang Volunteer is a voluntary corps comprised of university students planning and implementing voluntary services by themselves, taking one step forward from the type of participating in fixed voluntary service programs. KT&G operated totally 10 classes, 2 classes a year from 2011 to 2015, of university-student voluntary corps, making 6,159 students. Voluntary service was comprised of "open service" which is directly planned by SangSang Volunteer and general university students can participate, and 'planning service" which is both planned and implemented by SangSang Volunteer. In addition, KT&G has been proceeding with "Adding Creativity", a representative program of the national common concept, improving the environment of underdeveloped regions and crime-ridden districts through mural painting and gardening from 2015. In 2015, 962 SangSang volunteers planned 421 voluntary services, such as mural painting service, athletic meet for the blind, love-sharing bazaar et al, and totally 9,634 volunteers participated.



Improving smoking environment

In relation to its own smoking business, KT&G implements smoking etiquette campaign, project for improving the environment of smoking rooms et al in order to foster a social culture in which both smokers and non-smokers consider and coexist with each other. Especially, as the non-smoking areas become expanded and smoking area get insufficient, KT&G installs smoking rooms centered on places of frequent civil complaints, non-smoking areas in consultation with local governments et al. KT&G installed 113 smoking rooms for 5 years from 2011 to 2015 at airports, express way rest areas, public institutions et al, and recently has been installing smoking rooms in the public facilities including subway station et al in consultation with local governments. KT&G plans to actively implement CSR related to smoking by expanding the budget for installing smoking rooms.





Social Indicators

Employees

Overview of employees

KT&G does not discriminate the labor condition on the grounds of nationality, gender, religion, social status, and stipulates assurance of equal treatment. In accordance with the Labor Standard Act and the Convention Concerning the Prohibition and Immediate Actions toward the Elimination of the Worst Forms of Child Labor of ILO(International Labor Organization), KT&G strictly prohibits any kind of child labor and forced labor. As of the end of 2015, there was no case that KT&G violated the forced labor and labor prohibition policy both in Korea and in overseas workplace.

Category		2013	2014	2015
Employment	Total number of employees (persons)	4,106	4,080	3,929
	Number of disabled employees (persons)	149	142	139
	Number of new hires (persons)	47	43	149
	Average continuous service years (years)	20.29	19.93	19.22
Retirement	Number of retirees (persons)	127	45	223
Women HR	Number of women employees (persons)	375	375	356
	Rate of women employees (%)	9.1	9.2	9.1
	Rate of women executives (%)	0	0.025	0
	Rate of women out of new hires (%)	12.80	14	3.40
Childbirth	Users of maternity leave (persons)	130	137	147
	Rate of maternity leave use (persons)	103	120	123
	Users of child-care leave (%)	79.2	87.6	83.7
	Rate of child-care leave use (persons)	18	19	32
	Reinstatement rate of child-care leave (%)	13.8	13.9	21.8
Labor union	Number of union members (persons)	3,685	3,662	3,578
	Rate of unionization (%)	89.7	89.8	88.8

Overview of employees' education

In order to create management performance while sharing management principle, vision, and core value of the Company, KT&G is devoting itself to strategic education of human resources based on new type of talent. According to expansion of the overseas market, KT&G also strives to enhance employees' global competitiveness.

Category		2013	2014	2015
Number of employees having participated in educations (persons)		20,447	23,748	21,680
Hours of education per person (hours)		65.4	65.1	65.7
Training expense per person (KRW1 thousand)		1,124	981	1,206

Human right and labor-management

Endeavor for human right

KT&G implements the education of sexual harassment prevention participated in by all employees every year in order to create a corporate culture of reliance through mutual respect and prevent disgraceful situations in advance.

Low-income elder support business (persons)



Operating the labor-management conference

88.8% of KT&G's total employees are members of the labor union. According to the organization agreement, the joint labor-management conference is held on quarterly basis, and agenda for resolving employees' grievances, such as labor conditions, industrial safety and accident compensation and business improvement, are handled. There was no grievance settlement regarding human right, such as discrimination et al, incurred during the reporting period.

Eligible members	All employees of 3rd grade or lower, research worker of senior level or lower, seasonal employees of Gimcheon Plant
Number of members	3,578
The organization to which the labor union belongs	Federation of Korean Trade Unions
Full-time union members	9 persons of Head Office labor union
Main topics of discussion	Profit sharing, recruitment · placement · training of employees, grievance settlement for employees, improvement of safety · health · other work conditions, system improvement on payment method-system-structure of wage et al

Number of disciplinary actions due to inappropriate behaviors

Category	2013	2014	2015
Dismissal	1	4	1
Suspension	2	13	5
Wage cut	6	8	4
Warning et al	7	9	18

Implementation of special physical examination

Category (persons)	2013	2014	2015
Persons requiring special physical examination	Noise	730	723
	Organic solvent	287	412
	Ionizing radiation	5	4
As a result of special physical examination	Persons needed to observe hearing	131	109
	Diagnosed persons	2	3

Social contribution

Overview of amount used for social contribution

KT&G strives to discover creative social contribution activities and participate in solution of social problems.

Category	2013	2014	2015
Expense paid for social contribution (KRW100 million)	527	584	808
Ratio of social contribution to turnover (%)	2.1	2.1	2.9



Volume of social contribution by item

Category (KRW100 million)	2013	2014	2015
Social Responsibility*	86.4	153	489
Culture & Arts**	303.7	266	201
KT&G scholarship foundation	32	42	15
KT&G welfare foundation	104.9	123	103
Total	527	584	808

* Social Responsibility: Social contribution business such as SangSang Fund, SangSang Univ. et al

** Culture & Arts: Cultural contribution business centered on SangSang Madang

Operational overview of KT&G scholarship foundation

Category (KRW1 thousand)	2013	2014	2015
SangSang scholarship project (for high-school students)	2,231,000	2,626,000	2,614,500
SangSang scholarship project for universities	0	69,194	158,806
Scholarship project for domestic graduate students	171,073	119,723	23,381
Scholarship project for graduate students studying abroad	141,961	116,378	42,092
Operational expense for business with purpose	164,950	113,719	91,715
Special scholarship project	0	3,000	0
Other operating expenses	190,118	109,905	168,342

Operational overview of KT&G welfare foundation

Category (KRW1 thousand)	2013	2014	2015
Support project for low-income seniors	872,898	698,138	637,497
Child support project for low-income	2,876,069	2,796,491	2,220,021
Support project for low-income family	2,605,626	1,685,807	1,662,968
Other support project	1,764,772	1,629,207	2,423,285
International relief project	233,590	646,596	302,891
Online welfare project	577,789	781,351	493,343
Volunteer activities	577,053	588,474	583,479
Social welfare organizations' network project	203,392	157,677	166,978
Management of the volunteers	57,145	64,861	59,469
Operation of the welfare organization	1,492,598	1,585,275	1,509,802



Talk, Talk, Talk

We introduce compliments, encouragements,

I would like to compliment a kind salesperson.



Hello! I am a student taking up a part-time work at the Ministop located at Dogok-myeon, Hwasung-gun, Jeollanam-do. I am writing something on your website as I would like to compliment a KT&G's salesperson. Mr. 000 asked after me whenever he visited every week and said warm words to me a lot. He always coped with the task cleanly and explained in detail about new cigarettes and how to arrange the cigarettes. As I think that such person works really hard in a place where he is not in the spotlight, I leave a message on the Customer Service Center like this. Though the place where I work is located at a remote village and today is the Christmas Eve, he visited our store, worked and arranged cigarettes for me. Please praise Mr. 000 without fail. Thank you.

-00 Kim, 24 December 2015-

Thank you for your support to the military.



Hello! I am captain 00 Lee working in the tank battalion of 3rd Division located at Cheolwon, Gangwon-do. Not long ago, KT&G's Cheolwon Branch supported 'Club Day' to our battalion. In fact, I thought it might be a level of turning on some music, but KT&G's event was really surprising. In this event providing everything from lighting and sound, all of us enjoyed our time, getting rid of stress. Though the weather was cold, our soldiers had a pleasant time while sweating, dancing to the music and coming together as a whole. The event came to an end while everyone felt something wanting, photos of pleasant moments were posted on the soldiers' Facebook. Other troops showed envy a lot and some of them wrote comments that they would like to hold event like this by persuading their soldiers to use Korean tobacco.

After this event, I have been using KT&G's tobaccos and came to persuade KT&G's cigarette to my unit members. Closing the year, I extend my gratitude to the members of KT&G Cheolwon Branch who prepared for the event, and I hope for the best for all of you.

-00 Lee, 10 December 2015-

I would like to publicize RAISON ICE PRESSO.



Hello. I am a RAISON ICE PRESSO fan. Due to my occupation, I go on overseas business trips often. Whenever I went on a plane, I used to buy a carton of RAISON ICE PRESSO and presented a pack to my acquaintances. It seems that foreigners, especially Europeans, like RAISON ICE PRESSO very much. I saw RAISON ICE PRESSO in China, but could not find any place selling the tobacco. Thus, I would like to suggest something about promotion. I think you could present RAISON ICE PRESSO to foreigners, take pictures and publicize those photos on SNS. It will be a good idea for us to meet and discuss the idea in detail. Please contact me.

-00 Kim, 3 October 2015-

suggestions from KT&G's stakeholders.

Suggestion of producing brand new tobaccos



Hello. In a Chinese restaurant, some people order jajangmyeon, and others order jjamppong (spicy seafood noodle soup). While eating, sometimes we would like to eat the food that other persons ordered. After grasping such customers' needs, the menu of 'jjamjjamyeon', 'ujjamyeon' et al appeared. I think customers' needs like this might exist in tobacco. I favor ESSE Change and Cigar Mini 1m. By the way, when I smoke only one kind of cigarette continuously, I get fed up with it. Therefore, I tend to buy two kinds of cigarette at the same time, but in this case, it is inconvenient to carry them. How about putting two kinds of cigarette into one pack, like the case of the Chinese restaurant? A pack of cigarette having two kinds of cigarette will catch popularity in the international market as well as in domestic market.

-OO Lee, 31 August 2015-

An unexpected present - SangSang Fund



Hello. After returning to farming, I came to encounter a tobacco farm while having a lot of difficulties due to farming conditions and inadequate production technology. Tobacco farmers cooperated with one another and shared the production technology. Furthermore, as KT&G purchased produced tobacco leaves, I managed to complete farming of the year without failure though I was a beginner. By the way, it is said that I was selected as the beneficiary of SangSang Fund! I reiterate my thanks to KT&G and its employees who supported this present.

-OO Cho, 23 July 2015-

Physical examination for members



July stole by and the real mid-summer has begun. I would like to extend my thanks to KT&G employees for arranging physical examination for the members of Korea Tobacco Growers Organization ("KTGO"). Like the last year, through the physical examination, members could check various diseases and maintain a healthy living. Some members could find incipient cancer.

Though tobacco market conditions are getting hard, I hope both KT&G employees and the families of KTGO cooperate with each other for the development of the tobacco industry.

Thank you.

-OO Gwak, 23 July 2015-

Producing eco-friendly tobacco



There are too many littered cigarette butts. In order to solve this problem, I think maybe the butt part should be edible. If the butt part is made of chocolate and thus, the smokers eat the chocolate after smoking, the problem of litter caused by cigarette butts will be solved.

-OO Han, 19 October 2014-

Appendix

- 61 GRI G4 Index
- 63 UN Global Compact
- 63 Aspect Boundary for each Material Issue
- 64 Independent Third-party Assurance Statement
- 66 Awards & Recognition
- 66 Membership



GRI G4 Index(General Standards Disclosures)

Category	GRI-G4	Indicator	Page	Remark
Strategy and Analysis	G4 1	Provide a statement from the most senior decision-maker of the organization(such as CEO, chair, or equivalent senior position) about the relevance of sustainability to the organization and the organization's strategy for addressing sustainability.	4-5	
	G4 2	Provide a description of key impacts, risks, and opportunities.	4-5, 8-9, 13	
Organizational Profile	G4 3	Report the name of the organization.	6	
	G4 4	Report the primary brands, products, and services.	6, 8-9	
	G4 5	Report the location of the organization's headquarters.	6	
	G4 6	Report the number of countries where the organization operates, and names of countries where either the organization has significant operations or that are specifically relevant to the sustainability topics covered in the report.	6	
	G4 7	Report the nature of ownership and legal form.	8-9, 10	
	G4 8	Report the markets served (including geographic breakdown, sectors served, and types of customers and beneficiaries).	6, 8-9	
	G4 9	Report the scale of the organization (including employees, operations, net sales, total capitalization, products or services)	6	
	G4 10	Report total number of employees by employment type (employment contract and gender, employment type and gender, total workforce by region and gender), and any significant variations in employment numbers.	55	
	G4 11	Report the percentage of total employees covered by collective bargaining agreements.	45, 56	
	G4 12	Describe the organization's supply chain.	18-19, 24-25, 46-47	
	G4 13	Report any significant changes during the reporting period regarding the organization's size, structure, ownership, or its supply chain.	6, 9	Indonesia branch, SangSang Stay
	G4 14	Report whether and how the precautionary approach or principle is addressed by the organization.	13	
	G4 15	List externally developed economic, environmental and social charters, principles, or other initiatives to which the organization subscribes or which it endorses.	66	
	G4 16	List memberships of associations and national or international advocacy organizations.	66	
Identified Material Aspects and Boundaries	G4 17	List all entities included in the organization's consolidated financial statements or equivalent documents, or report whether any entity included in the organization's consolidated financial statements or equivalent documents is not covered by the report.	8-9	
	G4 18	"Explain the process for defining report content and the Aspect Boundaries, and how the organization has implemented the Reporting Principles for Defining Report Content."	14-15	
	G4 19	List all the material Aspects identified in the process for defining report content.	15	
	G4 20	For each material Aspect, report the Aspect Boundary within the organization.	63	
	G4 21	For each material Aspect, report the Aspect Boundary outside the organization.	63	
	G4 22	Report the effect of any restatements of information provided in previous reports, and the reasons for such restatements.	33, 36, 38	
	G4 23	Report significant changes from previous reporting periods in the Scope and Aspect Boundaries.		None
Stakeholder Engagement	G4 24	Provide a list of stakeholder groups engaged by the organization.	14	
	G4 25	Report the basis for identification and selection of stakeholders with whom to engage.	14	
	G4 26	Report the organization's approach to stakeholder engagement, including frequency of engagement by type and by stakeholder group, and an indication of whether any of the engagement was undertaken specifically as part of the report preparation process.	14	
	G4 27	Report key topics and concerns that have been raised through stakeholder engagement, and how the organization has responded to those key topics and concerns, including through its reporting. Report the stakeholder groups that raised each of the key topics and concerns.	15, 63	
Report Profile	G4 28	Reporting period (such as fiscal or calendar year) for information provided.	2	
	G4 29	Date of most recent previous report(if any).	2	
	G4 30	Reporting cycle(such as annual, biennial).	2	
	G4 31	Provide the contact point for questions regarding the report or its contents.	3	
	G4 32	Report the 'in accordance' option the organization has chosen(chosen option, GRI Content Index, External Assurance Report).	61-65	
	G4 33	Report the organization's policy and practice with regard to seeking external assurance for the report, scope and basis of external assurance report, the relationship between the organization and the assurance providers, and whether the highest governance body or senior executives are involved in seeking assurance for the organization's sustainability report.	64-65	
Governance	G4 34	Report the governance structure of the organization, including committees of the highest governance body. Identify any committees responsible for decision-making on economic, environmental and social impacts.	10	
Ethics and Integrity	G4 56	Describe the organization's values, principles, standards and norms of behavior such as codes of conduct and codes of ethics.	11	

GRI G4 Index (Specific Standards Disclosures)

Category	GRI-G4	Indicator	Page	Remark
DMA	DMA	G4 DMA Disclosures on Management Approach	26, 34, 39	
Economic	Economic Performance	G4 EC1 Direct economic value generated and distributed	32-33	
		G4 EC4 Financial assistance received from government	33	
	Market Presence	G4 EC5 Ratios of standard entry level wage by gender compared to local minimum wage at significant locations of operation	42	
	Procurement Practices	G4 EC9 Proportion of spending on local suppliers at significant locations of operation	46	
Environ-metal	Materials	G4 EN1 materials used by weight or volume	38	
		G4 EN3 Energy consumption within the organization	36	
	Energy	G4 EN6 Reduction of energy consumption	36	
		G4 EN8 Total water withdrawal by source	38	
	Water	G4 EN15 Direct greenhouse gas (GHG) emissions (Scope 1)	36	
		G4 EN16 Energy indirect greenhouse gas (GHG) emissions (Scope 2)	36	
		G4 EN19 Reduction of greenhouse gas (GHG) emissions	36-37	
		G4 EN22 Total water discharge by quality and destination	38	
	Emissions	G4 EN23 Total weight of waste by type and disposal method	38	
		G4 EN24 Total number and volume of significant spills		None
		G4 EN27 Extent of impact mitigation of environmental impacts of products and services	36-37	
	Products and Services	G4 EN29 Monetary value of significant fines and total number of non-monetary sanctions for non-compliance with environmental laws and regulations		None
	Compliances	G4 EN29 Monetary value of significant fines and total number of non-monetary sanctions for non-compliance with environmental laws and regulations		None
Social-Labor practice and decent work	Employment	G4 LA1 Total number and rates of new employee hires and employee turnover by age group, gender and region	55	
		G4 LA2 Benefits provided to full-time employees that are not provided to temporary or part-time employees, by significant locations of operation	43	
		G4 LA3 Return to work and retention rates after parental leave, by gender	55	
	Labor/Management Relations	G4 LA4 Minimum notice periods regarding operational changes, including whether these are specified in collective agreements	45	
		G4 LA5 Percentage of total workforce represented in formal joint management-worker health and safety committees that help monitor and advise on occupational health and safety programs	56	
	Occupational Health and Safety	G4 LA7 Workers with high incidence of high risk of diseases related to their occupation	56	
		G4 LA8 Health and safety topics in formal agreements with trade unions	44	
		G4 LA9 Average hours of training per year per employee by gender, and by employee category	55	
	Training and Education	G4 LA10 Programs for skills management and lifelong learning that support the continued employability of employees and assist them in managing career endings	42	
		G4 LA12 Composition of governance bodies and breakdown of employees per employee category according to gender, age group, minority group membership, and other indicators of diversity	55	
	Diversity and Equal Opportunity	G4 LA13 Ratio of basic salary and remuneration of women to men by employee category, by significant locations of operation	42	
	Equal Remuneration of Women and Men	G4 LA13 Ratio of basic salary and remuneration of women to men by employee category, by significant locations of operation	42	
	Labor Practices Grievance Mechanisms	G4 LA16 Number of grievances about labor practices filed, addressed, and resolved through formal grievance mechanisms	45	
Social-Human rights	Investment	G4 HR2 Total hours of employee training on human rights policies or procedures concerning aspects of human rights that are relevant to operations, including the percentage of employees trained	55	
	Non-discrimination	G4 HR3 Total number of incidents of discrimination and corrective actions taken	55	
	Child Labor	G4 HR5 Operations and suppliers identified as having significant risk for incidents of child labor, and measures taken to contribute to the effective abolition of child labor	55	
	Forced or Compulsory Labor	G4 HR6 Operations and 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	55	
	Human Rights Grievance Mechanisms	G4 HR12 Number of grievances about human rights impacts filed, addressed, and resolved through formal grievance mechanisms	45	
Social-Society	Local Communities	G4 SO2 Operations with significant actual and potential negative impacts on local communities	48-54	
		G4 SO4 Communication and training on anti-corruption policies and procedures	12, 56	
		G4 SO5 Confirmed incidents of corruption and actions taken	56	

Social-Society	Anti-competitive Behavior	G4	S07	Total number of legal actions for anti-competitive behavior, anti-trust, and monopoly practices and their outcomes	None
	Compliance	G4	S08	Monetary value of significant fines and total number of non-monetary sanctions for non-compliance with laws and regulations	56
Social-Product Responsibility	Customer Health and Safety	G4	PR1	Percentage of significant product and service categories for which health and safety impacts are assessed for improvement	30
		G4	PR2	Total number of incidents of non-compliance with regulations and voluntary codes concerning the health and safety impacts of products and services during their life cycle, by type of outcomes	None
	Product and Service Labeling	G4	PR4	Total number of incidents of non-compliance with regulations and voluntary codes concerning product and service information and labeling, by type of outcomes	None
	Marketing Communications	G4	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	None
	Customer Privacy	G4	PR8	Total number of substantiated complaints regarding breaches of customer privacy and losses of customer data	None
		G4	PR9	Monetary value of significant fines for non-compliance with laws and regulations concerning the provision and use of products and services	None

UN Global Compact

Category	10 Principles	Page
Human Rights	1. Businesses should support and respect the protection of internationally proclaimed human rights and;	55
	2. make sure that they are not complicit in human rights abuses.	12, 55, 56
Labor	3. Businesses should uphold the freedom of association and the effective recognition of the right to collective bargaining;	56
	4. the elimination of all forms of forced and compulsory labor;	55
	5. the effective abolition of child labor; and	55
	6. the elimination of discrimination in respect of employment and occupation.	40
Environment	7. Businesses should support a precautionary approach to environmental challenges;	34
	8. undertake initiatives to promote greater environmental responsibility; and	35-38
	9. encourage the development and diffusion of environmentally friendly technologies.	37
Anti-Corruption	10. Businesses should work against corruption in all its forms, including extortion and bribery.	11-12

Aspect Boundary for each Material Issue

Material Issue	G4 Aspect	Shareholders and Investors	Customers	Employees	Partners	Local Communities	Government
Transparent · Ethical management	Ethics and Integrity	•		•	•		•
Social contribution	Local communities			•		•	
Product responsibility	Customer Health and Safety, Marketing, Labelling	•	•		•		
Governance	Governance	•		•			
Economic performance	Economic performance, Procurement practices	•		•	•		
Balance of work and life	Employees, Equal Remuneration			•			

Independent Third-party Assurance Statement

To the Management of the "2014/15 Sustainability Report" by KT&G,

The Institute for Industrial Policy Studies(the Auditor) was engaged by KT&G to provide an independent third-party assurance statement on the contents of its "2014/15 Sustainability Management Report(the Report)", and hereby presents the following third party statement of assurance.

Responsibility and Objective

KT&G is responsible for all information and claims contained in the Report regarding the establishment of its sustainability management goals, performance management etc. The responsibility of the Auditor is to deliver the findings from its assurance undertaking to the management of KT&G. The key objective of the assurance is to check whether there are any material bias or errors present in the Report; assess whether the underlying data collection system is in proper working order; while undertaking in an overall review of the Company's process for identifying issues of material importance to sustainability management as well as the produced results so that the Auditor may deliver recommendations that can help improve the quality of future reporting.

Assurance Type and Level

The Report was reviewed against the following criteria and guidelines: (1) AA1000 Assurance Standards(2008) ; and (2) Global Reporting Initiative's(GRI) G4 Sustainability Reporting Guidelines

Assurance Scope	Contents of the "KT&G2014/15 Sustainability Report"	AssuranceType & Level	Type II , Moderate level
Assurance Criteria	• "IPS Assurance Manual" to verify compliance against AA1000AS(2008) standard's three core principles • "IPS Performance Indicators Assurance Criteria" to assess the reliability of performance indicators • GRI Guideline's "in accordance" options		

Work Undertaken and Scope

The Auditor confirmed 1) the inclusivity, materiality, and responsiveness of the reported content; 2) the reliability of the reported performance data; 3) the Report's level of compliance against GRI's G4 Sustainability Reporting Guidelines; and 4) the level of compliance relative to the B.E.S.T Reporting Guidelines through the process outlined below.

- Review of the Company's processes for identifying material issues and stakeholder engagement processes.
- Interviews with persons responsible for each performance dimension and the collection of performance data to determine the adequacy of the reported content
- On-site review to assess systems and processes in place for the collection and reporting of raw performance data(Sep. 2016)
- Review of underlying reference data on key economic, social, and environmental performance
- Sample testing of materiality issues to ascertain the completeness and accuracy of information contained in the Report
- Review of the Report's compliance against GRI/ B.E.S.T reporting guidelines

Limitations

The scope of this undertaking was limited to:

- Interviews with individuals responsible for different performance dimensions and the collection of performance data; review of the adequacy of the reported data
- On-site review of KT&G's Seoul Office
- Assurance based on relevant data and information available for the relevant reporting period
- Review of the reliability of reported performance data
- This undertaking does not include data on green-house gas emissions, which is subject to a separate review

Assurance Findings

The Auditor does not find the Report to contain any material misstatements or bias.

Inclusivity Does KT&G have adequate stakeholder engagement strategy setting and related processes in place?

It is the Auditor's view that KT&G has various processes in place for engaging its stakeholders with the goal of better reflecting relevant engagement findings in its business management activities, in recognition of the importance of stakeholder engagement in its sustainability management initiatives. Notably, the Company has defined its top 6 stakeholder groups, taking into account their impact on KT&G's management activities, while working to identify and reflect their expectations toward the Company's activities. Moreover, KT&G used findings from various stakeholder-specific channels to uncover stakeholder needs while actively and consistently engaging in various related activities in line with the principle of inclusivity.

Materiality Does the Report contain information of the highest material importance to KT&G stakeholders across the economic, social, and environmental dimensions?

It is the Auditor's view that the Report does not omit or exclude issues of key importance to the sustainability management activities of KT&G.

The Company has put into place a system for materiality testing to assess the impact of its sustainability management activities on stakeholders, and to serve as a framework for managing its material issues on a more systematic basis. KT&G has selected its key-most issues of material concern in terms of potential business impact and relevance and sorted the issues into 19 categories, with the Report highlighting G4 "Aspects" as well as internal/external "Boundaries" for the six highest priority issues, consistent with the principle of materiality.

Responsiveness Does the Report provide an adequate response to stakeholder demands and interests?

The Auditor found KT&G to be providing an adequate response to issues of concern and interest to its stakeholders. KT&G has made multiple channels of communication available to different stakeholder groups, while working to incorporate the Company's response to various communication findings and its achieved outcomes in the contents of its Report. Effort by the Company was noted to better respond to and manage the needs of its internal and external stakeholders - not only encouraging external communication through its ombudsman platform, supplier workshops, and welfare and scholarship programs, etc., but also launching a new communication and empathy-themed room inside its corporate office to improve the Company's internal corporate culture, very much in line with the principle of responsiveness.

GRI "In Accordance" Criteria The Auditor confirmed that the Report is "in accordance" with GRI G4 guidelines under the "core option", as it reports on General Standard Disclosures and Additional Disclosures (materiality aspects, DMA, performance indicators) as indicated in the G4 Guidelines.

Reliability of Performance Indicators After reviewing the performance data stated in the Report, the Auditor found its underlying data collection system to be adequate and failed to find any material errors that may either bias the Company's judgment or compromise the reliability of the reported data. The following performance indicators were reviewed for the purpose of this assurance.

Agenda	Performance Indicators	Performance Outcomes
Management Performance	Operating profit	1.365 tr won
Corporate Governance	Average compensation per director	497mn won
Work/Life Balance	Family-friendly initiative and satisfaction	89.5 pts (total 100)
Social Contributions	Imagination Fund - fund raising/ amount used	3.24 bn won
Transparent - Ethical Management	No. of disciplinary measures due to improper conduct	28 cases
Product Liability	No. of regulation violation related products	0 cases

Recommendations

The Auditor found the "2014/15 Sustainability Report" by KT&G commendable in the following respects. The Report (1) reflects efforts by the Company to publicly disclose its financial and non-financial performance results to its stakeholders on an on-going basis; and (2) reflects efforts to better communicate with its stakeholders by reflecting their views on internal engagement and activities designed to identify key material issues, as well as its achieved results in its reporting. For the purpose of future reports, the Auditor recommends considering the following.

- Achieve more concrete and segmented assessment and management of key issues to better reflect business impact and stakeholder interest; and
- Strengthen reporting on targets and achieved outcomes relative to targets centering on key identified issues; and
- Consider analysis of management activities and economic, environmental, social performance from the perspective of value creation.

Independence

Apart from this independent assurance undertaking, the Auditor was not involved in the preparation of any part of the Report, and has no commercial affiliation with KT&G that might compromise our independence.

Qualifications of the Auditor

Commissioned by KT&G as the Auditor for this assurance undertaking, the Institute for Industrial Policy Studies (IPS) was established in 1993 and has since developed into a specialized institution with broad expertise in the areas of business ethics, CSR, and sustainability management since 2002.



September, 2016

Lee, Yoon-Cheol

Chairman, The Institute for Industrial Policy Studies

Awards & Recognition

Award/Recognition	Awarded by	Year awarded
'International Business Association Chairman Award' at Global Frontier Awards	Korean Academy of International Business	2014
1st place in the tobacco sector of National Customer Satisfaction Index(NCSI)	Korea Productivity Center	2014
'Social Welfare Community Chest Chairman Award' at National Sharing Grand Award	Community Chest of Korea	2014
Selected as DJSI World	RobecoSAM, Korea Productivity Center	2014
Award-winner as an energy save merit	Ministry of Trade, Industry and Energy	2014
1st place in the tobacco sector of National Customer Satisfaction Index(NCSI)	Korea Productivity Center	2015
Awarded bronze at International Business Awards	Stevie Awards	2015
Awarded the grand prize at Mecenat Awards	Korea Mecenat Association	2015
Seoul Metropolitan Government's Mayor's award at 'Finding beautiful buildings in Korea' contest	Seoul Metropolitan Government	2015
Family-friendly certificate	Ministry of Gender Equality and Family	2015

Membership

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.



MIX
Paper from
responsible sources
FSC® C111531



PRINTED WITH
SOY INK

This report is printed on eco-friendly paper with soy-based ink.