

The background of the page is a complex, abstract geometric design. It features a central perspective view of a hallway or corridor. The walls and ceiling are composed of numerous overlapping, semi-transparent rectangular planes in shades of blue and green. These planes are arranged in a way that creates a sense of depth and movement, as if they are floating or shifting. The lighting is bright and even, highlighting the edges and surfaces of the planes. The overall effect is one of modernity and technological sophistication.

FROM ASPIRATION TO ACTION

2023 KT&G INTEGRATED REPORT

ABOUT THIS REPORT

REPORT OVERVIEW

KT&G publishes the KT&G Report every year, which contains activities, achievements, and future plans for the company's sustainable growth and social value creation, as a way of communicating extensively with stakeholders and listening to their opinions. Always striving for harmonious development in environmental and social aspects, we at KT&G have carefully reviewed recommendations for the disclosure of ESG-related global initiatives and reflected these suggestions in the 2023 KT&G Report. Moving ahead, we plan to transparently disclose major sustainability management issues, activities, and achievements through the KT&G Report.

REPORTING PERIOD

This report covers sustainability business activities and performances for the fiscal year from January 1 through December 31, 2023. In addition, the quantitative data covers three-year data from 2022 to 2023 to show yearly trends and includes some activities for four-year data from 2019 to 2022. It may include significant sustainability business activities and performances in the first half of 2024 to provide timely information.

REPORTING SCOPE

The financial information in this report is based on the K-IFRS. The scope of social and environmental information spans some overseas manufacturing sites (Russia, Türkiye, and Indonesia) and domestic worksites, including the Head Office, R&D HQ, Daejeon Plant, Gwangju Plant, Yeongju Plant, Cheonan Plant, Gimcheon Plant, and sales sites across the country. In addition, we disclose the sustainability management performance and plan of **Korea Ginseng Corporation (KGC)**, and **ESG data of the Group subsidiaries**, including Yungjin Pharm, COSMOCOS, TAE-A Industrial, and KGCYebon, are included in the reporting scope. Different reporting scopes and changes in reported data are marked separately with footnotes.

REPORTING STANDARDS

This report has been prepared in accordance with the Global Reporting Initiative (GRI) Standards 2021, a set of international reporting guidelines for sustainability management. To accurately represent significant industry-related concerns, we have incorporated the Sustainability Accounting Standards Board (SASB) indicators. In addition, we have considered global sustainability management standards and initiatives such as the Sustainable Development Goals (UN SDGs) and Task Force on Nature-related Financial Disclosures (TNFD). In this report, we also have disclosed the **governance, strategy, risk management, and metrics and targets related to climate change** response among KT&G's key sustainability management issues, with reference to the standards of the International Sustainability Standards Board (ISSB).

THIRD-PARTY ASSURANCE

To ensure the quality of reporting content and reliability of data, third-party assurance was conducted, thereby securing open data, authenticity of content, and fairness. The assurance statement is included in the 2023 Factbook.

CONTACT





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KT&G Tower, 416, Yeongdong-daero, Gangnam-gu, Seoul, Korea
· Tel. +82-2-3484-5023
· E-mail sustainability@ktng.com

Cautionary Statement regarding Forward-looking Statements

This report contains not only information about the current or past activities and achievements of KT&G aimed at sustainable growth and social value creation, but also forecasts, prospects, and estimates about the future. Terms such as "prospect," "expectation," "estimate," "anticipation," "plan," "goal," "scheduled," and similar expressions in this report denote these forward-looking statements. These are based on reasonable assumptions and expectations as of the date of this report's preparation and involve known and unknown risks and uncertainties. Consequently, the actual outcomes of the forecasts, prospects, and estimates may differ from those originally predicted. While KT&G believes the expectations reflected in these forward-looking statements are reasonable, it cannot assure that these expectations will prove to be correct. Such statements are intended to assist stakeholders in understanding our approach, strategy, and initiatives regarding key ESG areas, and under no circumstances should this report be used as evidence of legal responsibility for investors' outcomes.

INTERACTIVE PDF

This report has been published as an interactive PDF, allowing readers to move to pages in the report, and including shortcuts to related web pages and video clips.

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This report is available for download in PDF format at the KT&G Website.



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SOCIAL CONTRIBUTION REPORT

IMAGINE A BETTER TOMORROW

As a global corporate citizen, KT&G does its utmost to create a sustainable tomorrow in partnership with stakeholders. At KT&G, we promote various social responsibility projects together with people, society, and the environment based on our management philosophy of being an “Inclusive Company” and disclose our achievements and plans in our social contribution activity report.

I. LETTER TO STAKEHOLDERS

Dear stakeholders, I am Bang Kyung-man, President & CEO of KT&G.

In the post-pandemic era, prolonged uncertainties are anticipated due to climate crises and conflicts. This period is marked by dynamic changes, including heightened demands for ESG management and an accelerated digital transformation. Under our newly established vision "Global Top-tier Player" in 2023, KT&G Group is keenly aware of the evolving requirements of the market and stakeholders. We view this era of ESG as an opportunity for sustainable growth to enhance our competitiveness.

In 2024, KT&G Group is focusing on structural innovations to drive breakthrough growth in our 3 core businesses - NGP (Next Generation Products), health functional foods, and global conventional cigarettes. To sharpen our global competitive edge and meet increasing demands, we are securing overseas production bases to gain a market advantage. We also have implemented organizational restructuring, including introducing regional CICs and production headquarters, to solidify a foundation for performance-based responsible management.

Furthermore, with profitability enhancement, asset efficiency, and advancement of capital policy at the core, we are initiating a company-wide project to innovate our management structure, ultimately aimed at increasing corporate value. Based on these structural innovations, KT&G Group will actively communicate with stakeholders about the concrete steps toward the realization of true "value-up" beyond merely declaring our vision.

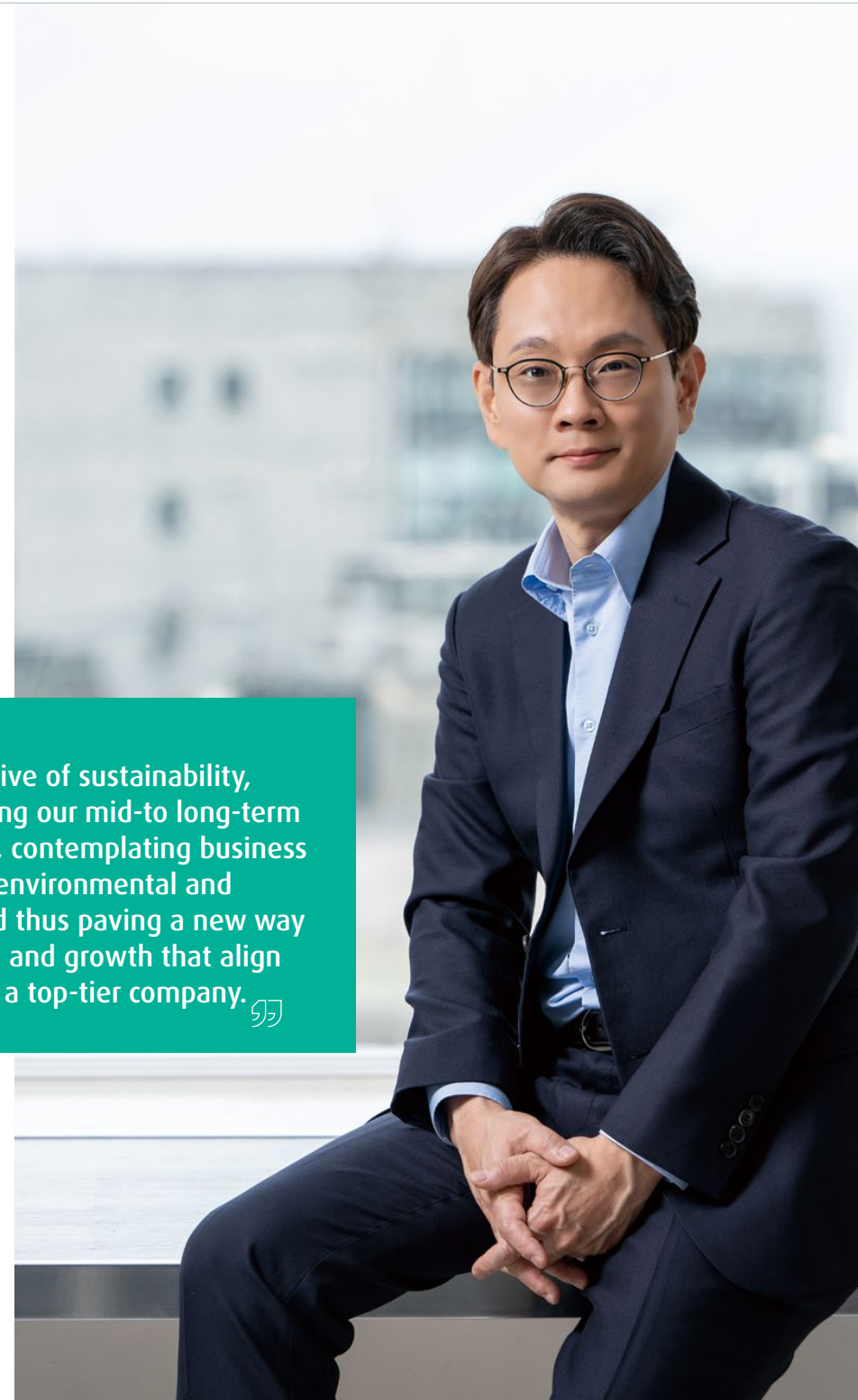
Our ESG capabilities serve as a catalyst on this journey of structural transformation and new challenges, fostering global growth and instilling the DNA of innovation. Over the past year, KT&G Group has made significant progress in its ESG initiatives. First of all, recognizing that strong governance and ethical leadership are foundation of sustainable growth, we enhanced the independence and expertise of our board composition, increased transparency in all relevant processes, upgraded the director selection process and BSM, and refined top management compensation policy. In 2023, KT&G received the Grand Prize in the Corporate Governance category from the Korea Institute of Corporate Governance and Sustainability (KCGS) and achieved 100% compliance rate with core indicators proposed by the Financial Services Commission, marking significant milestones in enhancing governance.

KT&G Group also believes that a diverse and inclusive human capital plays a crucial role in driving innovation and achieving sustainable growth. Regardless of gender or age, we prioritize expertise in human capital management to accelerate performance creation. In 2023, following the establishment of our 2030 DEI (Diversity, Equity, Inclusion) goals, we significantly increased diverse representation, including roles for global local hires and female staff. Our DEI goals and commitments are not just a moral obligation but a business strategy that enhances creativity and drives performance.

To strengthen the Group-wide initiative for carbon neutrality by expanding the scope of greenhouse gas (GHG) reduction and to meet the international community's demands with more ambitious goals, we have re-established our net-zero target year for our value chain by moving it forward by five years. Through the establishment of challenging goals and company-wide implementation efforts, our domestic and overseas operations in 2023 achieved a 9% reduction in GHG compared to the baseline year of 2020 and a 19% in renewable energy consumption.

To all stakeholders supporting KT&G's journey,

Competition in global markets is increasingly fierce, and the international community is demanding not only stronger ESG management and its active implementation but also obligatory disclosure of corporate sustainability and performance transparency. KT&G views these changes as opportunities to secure differentiated global competitiveness and aims to integrate ESG capabilities into our business strategy from a long-term perspective to achieve sustainable growth. We invite you to witness the innovations and sound management practices KT&G is creating through this report and kindly ask for your continued encouragement and support for KT&G's new challenges and future endeavors. Thank you.



From the perspective of sustainability, we are transforming our mid-to long-term business portfolio, contemplating business innovations from environmental and social aspects, and thus paving a new way through challenge and growth that align with our status as a top-tier company.

Bang, Kyung-man
President & CEO

I. KT&G AT A GLANCE

CORPORATE PROFILE

Under our corporate philosophy of being “Exemplary,” “Progressive,” and “Inclusive,” KT&G imagines together with our customers as we strive to create a better life. We are generating performance in various business areas such as the health/functional food, pharmaceutical, bio, and real estate business as well as the next-generation tobacco business, which will be the engine of future growth. While evolving into a globally outstanding company through change and innovation, we continue to create social value and expanding sustainability management activities.

COMPANY NAME

KT&G Corporation



ESTABLISHMENT

April 1, 1987



CEO

Bang, Kyung-man



HEADQUARTERS

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



NO. OF EMPLOYEE

4,378

(As of December 31, 2023; and based on direct employment)



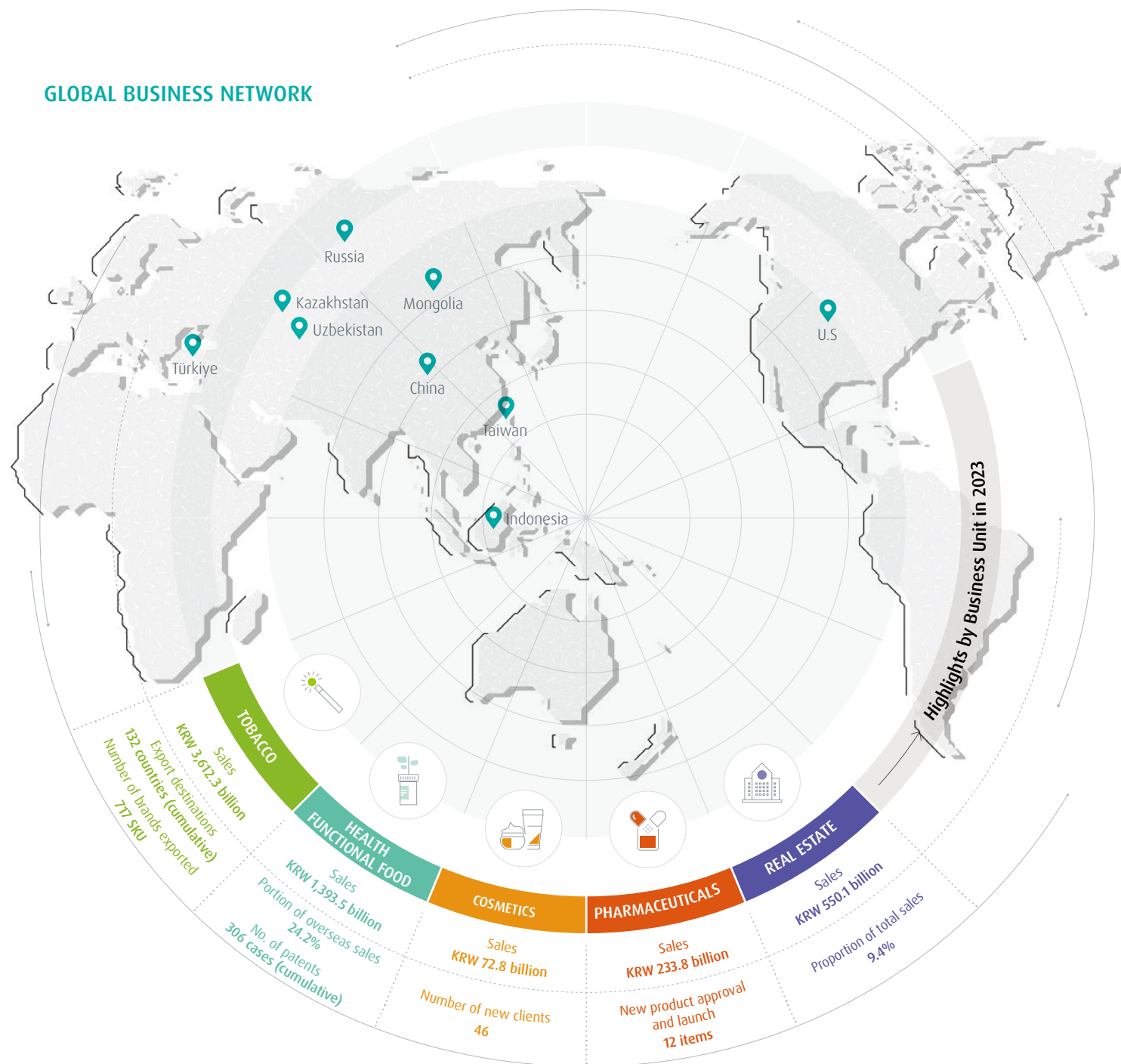
GLOBAL COE

2023 was a year in which the CoE (Center of Excellence) collaboration system was fully activated. Each specialized group (CoE) at our headquarters was deeply engaged in global operations, supporting overseas subsidiaries, offices, and other international organizations. In particular, the CoE led initiatives such as establishing the ERP system for our Indonesia Corporation and restructuring export processes for Türkiye Corporation to enhance its operations. Additionally, the CoE played a central role in establishing new offices in Kazakhstan, Mongolia, and Uzbekistan.

In 2024, work is underway to enhance the CoE system further. We have defined detailed business processes aimed at global operations, including regulatory compliance tasks and the establishment of a global HR policy, and clearly classified roles and responsibilities (R&R) between relevant departments, thereby strengthening governance for each specific task and improving operational efficiency.

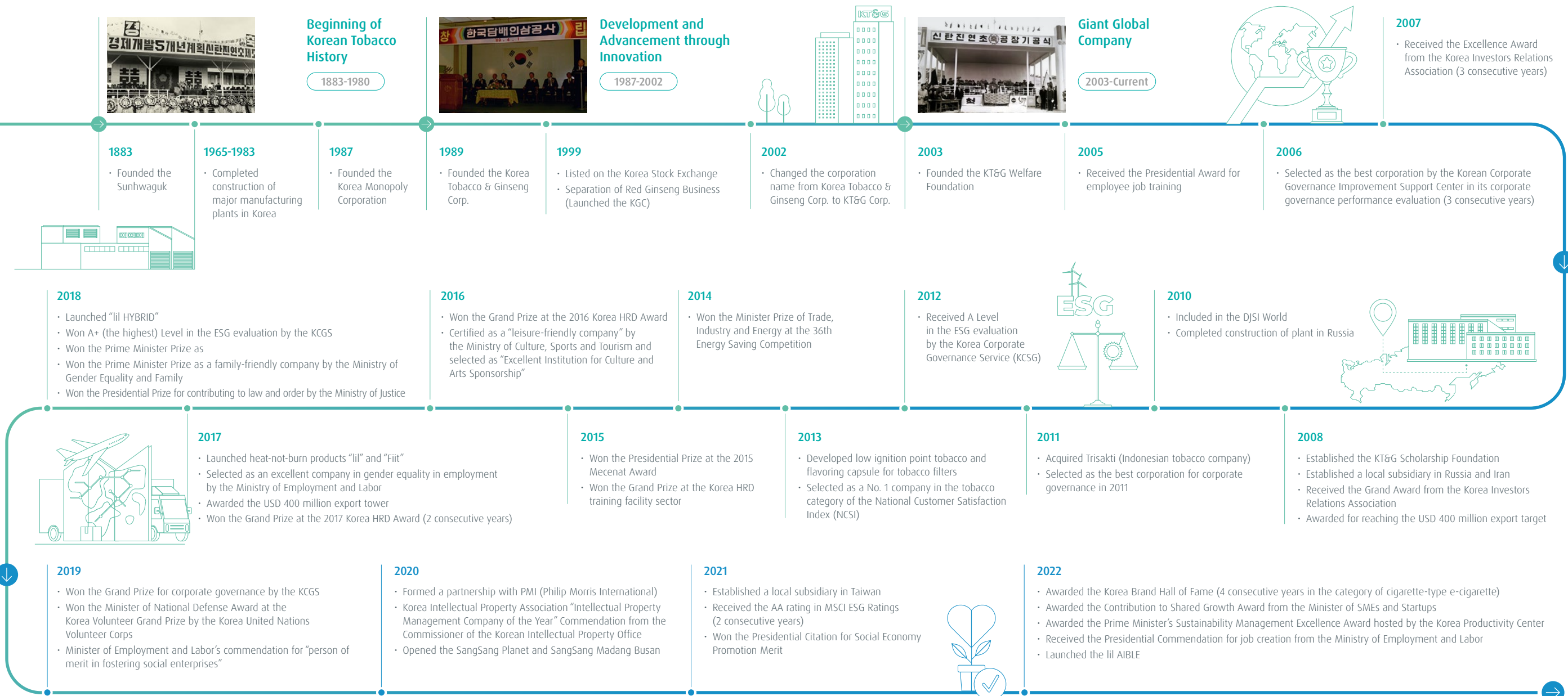
With the launch of the overseas CIC (company-in-company) in 2024, the CoE paradigm has reached a turning point. Accelerated support from each functional CoE at headquarters is being provided for the early autonomous operation of each management function within the CIC, and the CoE is identifying and supporting tasks that are difficult for the CIC to complete on its own through close communication and consultation. Going forward, the CoE will continue to contribute to performance creation by completing the enhancement of each value chain in global business.

GLOBAL BUSINESS NETWORK



KT&G AT A GLANCE

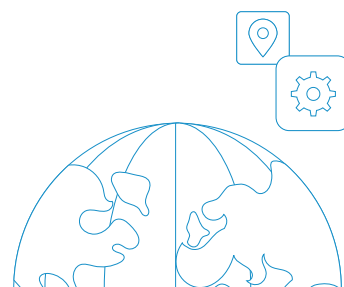
MILESTONES



KT&G AT A GLANCE

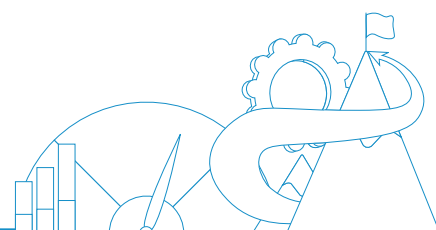
NEW CHALLENGE TOWARDS GLOBAL TOP-TIER PLAYER

2023-



2023

- Established a local subsidiary in Kazakhstan
- Established an office in Uzbekistan
- Received the Prime Minister's Commendation on the 6th Accounting Day from the Financial Services Commission
- Won the Presidential Prize at the 2023 Mecenat Award
- Received the Grand Prize in the Corporate Governance category from the Korea Institute of Corporate Governance and Sustainability (KCGS)



EXTERNAL EVALUATION

GLOBAL ESG RATINGS

MSCI  **AA**
(Highest rating in the sector)

ISS ESG  **Prime**
(Highest rating in the sector)

Member of **Dow Jones Sustainability Indices**
Powered by the S&P Global CSA **78**
(Included in the Korea Index)

CDP  **A-**
CLIMATE CHANGE
(Leadership level achieved)


CDP WATER **A**
(Leadership level achieved)

CDP SUPPLIER ENGAGEMENT RATING **A**
(Leadership level included)

ESG RATINGS IN KOREA

KCGS  **A+**
(Highest grade)

SUSTINVEST **A**
(Size grade criteria)


KRESG  **A+**
(Highest level: S)

CREDIT RATINGS

(As of June 2024)

NICE Information Service  **AAA**

Korea Investors Service  **AAA**
AN AFFILIATE OF MOODY'S INVESTORS SERVICE

KR  **AAA**
한국기업평가 KOREA RATINGS

EXTERNAL AWARDS

(2023-April 2024)

 Korea Institute of Corporate Governance and Sustainability (KCGS)
Grand Prize in the Corporate Governance category

 Leadership Ratings for Climate Change and Water Security Sectors
Korea Awards

 Climate Change Response and Greenhouse Gas Reduction Excellence Awards
Minister of Trade, Industry and Energy Commendation

 LACP Spotlight Awards
Platinum Award

 Mecenat Award
Presidential Prize

I. FINANCIAL HIGHLIGHTS

STATEMENT OF INCOME

| Category | Unit | Consolidated | | | Separate | | |
|----------------------|-------------|--------------|---------|---------|----------|---------|---------|
| | | 2021 | 2022 | 2023 | 2021 | 2022 | 2023 |
| Sales | KRW billion | 5,228.4 | 5,851.4 | 5,862.6 | 3,490.5 | 3,694.4 | 3,586.7 |
| Operating profit | KRW billion | 1,338.4 | 1,267.7 | 1,167.3 | 1,083.4 | 1,120.3 | 931.7 |
| Net profit | KRW billion | 971.8 | 1,005.3 | 922.4 | 852.9 | 958.0 | 804.9 |
| Comprehensive income | KRW billion | 1,061.2 | 1,082.6 | 900.8 | 890.1 | 9,86.3 | 802.1 |
| Earnings per share | KRW | 7,898 | 8,489 | 7,843 | 6,894 | 8,007 | 6,993 |

SUMMARIZED FINANCIAL POSITION

| Category | Unit | Consolidated | | | Separate | | |
|----------------------------|-------------|--------------|----------|----------|----------|----------|----------|
| | | 2021 | 2022 | 2023 | 2021 | 2022 | 2023 |
| Current assets | KRW billion | 6,255.9 | 6,509.6 | 6,418.4 | 4,009.0 | 4,096.5 | 3,554.3 |
| Non-current assets | KRW billion | 5,381.4 | 5,792.1 | 6,354.1 | 5,772.7 | 6,060.4 | 6,819.6 |
| Total assets | KRW billion | 11,637.3 | 12,301.7 | 12,772.5 | 9,781.7 | 10,156.9 | 10,373.9 |
| Current liabilities | KRW billion | 2,063.9 | 2,527.3 | 2,672.4 | 1,715.4 | 2,037.7 | 2,164.2 |
| Non-current liabilities | KRW billion | 364.5 | 415.8 | 805.1 | 66.1 | 65.6 | 377.1 |
| Total liabilities | KRW billion | 2,428.4 | 2,943.1 | 3,477.5 | 1,781.5 | 2,103.3 | 2,541.4 |
| Total shareholders' equity | KRW billion | 9,208.9 | 9,358.6 | 9,294.9 | 8,000.1 | 8,053.6 | 7,832.5 |

KEY FINANCIAL RATIOS

| Category | Unit | Consolidated | | | Separate | | |
|-------------------------|------|--------------|-------|-------|----------|-------|-------|
| | | 2021 | 2022 | 2023 | 2021 | 2022 | 2023 |
| ROA | % | 8.4 | 8.2 | 7.2 | 8.7 | 9.4 | 7.8 |
| ROE | % | 10.6 | 10.7 | 9.9 | 10.7 | 11.9 | 10.3 |
| Operating profit margin | % | 25.6 | 21.7 | 19.9 | 30.7 | 30.3 | 26.0 |
| Current ratio | % | 303.1 | 257.6 | 240.2 | 233.7 | 201.0 | 164.2 |
| Debt-to-equity ratio | % | 26.4 | 31.4 | 37.4 | 22.3 | 26.1 | 32.4 |

VOTING RIGHTS STATUS

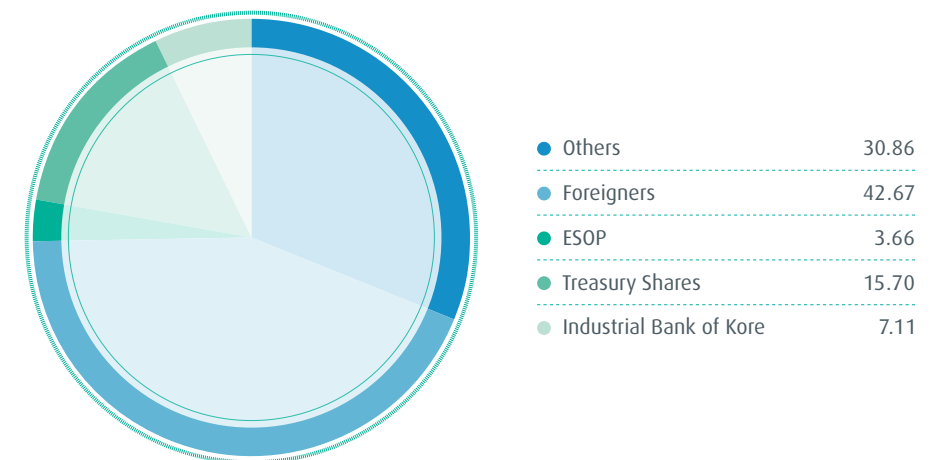
| Category | Type | 2023 |
|----------------------------------------|--------------|-------------|
| Number of shares issued | Common share | 133,822,497 |
| Number of shares without voting rights | Common share | 21,012,574 |
| Number of shares with voting rights | Common share | 112,809,923 |

DIVIDEND PAYMENT

| Category | Unit | 2020 | 2021 | 2022 | 2023 |
|-------------------------------------------|-------------|---------|---------|---------|---------|
| Total dividend paid | KRW million | 595,584 | 575,904 | 581,400 | 590,776 |
| Dividend payout ratio (consolidate basis) | % | 51 | 59 | 57 | 65 |
| Cash dividend yield ratio | % | 6 | 6 | 5 | 6 |
| Dividend per share | KRW | 4,800 | 4,800 | 5,000 | 5,200 |

SHAREHOLDER COMPOSITION

(Unit : %)



* As of the end of December 2023

ESG HIGHLIGHTS

Performing environmental responsibility across the value chain



| CLIMATE CHANGE RESPONSE | CIRCULAR ECONOMY |
|-------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|---------------------------------------------------------------------------------------------------------------------------------------------------------|
| GHG Emissions Generated at Business Sites KT&G 9.0% ↓¹⁾ Group Subsidiaries 5.8% ↓²⁾ | Water Withdrawal and Waste Recycling Rate Water withdrawal 8.7% ↓¹⁾ Waste recycling rate 83.9%¹⁾ |
| Renewable Energy Consumption at Business Sites Percentage of renewable energy consumption 19.0%¹⁾ Group Subsidiaries 13.5%²⁾ | Wasted Device Material Recycling Approximately 7,196kg |

NATURAL CAPITAL

Soil & Forest

Halting deforestation and land conversion in protected areas by 2030

Deforestation & Conversion Free³⁾

¹⁾ Based on all domestic business sites and overseas manufacturing sites of KT&G, compared to the 2020 baseline
²⁾ Based on all domestic business sites of KT&G and manufacturing sites of overseas corporations and the Group subsidiaries, compared to the 2020 baseline
³⁾ Targeting the Group subsidiaries and supply chain of KT&G and KGC

Building a sustainable business ecosystem



| EMPLOYEE DEI | SUPPLY CHAIN |
|------------------------------------------------------------------------------------------------------------|------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|
| Diversity Target Progress⁴⁾ Percentage of female managers 13.4% (0.2%p↑) | Sustainable Tobacco Program Sustainability assessment of domestic farms 680 farms Support for energy-saving tobacco leaf drying machine 100 farms |
| Percentage of locally-hired employees among the management and persons in duty 26.0% (2.5%p↑) | Significant Suppliers Win-win support KRW 2.8 billion Quality/productivity improvement, strengthening ESG capabilities |

LOCAL COMMUNITIES

Value Chain-related Social Responsibility Project⁵⁾

KRW **2.3 billion**

Creation of SangSang Forests at home and abroad and wetland restoration: 10.8ha

Creating a space aimed for improving smoking environments

⁴⁾ Based on domestic business sites and overseas subsidiaries of KT&G, the figures in parentheses indicate the year-on-year change.
⁵⁾ Smoking environment improvement and environmental CSR activities

Advancing governance and strengthening execution capability

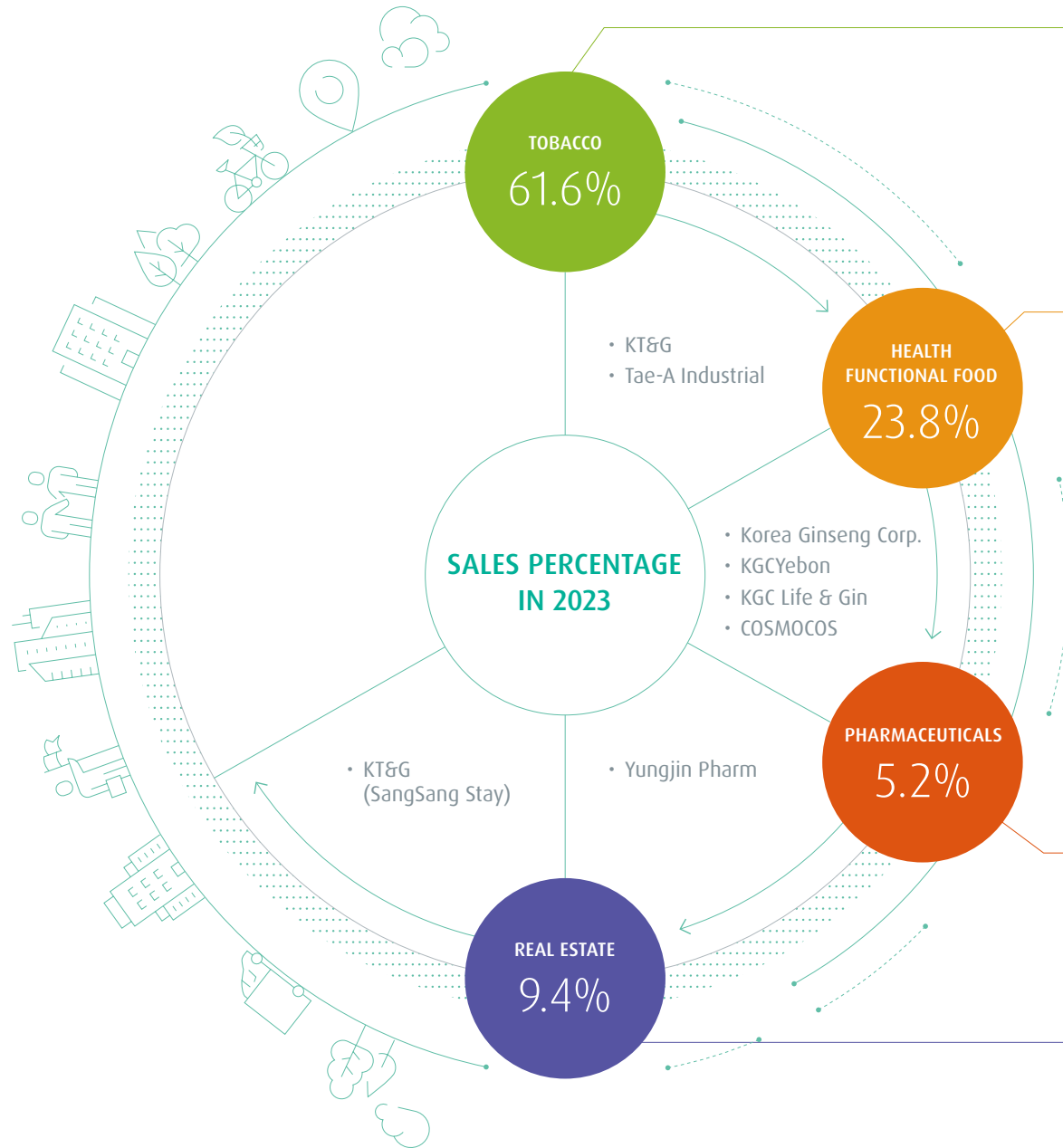


| GOVERNANCE | PROCESS TRANSPARENCY |
|-------------------------------------------------------------------------------------|-----------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|
| Compliance rate with core indicators of FSC ⁶⁾ 100% | Strengthening the director appointment process CEO/Independent Director Nomination Committee composed entirely of independent directors Adoption of the external selection advisory panel system |
| BOARD EXPERTISE Advancement of Board Skills Matrix | MANAGEMENT EVALUATION AND COMPENSATION Proportion of stock compensation for management ⁷⁾ 60% for aligning shareholder value with a long-term perspective Restricted stock unit (RSU) ⁸⁾ scheme introduced |
| PROTECTING SHAREHOLDER RIGHT Concentrated Voting System adopted | |

⁶⁾ 15 Indicators recommended by the Financial Services Commission (FSC) to enhance corporate governance transparency
⁷⁾ CEO long-term performance incentive
⁸⁾ Targeting executive directors

I.
II.
III.
IV.

I. OUR BUSINESS



TOBACCO

- **KT&G: Manufacturing and sales of tobacco**
By enhancing corporate value through a balanced business portfolio in the tobacco industry and sustainable management to global standards, we are strengthening our expertise and innovation to realize our vision of becoming a "Global Top-tier" company.
- **Tae-A Industrial: Manufacturing of reconstituted tobacco sheet**
As the only reconstituted tobacco leaf manufacturer in Korea, Tae-A Industrial is expanding its business territory to overseas markets.

HEALTH FUNCTIONAL FOOD

- **Korea Ginseng Corp.: Manufacturing and sales of health functional foods**
As a leading manufacturer of red ginseng products that have inherited the proud tradition of Korean Ginseng for more than 120 years, KGC is taking a leap forward as a "global comprehensive health company" that aims to create a healthier, happier tomorrow.
- **KGCYebon: Material processing of medicinal herbs**
As a healthcare company focused on natural products, KGCYebon is contributing to the life and health of humanity by offering safe and reliable natural materials and products of high quality.
- **KGC Life & Gin: Manufacturing and sales of health functional foods, cosmetics, and related products**
As a beauty and health distribution company specializing in digital and door-to-door sales of health functional foods and cosmetics, B2B corporate special sales, and online distribution, we are opening up a prosperous tomorrow based on tradition, trust, and technology.
- **COSMOCOS: Manufacturing and sales of cosmetics and related products**
Based on our advanced technology, continuous R&D, and more than 30 years of expertise, we aim to provide the best solutions and the most fashionable products as a global beauty company that creates new values of beauty.

PHARMACEUTICALS

- **Yungjin Pharm: Manufacturing and sales of pharmaceuticals**
With the goal of providing excellent "medicines for life" that improve the lives of our customers and patients, we are taking a leap forward a global company by manufacturing and exporting high-quality antibiotic drugs based on our domestic ETC and OTC businesses.

REAL ESTATE

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

I. INTRODUCTION



CC BUSINESS (DOMESTIC AND OVERSEAS CC BUSINESS)

In 2023, KT&G continued its stable growth in the conventional cigarette (CC) business sector. The domestic CC business achieved a market share of 66.0%, an increase of 0.6%p from the previous year, based on continuous growth in products with reduced smell, low irritation, and super-slim designs, selling a total of 40.7 billion sticks. The global CC business reached a record high revenue of over KRW 1.1 trillion, driven by exploring new markets and expanding sales in overseas subsidiaries. As of 2023, KT&G exported 32.3 billion sticks¹⁾ to 132 countries, and its overseas subsidiaries achieved record sales of 20.9 billion sticks by accumulating capabilities suitable for each subsidiary's business structure, enhancing distribution structures, and establishing a basis for significant advancements. Consequently, the global CC business saw an increase of 3.8 billion sticks from the previous year, with total sales of 53.2 billion sticks.

In 2024, KT&G aims to lead the domestic CC market, which is evolving towards "less needs" with reduced smell and irritation. We plan to enhance our product lines in the extremely low-irritation and smell reduction categories and focus on the high-end market to boost profitability. In the global CC business, we will concentrate on profitable, sustainable, and stable growth. To improve growth, regional CICs (company-in-company) will be established, and direct operations will be strengthened to secure global competitiveness.

¹⁾ Excluding internal transactions
²⁾ Domestic Tobacco Business
³⁾ Entire CC sales volume in 2023 (Consolidated basis for domestic and overseas tobacco business)
⁴⁾ Cumulative figure as of 2023

Sales Percentage

* Consolidated basis

61.6 %

Market share²⁾

66.0 %

Sales volume³⁾

93.9 billion sticks

Export destinations⁴⁾

132 countries



NGP BUSINESS

KT&G entered into the NGP (Next Generation Products) business with the launch of the heat-not-burn product "lil SOLID" in the domestic NGP market in 2017, followed by the launch of KT&G's proprietary platforms - "lil HYBRID" in 2018 and "lil ABLE" in 2022. In 2023, lil HYBRID evolved into its third generation, and the nationwide launch of lil ABLE expanded consumer choices, while the lil SOLID Ez (entry-level) was released in 23 countries, and the stick SKU was expanded to achieve visible results globally. As of 2023, KT&G recorded a market share of 46.6% in the domestic NGP market, continuing quantitative and qualitative growth. After forming a strategic alliance with Philip Morris International (PMI) in 2020, a 15-year long-term partnership was signed in 2023.

With active market entry by global tobacco companies and increasing needs for "less smell & modified risk" products among smokers, the NGP market is expected to continue its high growth rate of 15% annually. In the NGP market, which is the core of the future tobacco industry, KT&G will maintain solid growth momentum through continuous platform improvement, enhanced scientific development capabilities, and securing proprietary technologies.

Sales Percentage

* Consolidated basis

21.5 %

Market share¹⁾

46.6 %

Unit sales of sticks²⁾

13.9 billion

NGP SKU³⁾

28 brands



¹⁾ Based on domestic market share
²⁾ As of 2023 year-end
³⁾ Based on figures compiled in April 2024

I. INTRODUCTION

LETTER TO STAKEHOLDERS OUR COMPANY **OUR BUSINESS**

HEALTH FUNCTIONAL FOOD BUSINESS

KGC, centered around the “Jung Kwan Jang” brand, is focusing on expanding from the domestic market to global markets. The domestic business sector is leading market growth by responding to increased demand in the health functional market, utilizing materials other than red ginseng, launching high-value new products based on diverse efficacy, and enhancing competitiveness in on/offline channels. The global business sector established customer-centric strategies by region and achieved overseas sales of KRW 337.3 billion¹⁾ in 2023, an increase of 18.4% from the previous year, thanks to localized promotions and marketing activities to expand awareness of ginseng and red ginseng. In particular, the sales in the Chinese market grew by more than 48% year-on-year, driving the growth of the overseas business.

KGC aims to achieve overwhelming growth in the global market as a “Global Top-tier Health-Care” company. It plans to focus on nurturing key strategic brands, particularly in the Chinese and American markets, continue expanding market demand through new product launches and localization, and expand its business domains and business models into efficacy-based dietary supplements (DS) and food and beverage (F&B) sectors to establish a long-term growth foundation.

¹⁾ Consolidated basis as of 2023
²⁾ Cumulative basis intellectual property
³⁾ As of 2023 year-end. Based on contract for fresh ginseng cultivation

Sales Percentage

* Consolidated basis

23.8 %

Patent rights²⁾

306 cases

Trademark²⁾

7,677 cases

No. of growers³⁾

1,604



COSMETICS BUSINESS

The cosmetics industry, characterized by strong preferences and trends and low barriers to entry, is highly competitive. As purchasing channels have shifted to H&B (Health & Beauty) stores and online platforms, the original equipment manufacturer (OEM) and original design manufacturer (ODM) markets are expanding. COSMOCOS has focused on diversifying its product portfolio and expanding clientele, achieving qualitative and quantitative growth in the ODM business by securing 46 new clients in 2023. The overseas business achieved a 31.8% increase in sales compared to the previous year on the back of diversification strategy by country, and the company reorganized its channel portfolio to strengthen capabilities in key domestic distribution channels. Through a strategic approach centered on core businesses and restructuring the business portfolio, COSMOCOS turned a profit in 2023.

COSMOCOS plans to focus on diversifying its client portfolio and expanding presence through global inventory expansion to strengthen its ODM business foundation. The brand business will adapt to changes in consumer behavior by repositioning its brands to secure sustainability and competitive distribution. By creating new references in non-China markets, COSMOCOS aims to build continuous growth momentum. Furthermore, it will enhance production efficiency and quality competitiveness to lay the groundwork for a sustainable corporate foundation.

¹⁾ Consolidated basis as of 2023

Sales Percentage

* Consolidated basis

1.2 %

Sales¹⁾

KRW 72.8 billion

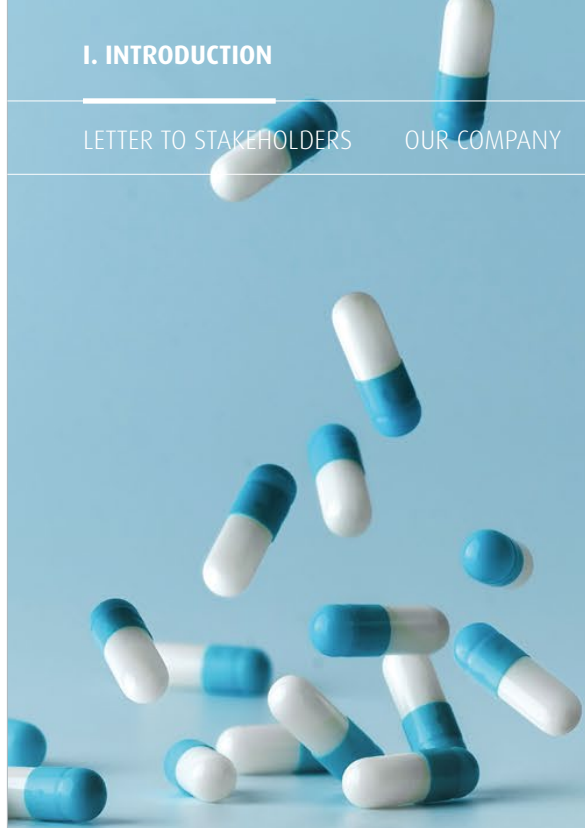
Number of new clients

46

Major certification

ISO 9001





PHARMACEUTICAL BUSINESS

Yungjin Pharm has been focusing on enhancing competitiveness in the domestic market and expanding its global reach to countries such as Japan and China, as well as expanding business areas such as injectable CMO (Contract Manufacturing Organization), to create new opportunities in the steadily growing pharmaceutical industry. In 2023, the company achieved highest ever sales due to steady growth in domestic sales and contract services as well as improved profitability in global operations, turning an operating profit. Yungjin Pharm continues its aggressive R&D investment for sustainable growth, while also practicing ethical management by implementing internal compliance program operations and obtaining the ISO 37001 (anti-bribery management systems) certification. As a result, it received an overall grade A for two consecutive years in the Sustainvest ESG evaluation and a grade B+ from the Korea Institute of Corporate Governance and Sustainability (KCGS).

Yungjin Pharm aims to increase the scale of operating profits and pursue business internalization centered on profitability. In the domestic sales sector, the company plans to concentrate capabilities on its products and develop treatments for chronic diseases as major items. Global sales will aim for business normalization through expansion of existing and new business sales and securing new clients. R&D will strengthen the chronic disease portfolio to establish a mid-to long-term growth foundation, and the production sector will secure production competitiveness through additional investment in antibiotic facilities.

¹⁾ Consolidated basis as of 2023

Sales Percentage

* Consolidated basis

4.0%



Sales¹⁾

KRW 233.8 billion

Operating profit¹⁾

Increase of KRW 15.8 billion year-on-year



New product approval and launch

12



REAL ESTATE BUSINESS

KT&G is actively seeking growth opportunities in the real estate sector, leveraging idled land resulting from enhanced production and sales efficiencies to generate sustained profits. We are demonstrating stable growth by using our inherent professional capabilities as part of a strategic approach to establish a balanced mid-to long-term growth engine. This strategy includes operating a sustainable business through diversification of our business structure and securing a growth foundation by stabilizing rental assets. In 2023, our real estate business advanced the development of owned assets, including completion of Prugio Briseiel at Hwaseo Station in Suwon, and commencement of construction for e-Pyunhansesang Daejeon Station Centum Vista. It also efficiently managed 12 major assets nationwide, generating revenues of KRW 550.1 billion.

The real estate business is enhancing its ESG management in line with global ESG trends and relevant regulations. Moving forward, we will do our utmost to establish and implement strategies for energy saving, carbon emission reduction, compliance with the Occupational Safety and Health Act, and the expansion of renewable energy, with an aim to fulfill corporate social responsibilities and achieve sustainable growth.

¹⁾ Consolidated basis as of 2023

Sales Percentage

* Consolidated basis

9.4%



Sales¹⁾

KRW 550.1 billion



No. of key operating assets

12





I.

II.

III.

IV.

FROM VISION TO PRACTICE.

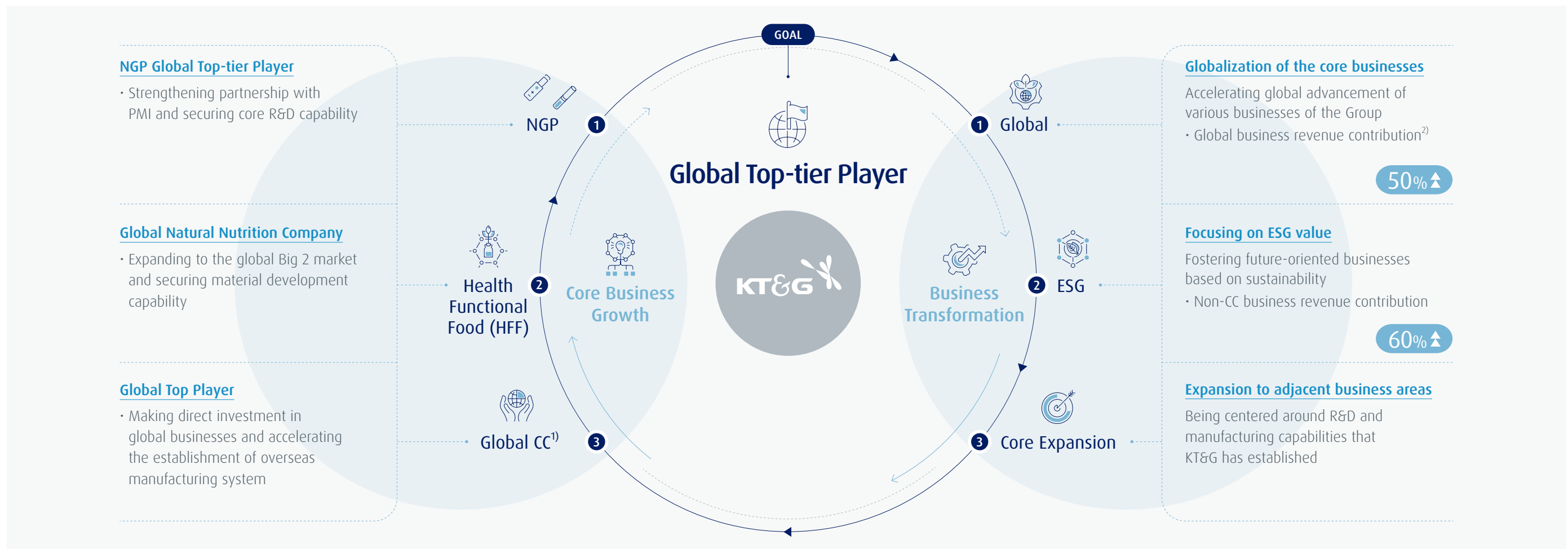
ESG has established itself as a measure for evaluating corporate sustainability, and thus, the era of mandatory ESG disclosure is on the horizon. Companies that fail to properly read and swiftly respond to this trend will face limitations in their growth. Guided by the clear vision of becoming a “Global Top-tier” player, KT&G is doing its utmost to ensure that its vision does not remain just a declaration but is realized as “true value-up.” From an ESG perspective, we are driving our business with a long-term view, implementing economically, socially, and environmentally sustainable innovations.

OUR GOAL FROM VISION TO VALUE-UP

2027 New Vision

KT&G is preparing for new growth, aiming to become a “Global Top-tier Player” under the “2027 KT&G Vision,” which was newly established in 2023. The strategy to achieve the vision consists of three core growth businesses – NGP (Next Generation Products), health functional food (HFF), and global conventional cigarettes (CC) – and three keywords – Trust, Origin, and Professional – that will guide the Group as it transitions to a future-oriented and sustainable business structure. KT&G has set “50% of revenue from overseas business” and “60% of revenue from non-CC business” as key business KPIs for 2027, and to this end, we have been focusing on implementing company-wide projects to improve the Group business structure since the appointment of the new CEO.

Moving forward, we will achieve the goal of becoming a Global Top-tier by strengthening our core competitiveness and structural innovation centered on our three core growth businesses – NGP, HFF, and global CC. In the process of executing the goals, KT&G Group will focus on fostering businesses that create positive impacts by using “Global, ESG, and Core expansion” as keywords to enhance corporate sustainable value.



¹⁾ Conventional cigarettes

²⁾ Excluding real estate business

I. OUR GOAL FROM VISION TO VALUE-UP

II. New Vision, New Leadership, New Direction

In 2024, KT&G is accelerating the realization of its new vision under a new leadership centered on a new CEO. In particular, in the era of global hypercompetition, with intensifying competition and accelerating change, KT&G believes that the surest way to prepare for an uncertain future is to create the future itself, and has set a new direction for sustainable growth with “Trust, Origin, and Professional” as keywords to become a “TOP” company.

We will seek new opportunities for growth by striking a better balance between financial and non-financial performance under the keywords of “Trust” which means enhancing stakeholder trust through active communication; “Origin” which intends to take on new challenges from a new perspective to secure unparalleled competitiveness; and “Professional” aims for global expertise brought about by a performance-based culture fostered by employees’ professional competence and organizational commitment.

Since the appointment of the new CEO, KT&G has been promoting organizational structure innovation by establishing a global region CIC (company-in-company), a responsible management system through an autonomous decision-making structure, and deploying key group leaders globally. In addition, we are implementing structural changes for sustainable growth by focusing on a younger, competency-oriented organization, a reward system, and global mobility, as well as “organizational operation innovation” to improve group management efficiency, and “business management structure innovation” to accelerate substantial change and progress.

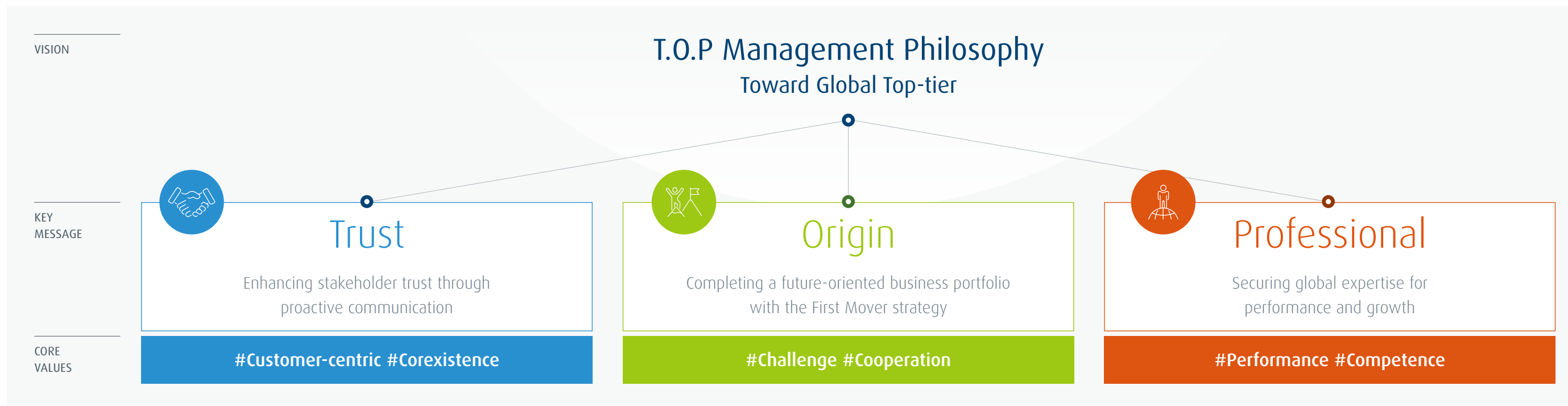


Lee, Sang-hak
Senior Executive Vice President & Chief Strategy Officer, KT&G



KT&G Group aims to become a “Global Top-tier” company that can maximize both employee and shareholder value by making bold investments in its 3 core businesses – NGP, HFF, global CC – and creating performance in global markets.

Amidst the rapid paradigm shift in the tobacco industry and the growth opportunities in the global health functional food market, KT&G is transforming beyond the concept of separating domestic and international businesses into a single global company. We are also focusing our capabilities on discovering new businesses and exploring new markets. Moving forward, we will continue our global growth momentum while accelerating the establishment of a future-oriented business portfolio, paving the way for sustainable growth.



OUR PROGRESS AND PROSPECTS

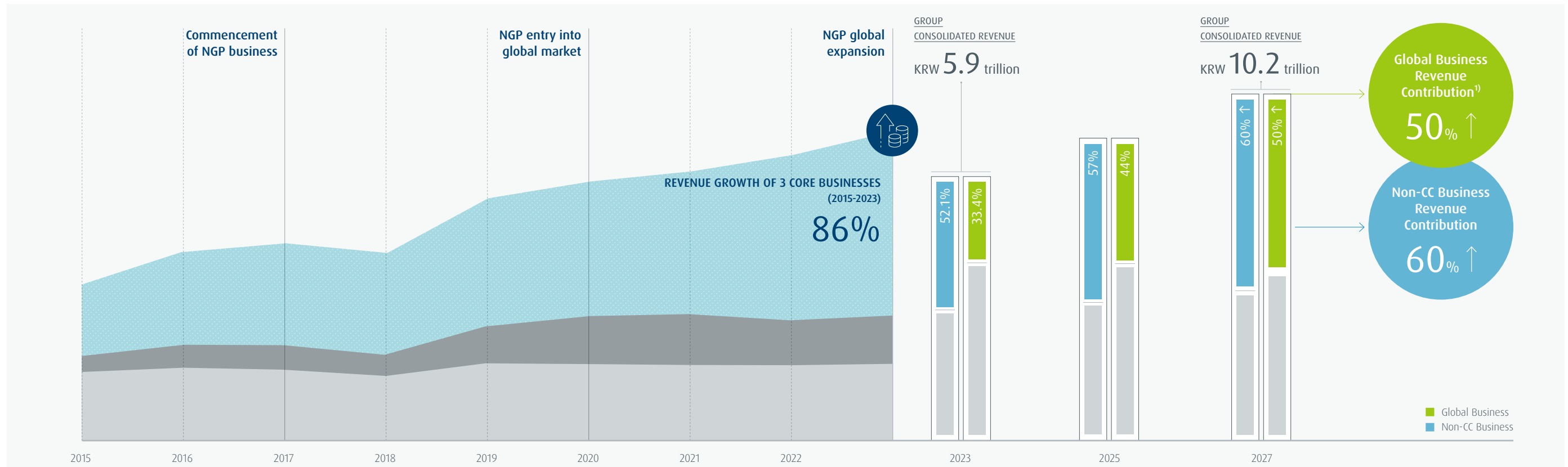
KT&G Business Transformation

KT&G Group has been strongly promoting global growth of its core businesses and achieving both quantitative and qualitative growth. From 2015 to 2023, the global sales growth rate of the 3 core businesses – NGP, HHF, global CC –reached 86%, and NGP in particular has been growing strongly, with a CAGR of 115% through 2023 since its launch in 2017.

However, KT&G Group is not resting on its laurels, and is promoting a structural transformation centered on 3 core businesses to unleash higher future growth potential. Based on future growth investments of KRW 3.5 trillion in core businesses, we will achieve KRW 10 trillion in revenue by 2027, generate more than 60% of revenue from businesses other than conventional cigarettes through qualitative growth, and increase the proportion of sales from global businesses to 50% to become a truly global top-tier company.

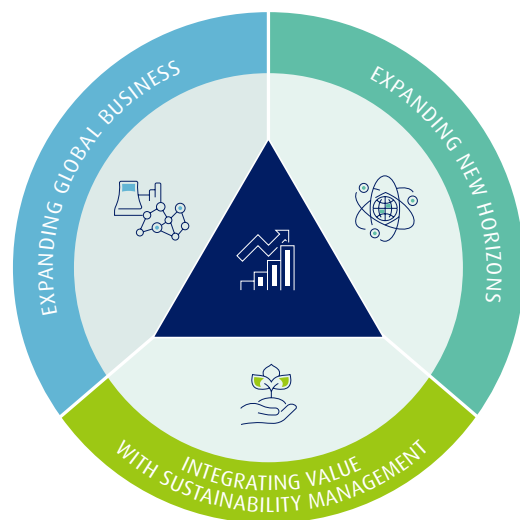
As part of its growth investments centered on 3 core businesses, KT&G began the construction of the Indonesia Plant 2 and 3, aiming for the first operation in 2026. We intend to build Indonesia into an overseas production base with an annual production capacity of about 35 billion sticks, which will accelerate our global market expansion. In October 2023, we also started construction of a new factory in Kazakhstan to establish a production base in Eurasia. The new factory, which is being built on a site of about 200,000 square meters, is expected to serve as a hybrid production base for NGP and global CC businesses in the Eurasian region, and will serve as a global core production hub covering the Eurasian market.

KT&G Group Revenue Growth and Goal



GROWTH INVESTMENT

In January 2023, KT&G held a future vision declaration ceremony and unveiled its goals and blueprint to become a “Global Top-tier” company. In particular, we revealed our ambitions for large-scale long-term investment and global market expansion, and communicated with stakeholders about the direction and expected effects of growth investments through the KT&G Value Day 2023 held in November. As announced publicly, we plan to execute growth investments of approximately KRW 3.5 trillion in our core business areas over the next five years to achieve the goal of KRW 10 trillion in revenue by 2027.



Expanding Global Business

NGP

Becoming an “NGP Global Top-tier Player” by investing in nurturing and growing global mega brands

Health Functional Food

Pursuing aggressive international expansion with a focus on localization to become a global health functional food solutions brand

Global CC

Building a solid foundation for business transformation by strengthening capabilities with profitability, growth, and stability as core values

Expanding New Horizons

NGP

“Beyond Cigarette” to continue to drive technological innovation to expand business within the tobacco industry

Health Functional Food

Securing evidence of efficacy through clinical studies at the level of botanical drugs

Integrating Value with Sustainability Management

An integrated approach that considers sustainable value creation in driving the new vision

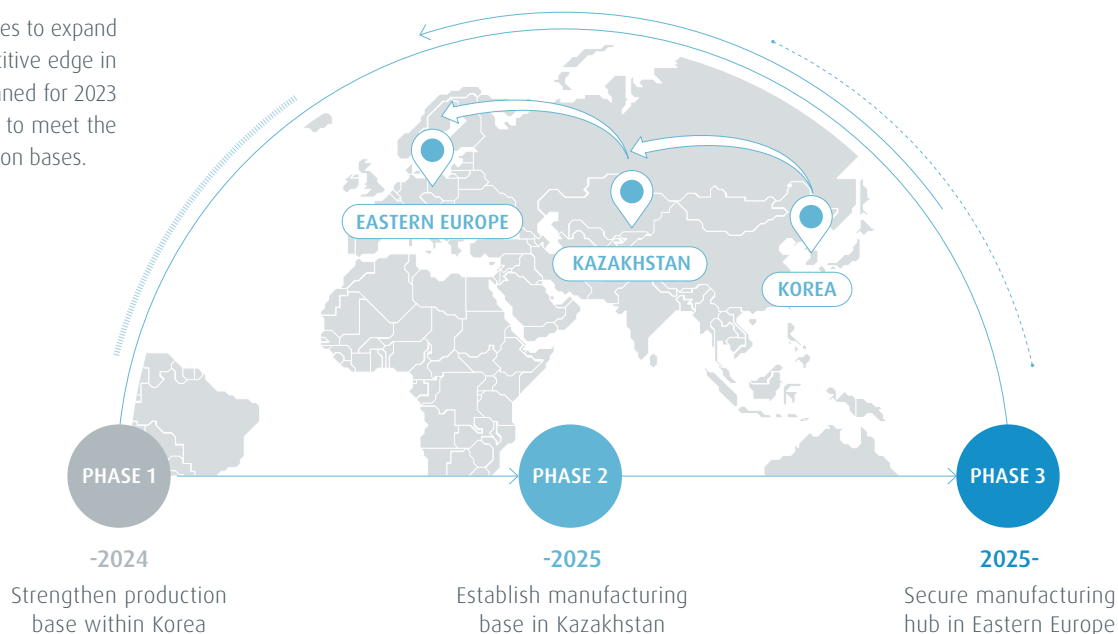
TRANSITION TO A GLOBAL TOP-TIER PLAYER THROUGH FUTURE GROWTH INVESTMENT

Expanding Global Presence

KT&G has achieved sustained growth through a balanced business portfolio, and has solidified the No. 1 position in the domestic market for its NGP (Next Generation Products), health functional food (HFF), and conventional cigarettes (CC) businesses. To achieve our goal of becoming a "Global Top-tier" company, we are accelerating our global growth in three key growth area - NGP, HFF, and global CC. In 2023, we shared the progress of mid-to long-term growth investments to accelerate growth with stakeholders, signaling that KT&G's efforts to achieve our vision are materializing into tangible results.

NGP Business Investment Plan

KT&G is investing in securing overseas production bases to expand its own production capacity in order to gain a competitive edge in the global NGP market. The growth investments planned for 2023 to 2027 are expected to improve production capacity to meet the ever-expanding demand and diversify global production bases.



HFF Business Investment Plan

KGC is promoting the global expansion of its health functional food business through a customized strategy for each region based on its globally competitive ginseng products and in-depth understanding of local markets.



KOREA

Profitability-driven

- Drive profitability-driven operational transformation for stable cash generation
- Fund overseas operations, export raw materials, and support R&D

Expected Outcomes of Investment (2023-2027)

Domestic operating profit CAGR: 10%

CHINA

Short-term growth

- Drive growth-driven localization
- Expand local value chain base, explore collaborations with local players

Expected Outcomes of Investment (2023-2027)

Revenue growth in China: 150%

U.S.

Mid-to long-term growth drivers

- Pursue investment for entering mass channels after confirming the likelihood of success
- Expand customer experience and awareness, secure online-centric track records

Expected Outcomes of Investment (2023-2027)

Non-Korean consumer ratio in the US market: 60%

Global CC Business Investment Plan

KT&G's global CC business is focusing on investments to build a global production system and expand the proportion of overseas production to secure differentiated capabilities in overseas markets.

Expected Outcomes of Investment (2023-2027)

| | | |
|--------------------------------------------------|-------------------------------------------------------|-------------------------------------------------------------------------------------------------|
| <p>MANUFACTURING CAPACITY</p> <p>1.3 times ↑</p> | <p>PROPORTION OF OVERSEAS PRODUCTION</p> <p>50% ↑</p> | <p>MANUFACTURING COST PER UNIT</p> <p>20% ↓</p> <p>When manufactured in Indonesia vs. Korea</p> |
|--------------------------------------------------|-------------------------------------------------------|-------------------------------------------------------------------------------------------------|



In the continuously growing global NGP market, KT&G is pursuing a leap to become the “NGP Global Top-tier.”

KT&G is currently focusing on fostering brands that will lead the global market and developing innovative platforms to enhance future value.

We are also considering various alternatives such as expanding overseas production bases to meet future demand. KT&G will accelerate the realization of a global top-tier NGP player by strengthening our global competitiveness through fostering global mega brands and related growth investments.



Lim Wang-seop
Chief of NGP Business HQ, KT&G

Expansion of Visible Achievements in Overseas Operations

KT&G's global NGP business is growing rapidly. From 560 million sticks sold in 2020, its first year of global entry, to 8.2 billion sticks sold in 2023, the business has grown more than 15 times. This is not just an increase in sales volume, but also in profitability, with KT&G's global NGP business turning profitable in its second year of overseas expansion and expanding its operating profitability. A key driver of this global growth is our innovative platform. In 2020, KT&G targeted overseas markets with lil SOLID 1.0 and lil HYBRID 2.0, and is currently transitioning to the Ez model, following the lil SOLID 2.0. In 2024, we plan to accelerate our performance in global markets by transitioning to the lil SOLID 3.0 and lil HYBRID 3.0.

Aiming to become an “NGP Global Top-tier Player,” KT&G is focusing on fostering mega brands that will lead the global market, just as lil hybrid is leading the market as a representative NGP brand in the domestic market. Currently, we have completed the selection of platforms to be nurtured as global mega brands and are accelerating the development of innovative devices.

KGC is recognized as the “World’s No. 1 Ginseng Brand” and is leading the globalization of red ginseng. As of the end of 2023, KGC sold more than 250 types of products in more than 40 countries around the world, and its flagship red ginseng brand, Jung Kwan Jang, has firmly maintained its number one position for 10 consecutive years according to the sales¹⁾ records of the global ginseng market compiled by Euromonitor International.

KGC has been growing steadily in overseas markets, leveraging its over 120 years of values of striving for the best and on the back of localized growth strategies that read global market changes. In 2023, KGC's overseas sales reached KRW 337.3 billion, an 18.4% year-on-year growth, the highest ever. In particular, even in a difficult business environment due to the global economic downturn, KGC actively promoted product awareness and distribution channel expansion based on localization strategies, resulting in a 78.5% increase in sales in 2023 compared to 2019, the year before the pandemic. In particular, in China, a major market for KGC's overseas business, we focused our marketing efforts on online channels during the Singles' Day (Guanggun Jie), a large-scale online shopping festival, and as a result, sales in the Chinese market grew by 47.6% year-on-year to KRW 165.5 billion in 2023, driving the expansion of overseas sales.

¹⁾ Based on retail



KGC is accelerating its global business growth with the mid-to long-term goal of reaching KRW 2.1 trillion in sales by 2027. To aggressively expand its overseas business, KGC will pursue a country-specific growth strategy with its five overseas subsidiaries playing a central role, while also focusing on exploring emerging markets. In addition to launching new products in various flavors and formulations that meet local consumer needs, KGC will focus on expanding local production, distribution channels, and customer acquisition based on strengthening the value chain by connecting with strong partners in each country. KGC has also changed the English name of “Cheong Kwan Jang” to “Jung Kwan Jang” to secure a more differentiated global brand, and is making concentrated efforts to position itself as a “global HFF solution brand” from “Korea’s leading red ginseng brand.”

2023 Performance of Global HFF Business

Overseas Business Sales



KRW 337.3 billion

(YoY Growth of 18.4% ↑)

Major Markets Sales



CHINA: KRW 165.5 billion

u.s: 40.6 billion

Global Ginseng Market Share



46.6%

* Based on Euromonitor International



We will strengthen our business competitiveness in the global market and continue to grow steadily, thereby playing a key role in achieving the Group's vision.

KT&G is maintaining robust growth in overseas markets beyond Korea. In 2023, we achieved our highest ever performance, and in 2024, we established CICs in two regions, Asia-Pacific and Eurasia, to promote business strategies optimized for local markets. In addition, we are diversifying our production bases to Indonesia and Kazakhstan, thereby responding to growing global demand. Going forward, we will achieve mid-to long-term growth of global CC by enhancing business competitiveness in direct business countries and pioneering countries, expanding talented human resources, and strengthening data-based management capabilities.



Do Hak-Young
Executive Vice President &
Chief Marketing Officer, KT&G

KT&G's global CC business continued to grow in overseas markets, posting a compound annual growth rate (CAGR) of 3.7% from 2019 to 2022, even as the global conventional cigarettes (CC) market has been declining. In 2023, we achieved our highest-ever sales of 53.2 billion sticks, with a total increase of 3.8 billion sticks from exports and direct overseas business year-on-year. In particular, we pioneered the ultra-slim category with ESSE in Mongolia, a market dominated by high-tar and regular products, and maintained our leadership position with 45.1% market share in 2022 and 50.3%¹⁾ in 2023. We are focusing on building a dominant market share in Mongolia by targeting more than 70% market share in 2025 through new brand development, sales and marketing expansion. In addition, in 2023, we sold a record-breaking 9.6 billion sticks in Indonesia, with a market share of 3%²⁾, and the ESSE brand has been recognized as the world's best-selling ultra-slim brand by global research firm Euromonitor International every year since 2014.

KT&G aims to strengthen its business, management, and control capabilities with profitability, growth, and stability as core values in its global CC business. To strengthen its business capabilities, KT&G is focusing on expanding its overseas direct business and pioneering business, and striving to strengthen its management capabilities such as execution process and human infrastructure management, and control capabilities such as data-based monitoring.



Expansion of the Global Network for Overseas Business Growth

KT&G's global NGP business first entered three countries in 2020 – Russia, Japan, and Ukraine – and has been expanding its presence ever since. As of 2023, we are meeting overseas consumers in 32 countries (including Korea), and we aim to enter more than 50 countries in the mid-to-long-term. In addition, we plan to secure overseas production bases through growth investments to gain an edge in the global market, and in October 2023, we broke ground on a new plant in Kazakhstan to establish a production innovation base in Eurasia. The new plant in Kazakhstan, which is being built on a site of about 200,000 square meters, is expected to serve as a production base for overseas businesses in the Eurasian region and serve as a global core production hub covering the Eurasian market.

KT&G's global CC business is aiming for aggressive global market expansion by increasing local market distribution coverage and strengthening marketing activities. To this end, in 2023, we established subsidiaries and offices in Kazakhstan, Mongolia, and Ukraine, and in 2024, we introduced a company-in-company (CIC) system for each overseas region and established CICs in the Eurasia and Asia-Pacific regions through a major organizational reorganization to enable localized responsible management. In addition, as part of our growth investments, in April 2024, we began construction of Plant 2 and 3 in Indonesia, aiming for the first operation in 2026. KT&G aims to build Indonesia into an overseas production base with an annual production capacity of approximately 35 billion sticks, which will accelerate its global market expansion.

¹⁾ Based on Y&R, Ulaanbaatar

²⁾ Based on Nielsen

II. OUR SUSTAINABILITY PERSPECTIVE

KT&G VISION OUR SUSTAINABILITY APPROACH OUR MATERIALITY PROGRESS



“Tomorrow of healthier and happier people around the world” is KGC’s highest value.

Anticipating continuous growth in the global health functional food market, KGC leverages its strong foundation in Asia, particularly in China, and thus aggressively expands its business into Japan, North America, and Europe. We plan to enhance localization through efficacy-based research, innovative brand portfolio development, and expanded partnerships with local entities.

By employing a brand channel mix strategy grounded in market and customer data, KGC aims to scale up its business and accelerate growth, ultimately positioning itself as a top-tier global comprehensive health enterprise, surpassing its current position as the number one player in the domestic market.



An, Bin
CEO, KGC



Global Presence of Global HFF Business

Overseas Subsidiary

5

(China Subsidiary, Jilin Hanzheng Ginseng Co., Ltd., U.S. Subsidiary, Japan Subsidiary, Taiwan Subsidiary)



Overseas R&D Center

2

(Shanghai in China, LA in the U.S.)



Export Destination

About 40 countries

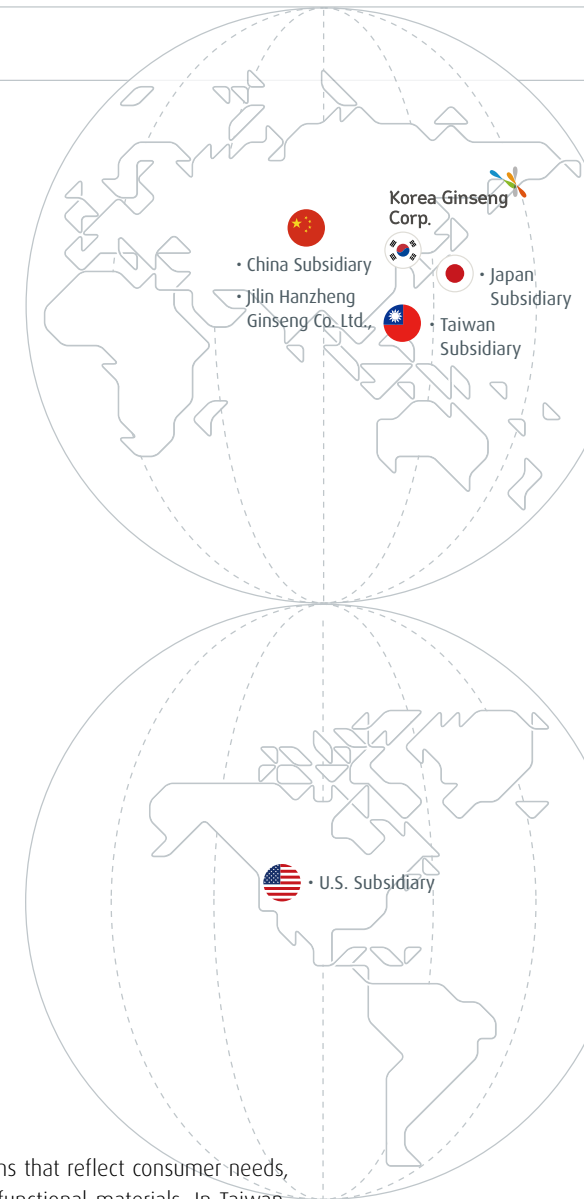


Products for Overseas Sales

About 250 products



* As of 2023 year-end



KGC has established five local subsidiaries in the U.S., China, Japan, and Taiwan, and handles more than 250 types of products in about 40 countries around the world, promoting the excellence of Korean ginseng and Jung Kwan Jang products. We operate Jung Kwan Jang brand stores in major cities around the world, including Beijing, Shanghai, New York, LA, and Tokyo, to promote the value of Jung Kwan Jang and spread the culture of ginseng consumption, and meet local consumers through offline stores such as Jung Kwan Jang brand stores and hypermarkets, as well as online channels.

In the Chinese market, we are focusing on online channel marketing to target the 20-40 age group, and will expand online sales by focusing on locally sourced products, while also strengthening offline distribution networks such as over-the-counter drug channels through expanded partnerships with leading local companies. In the U.S. market, we plan to increase customer acquisition through online channels and expand offline distribution by focusing on premium supermarkets.

We will also diversify our brand portfolio by adding formulations that reflect consumer needs, such as capsules and jelly, and developing products utilizing functional materials. In Taiwan, we aim to maintain growth by expanding our presence in franchise stores and nationwide supermarket chains, and by focusing on digital marketing leveraging K-culture. In Japan, we plan to strengthen our business by localizing product formulations and concentrating on online and supermarket channels. In the European market, we have established a step-by-step entry strategy and are selling products through Amazon in Germany, and in Southeast Asia, we have selected five countries, including Singapore, Vietnam, and Malaysia, as strategic regions to expand our business. We will continue to expand our presence in global duty-free shops to respond to the recovery of global travel demand. At the same time, we will use this as a bridgehead for expanding our business in Asia and entering the Middle East and Europe, thereby discovering new business opportunities.

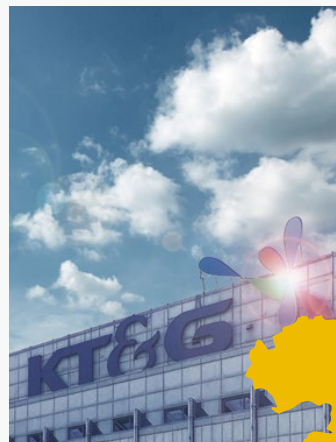
I. FROM INTERNATIONAL TO GLOBAL, II. AND LOCAL.

III. With a clear goal of becoming a “Global Top-tier” company, KT&G is increasing
IV. its dominance in overseas markets through aggressive investment, bold innovation,
and strategic localization.



KOREA Expansion of the Daejeon NGP Plant

In November 2023, the expansion of the Daejeon NGP Plant, which KT&G promoted to build a production innovation base, was successfully completed. As a result, the Daejeon NGP Plant now has a total of eight facilities, including three additional NGP stick production facilities introduced in 2022, and an automated warehouse that can store up to 360,000 boxes, laying the foundation for the leap forward of the NGP business. KT&G plans to expand its production innovation base centered on domestic manufacturing plants to smoothly respond to the demand of the rapidly growing NGP business based on its innovation platform and global partnerships.



KAZAKHSTAN Commencement of the Construction of a Global Production Hub

KT&G is positioning Kazakhstan as a cornerstone for the growth of its Eurasian business, aiming to enhance its global export competitiveness. In January 2023, KT&G established a subsidiary in Kazakhstan to establish a local business base. In October of the same year, marking the groundbreaking ceremony, KT&G initiated the construction of a new plant in Almaty, Kazakhstan, dedicated to producing cigarettes for export to the Eurasian region. Moving forward, we plan to strengthen our global business capabilities by establishing a complete local value chain, enabling direct management from production to marketing and sales.



CHINA Enhancement of Local Value Chain

With China as a key base for overseas entry, KGC established a Chinese subsidiary in 2009, followed by an R&D center in 2013, completing the localization of the entire value chain from product development to sales. Based on the local value chain, KGC is introducing various local products utilizing traditional Chinese ingredients such as *Ejiao* and swiftlet nest, in addition to red ginseng, and plans to further strengthen the value chain by strengthening collaboration with local companies. In addition, we are continuously raising awareness of the Jung Kwan Jang brand by operating Jung Kwan Jang brand stores in the center of Beijing, China, and thanks to these efforts, the Jung Kwan Jang brand has been registered as an eminent trademark¹⁾ and recognized for its value.

¹⁾ A trademark system that guarantees widespread public recognition, high reputation, and credibility, and receives special protection from the Chinese government. As of 2021, out of approximately 37 million registered trademarks in China, only some 10 Korean brands, including Jung Kwan Jang, have been recognized as eminent trademarks.



INDONESIA Commencement of the Establishment of the Largest Overseas Production Hub

In April 2024, KT&G accelerated its efforts to secure a global production hub by commencing the construction of Plant 2 and 3 in Indonesia. Located in East Java Province, these facilities will collectively have an annual production capacity of 21 billion sticks. Upon completion, KT&G will establish its largest overseas production hub in Indonesia. This production hub in Indonesia will serve as a key export hub targeting the Asia-Pacific and Middle Eastern markets for KT&G, becoming a pivotal growth driver in achieving our mid-to long-term vision.

Expanding New Horizons

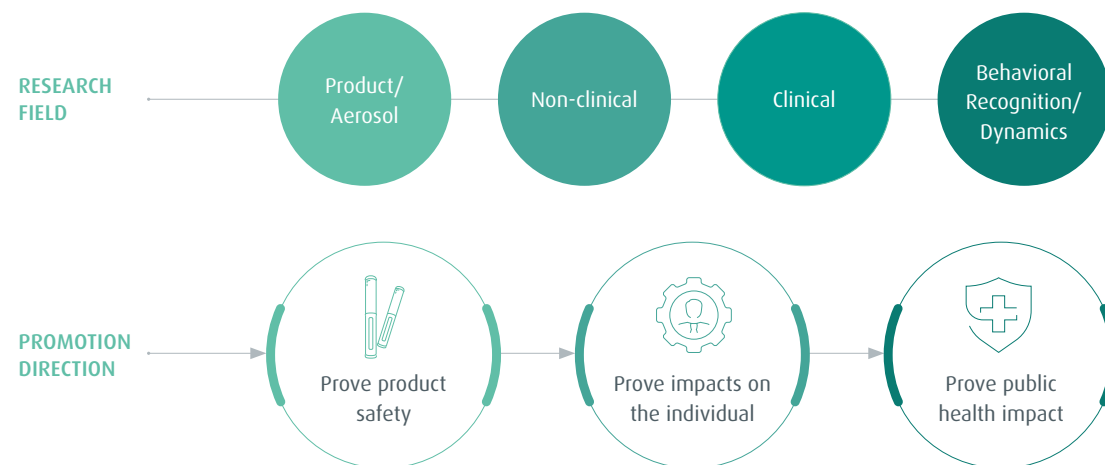
In order for KT&G to realize higher future growth potential, we need to quickly seize opportunities in the global market and realize them through aggressive investment and innovation. With a new perspective, we are focusing on securing advanced innovative technology capabilities and unparalleled competitiveness as a first mover that boldly takes on challenges. Based on the science and technology and expertise accumulated by leading the domestic market, we are exploring values beyond conventional cigarettes and health functional food businesses, and introducing an enterprise resource planning (ERP) system as an integrated management tool to strengthen competitiveness and promote sustainable growth.

NGP

BEYOND CIGARETTE

Along with the establishment of K-Science, KT&G's unique tobacco science research system, we are focusing on expanding the scope of the tobacco industry through technological innovation to create new added value and lay the foundation for sustainable growth. In particular, we will secure long-term business growth engines by continuing R&D in new growth areas and implementing and validating technologies to the level of commercialization.

K-Science Implementation Strategy by Phase



HFF

BEYOND NUTRITIONAL VALUE

KGC is focusing on strengthening its R&D capabilities to provide differentiated value at the pharmaceutical level, beyond the value of traditional health functional foods (HFF). In particular, we are securing evidence of efficacy through clinical research at the botanical drug level, and based on this, we will seek new growth opportunities by branding ginseng ingredients and creating new markets.

New System

BEYOND CONVENTIONAL

In order to meet the diversified business needs of the Group's global expansion, KT&G established an ERP system and established standard policies for global company rules and manuals, which improved the flow of information at the Group level and laid the foundation for consistent and sustainable operations of overseas subsidiaries.

VALIDATION



- Scientific and objective validation of the efficacy and safety of ginseng/red ginseng
- Preliminary safety validation of products and raw materials

DIFFERENTIATION RESEARCH



- Provide scientific evidence for the need for a balanced intake of saponins and non-saponins
- Demonstrate differentiation and superiority from other ingredients
- Provide accurate information about ginseng/red ginseng to domestic and international organizations and consumers

MATERIAL DEVELOPMENT, EFFICACY RESEARCH



- Recognition of the functionality of ginseng/red ginseng through the technological capabilities of the Korea Ginseng Research Institute
- Pursuit of individual recognition for new functional ingredients



To create a sustainable future for KT&G, we are strengthening our technological competitiveness based on the innovative DNA of our employees.

As an “innovation engine” to realize KT&G’s mid-to long-term goals, R&D HQ is focusing on laying the foundation for the company’s sustainable future by diversifying its product portfolio based on technological competitiveness and discovering new research areas to expand its business. To this end, R&D HQ is striving to redefine the organization’s mission and instill a clear sense of purpose and innovation DNA for taking on new challenges by changing the mindset of employees.



Jo, Seong-Moon
Chief of R&D HQ, KT&G

NGP

Beyond Cigarette

KT&G has been establishing “K-Science” based on internal and external collaboration systems centered around the R&D HQ. The proprietary tobacco science research system of KT&G, K-Science, aims to systematically and scientifically prove the excellence and safety of its products while securing internal and external reliability through transparent information sharing and external verification for consumers. To this end, in 2023, KT&G recruited overseas experts to establish the PMTA Program Center and built experimental infrastructure that meets regulatory requirements. This initiative aims to obtain PMTA (Pre-market Tobacco Product Applications) approval from the U.S. Food and Drug Administration (FDA). In addition, KT&G has strengthened its quality verification capabilities by expanding the scope of new recognitions from international accredited testing laboratories. Moving forward, we plan to focus on early establishment of K-Science by enhancing our integrated modified risk assessment capabilities.

KT&G is also continuously promoting technological innovation to expand its business in the tobacco industry. Based on our accumulated science and expertise, we have completed the establishment of research infrastructure in new business areas such as functional inhalants and green biomaterials, and are conducting advanced research to internalize core technologies. In particular, we are developing smoking habit improvement supplements and functional substance delivery systems using our expertise and capabilities in the tobacco industry to create new markets based on inhalation science.



HFF

Beyond Nutritional Value

KGC is focusing on strengthening its R&D infrastructure and capabilities to secure evidence of efficacy through botanical drug-level clinical research. In 2023, KGC relocated its R&D center from Daejeon to Gwacheon Knowledge Information Town in Gyeonggi-do to expand its R&D infrastructure, and built a differentiated infrastructure by introducing new state-of-the-art equipment in a space 1.7 times larger than the previous one. KGC aims to expand overseas clinical and efficacy research in connection with local R&D centers in the U.S. and China, centered on the Gwacheon R&D Center, and to strengthen marketing effectiveness in markets with low awareness of ginseng by utilizing clear evidence of efficacy. As part of this, KGC is activating efficacy research in collaboration with leading overseas universities to secure advanced technologies from world-class scholars and raise our R&D capabilities to the highest global level.

Moreover, KGC will develop international standard data on the efficacy, safety, and standardization of ginseng raw materials, with an aim to register ginseng as a natural medicine with the U.S. FDA. In 2023, after five years of research, KGC’s red ginseng oil was officially recognized as an individually approved functional ingredient by the Ministry of Food and Drug Safety (MFDS), leading to the successful launch of the new product “Red Ginseng Oil RXGIN CLEAN.” Moving forward, we will secure additional individually recognized ingredients and differentiated formulations to develop innovative products, thereby leading the global market beyond Korea.



New System Beyond Conventional

KT&G Group is building the systems required for more systematic and efficient operations and strengthening the competitiveness needed to leap into the global top tier, in line with its global business expansion strategy. An enterprise resource planning (ERP) system supports processes across the business, including key value chains, and provides a variety of benefits, including improving operational efficiency, managing data integration, providing flexibility during scale-up, and supporting legal and regulatory compliance. KT&G Group recognized the need to secure an infrastructure for execution and management while promoting innovation to achieve its vision, and embarked on building a data-based business management infrastructure to proactively and effectively respond to changes in the business environment. In addition, the ERP system was introduced to strengthen the Group's governance in the process of promoting sustainable management, while adding functions to support compliance with various laws and regulations to minimize compliance risks and respond quickly.

Starting with the establishment of the Group's standard "Global Template" at KT&G and KGC's domestic business sites in September 2020, we have been expanding the scope of ERP system implementation to subsidiaries and overseas business sites, and as of February 2024, a total of 18 entities have completed ERP system implementation. In the process of implementing the ERP system, we defined regulations, policies, and standard processes for the Group and the tobacco, HFF, and pharmaceutical industries, established a standardized information management system, and overhauled company-wide and operational reference data. Based on standardized regulations, policies, processes, and reference information, we were able to strengthen the Group's management capabilities and governance, and significantly improve operational efficiency. In addition, we have been able to maintain the consistency and accuracy of data by providing real-time information, which contributes to efficient and rational decision-making based on data. Furthermore, we have enhanced our compliance responsiveness by securing the integrity of financial and non-financial data and reflecting the requirements of the internal accounting management system.

In the future, we plan to expand the ERP system to newly established subsidiaries and major bases, which will allow us to maintain consistent management visibility of our global operations. In doing so, we will enhance our core business competitiveness based on streamlining global operations internally while also strengthening our credibility with domestic and international stakeholders and the capital market externally.

As KT&G's global business expands, the number and scale of overseas business sites, including overseas subsidiaries, is increasing, requiring the strengthening of the overseas workplace management system and the advancement of operating policies.

Current Status of ERP System Implementation



* Based on system opening

KT&G is therefore reviewing company rules and manuals for each overseas subsidiary, led by the Global Policy Team, to ensure that the policies promoted at the KT&G Group level are shared across all business sites around the world. This also aims to ensure that each overseas organization operates in accordance with systematic and clearly defined standards and procedures. In 2023, we established standard company rules reflecting KT&G's standard policies in each major field, based on which, we established company rules for newly established overseas organizations and overhauled the company rules of existing organizations to ensure consistency in global business operations. In 2024, we plan to make continuous efforts to improve consistency through the application of standard company rules and maintenance of old company rules, while establishing a global company rules and manual standard policy to support the establishment of a consistent and sustainable company rules operation system and effective organizational management of overseas subsidiaries.

New Vision KPIs

Integrating Value with Sustainability Management

KT&G is preparing to leap into the “Global Top-tier” with “Trust, Origin, and Professional” as the keywords of KT&G’s management philosophy to achieve its new vision. To solidify “trust” with stakeholders and enhance corporate value, we are continuously promoting ESG management, and in particular, we are making company-wide efforts to respond to climate change and accelerate the circular economy by reducing greenhouse gas emissions with the goal of achieving carbon neutrality by 2045. In addition, we respect the value of DEI (Diversity, Equity, and Inclusion) and foster “professional” talents with HR policies that do not restrict or discriminate based on nationality, age, gender, etc.

Sustainable growth is possible when it is supported by core competencies – “origin” to the company. KT&G therefore aims to generate stable profits based on its unique, future-oriented portfolio, which will enhance the company’s sustainability.

¹⁾ Excluding real estate business

²⁾ Domestic sales volume + Overseas export volume + Overseas PMI shipment

³⁾ Korea Laboratory Accreditation Scheme (under the Korean Agency for Technology and Standards)

⁴⁾ CAPEX is the cumulative amount, the corresponding year’s NGP-related SG&A expense, etc. were reflected.

⁵⁾ Due to the advancement of emission factors, there are some discrepancies with the data disclosed last year.

⁶⁾ Due to the expansion of the calculation scope, there are discrepancies with the data disclosed last year.

⁷⁾ Based on domestic and overseas manufacturing sites of KT&G and KGC

⁸⁾ Due to changes in the aggregation method, there are discrepancies with the data disclosed last year.

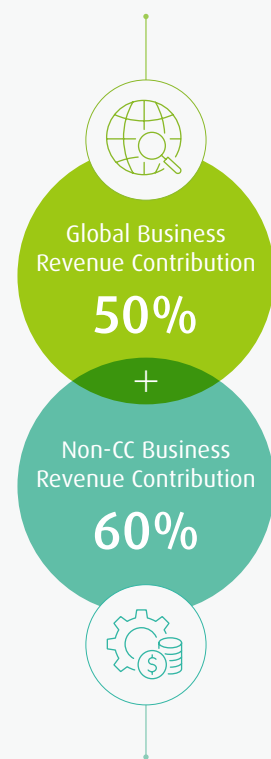
⁹⁾ For KT&G’s domestic operations, 100% of the assessments have been completed. For overseas operations, the number of subjects for the human rights impact assessment has increased due to the expansion of new hires.

¹⁰⁾ Based on domestic business sites and overseas subsidiaries of KT&G, and direct employment basis

Key Performance Indicators for New Vision Execution

Global Business Revenue Contribution¹⁾

| | |
|-------------|------------|
| 2021 | 29.5% |
| 2022 | 32.9% |
| 2023 | 33.4% |
| 2027 | 50% |



Non-CC Business Revenue Contribution

| | |
|-------------|------------|
| 2021 | 52.6% |
| 2022 | 54.5% |
| 2023 | 52.1% |
| 2027 | 60% |

| | | BUSINESS AREA | | | | | | |
|--------------------------------------|----------------------------------------|---------------------------------------------------------------------------------|---------------------|-----------|--------------------|--------------------|----------------------|-------------------------------------|
| Category | Management Metric | Unit | 2021 | 2022 | 2023 | YoY | 2025 Moon Shot Goal | |
| NGP | Business expansion | Unit sales of sticks ²⁾ | 100 million sticks | 71.8 | 107.0 | 139.5 | 30.4% | |
| | | NGP sales | KRW billion | 504.0 | 876.3 | 779.4 | -11.1% | |
| | | NGP sales contribution in the tobacco business | % | 18.3 | 24.5 | 21.6 | -2.9%p | |
| | Consumer accessibility | Consumer purchase market share (based on Korea) | % | 40.4 | 47.5 | 47.6 | 0.1%p | M/S 60% ↑ by 2025 |
| | | Markets where NGP entered | Countries | 24 | 32 | 32 | - | 50 countries by 2025 |
| | Capability and infrastructure | NGP platforms launched | Device platforms | 2 | 3 | 3 | - | 5 device platforms ↑ by 2025 |
| NGP patent applications | | Cases | 1,010 | 1,339 | 2,025 | 51.2% | | |
| KOLAS ³⁾ -certified items | | Cases | 156 | 156 | 306 | 96.2% | | |
| HHF | Global growth | NGP-related investment amount ⁴⁾ | KRW billion | 228.0 | 337.8 | 530.6 | 57.1% | |
| | | Global business sales | KRW billion | 249.5 | 285.0 | 337.3 | 18.4% | |
| | | Global business sales contribution | % | 18.1 | 20.5 | 24.2 | 3.7%p | |
| | Capability and infrastructure | China/US sales growth rate | % | 21.6 | 5.1 | 35.9 | 30.8%p | |
| | | No. of items of overseas product registration (cumulative) | Cases | 348 | 383 | 398 | 3.9% | |
| | | KGC patent granted (cumulative) | Cases | 265 | 289 | 306 | 5.9% | |
| | | ESG AREA (ALL GROUP SUBSIDIARIES) | | | | | | |
| Category | Management Metric | Unit | 2021 | 2022 | 2023 | YoY | 2030 Moon Shot Goal | |
| Environmental | Respond to climate change | GHG emissions at business sites ⁵⁾ | tCO ₂ eq | 192,403 | 191,418 | 185,672 | -3.0% | 42% reduction by 2030 |
| | | Renewable energy consumption rate | % | 0.1 | 10.8 ⁶⁾ | 13.5 | 2.7%p | 80% by 2030 |
| | Accelerate the circular economy | Water withdrawal ⁷⁾ | Tons | 1,521,798 | 1,491,902 | 1,374,296 | -7.9% | 20% reduction by 2030 |
| | | Zero Waste To Landfill-certified sites | % | - | - | 25 | 25%p | 100% by 2030 |
| Social | Human rights protection | Percentage of business sites that have conducted human rights impact assessment | % | 39.4 | 36.7 | 35.6 ⁸⁾ | -1.1%p ⁹⁾ | 100% by 2030 |
| | | Percentage of female employees | % | 13.5 | 13.4 | 13.6 | 0.2%p | 20% by 2030 |
| | Diversity and inclusion ¹⁰⁾ | Percentage of female managers | % | 10.4 | 11.4 | 13.4 | 2.0%p | 15% by 2030 |
| | | Percentage of locally hired persons among management and managers in charge | % | 20.8 | 23.5 | 26.0 | 2.5%p | 30% by 2030 |



I.

II.

III.

IV.

OUR SUSTAINABILITY **APPROACH**

- **OUR SUSTAINABILITY APPROACH**
 - Sustainability Fundamentals
 - Double Materiality Analysis
 - Voice of Stakeholders

SUSTAINABILITY FUNDAMENTALS

Sustainability Management Framework

KT&G Group's Mid-to Long-Term Sustainability Management Direction

KT&G is striving to mitigate negative impacts and create positive impacts on various stakeholders in order to increase corporate value in consideration of the company's long-term sustainability. In particular, we have selected NGP (Next Generation Products) and health functional food (HFF) as our sustainable business segments and are strengthening our business growth momentum by aligning these businesses with ESG values. In addition, we are enhancing corporate value by identifying and reviewing new sustainable businesses that can create synergies with the Group's businesses.

In addition, to respond to the key agendas required by global ESG international standards, such as climate change, circular economy, and biodiversity protection, we have established mid-to long-term goals for the Group in each of the priority areas. In addition, we assigned tasks to all Group subsidiaries to improve implementation, and are strengthening execution through collaboration centered on the KT&G company-wide task force and the task force including ESG personnel of each subsidiary.

Sustainability Management Strategy System



Sustainability Management Implementation Strategy

Progress of Implementing the Sustainability Management Strategy

KT&G is expanding its sustainability management promotion system to include the businesses of the Group subsidiaries in order to enhance ESG competitiveness. We are selecting and improving key initiatives in each company's major areas and actively managing ESG risks by establishing and implementing common standards across the value chain beyond company boundaries.

In 2023, we launched lil HYBRID 3.0 as part of the diversification of our NGP portfolio, and expanded the participation of the Group subsidiaries to respond to climate change and accelerate the circular economy. We also have established natural capital management strategies to protect biodiversity, and are gradually expanding the scope of human rights impact assessments and sustainability programs for domestic and overseas business sites, farms, and materials suppliers.

Mid-to Long-term Sustainability Management Direction

Strengthen business growth momentum

- Focus on new future growth engine of tobacco business
- Strengthen the competitiveness of health and consumer-friendly products
- Create sustainable business growth opportunities



Manage global major ESG agenda

- Perform environmental responsibility across the value chain
- Build a sustainable business ecosystem

I. SUSTAINABILITY FUNDAMENTALS

II. Sustainability Management Governance

KT&G operates relevant committees within the BOD to enhance ESG implementation from an integrated perspective at the company level. In 2023, the ESG Committee was renamed to the Sustainability Committee to clarify its roles and duties, and the ESG Management Office is strengthening the sustainability management system as a control tower under the Strategy HQ. The task force, which is composed of working-level councils across the company, holds meetings for each major agenda under the leadership of the ESG Management Office to establish detailed strategic tasks according to the goals and check the implementation status.

KT&G is also strengthening company-wide response capabilities by clearly setting the responsibilities of the executives for ESG management practices and linking them to the top management and each C-level performance compensation system. Each organization and group company also assigns ESG-related targets such as greenhouse gas emission reduction to management evaluation indicators to clearly assign responsibilities and enhance execution.

Sustainability Committee



- KT&G has been discussing ESG issues at the BOD since September 2020, and in February 2022, the ESG Committee was established within the BOD for more in-depth discussions. In December 2023, the Committee was renamed to the Sustainability Committee to clarify its mission. The Sustainability Committee manages and supervises the annual review of mid- and long-term strategic directions, approval of major tasks, and execution of major projects in accordance with the direction of promoting sustainability improvement in the company-wide environmental and social fields.

ESG Management Council



- This is a top management decision-making support council composed of executives from relevant business divisions across the company to discuss ESG issues and continuously communicate on issues arising in the course of business implementation. Based on the discussions held through the Sustainability Management Committee, the top management makes decisions on ESG issues from an integrated company-wide perspective.

ESG Management Office

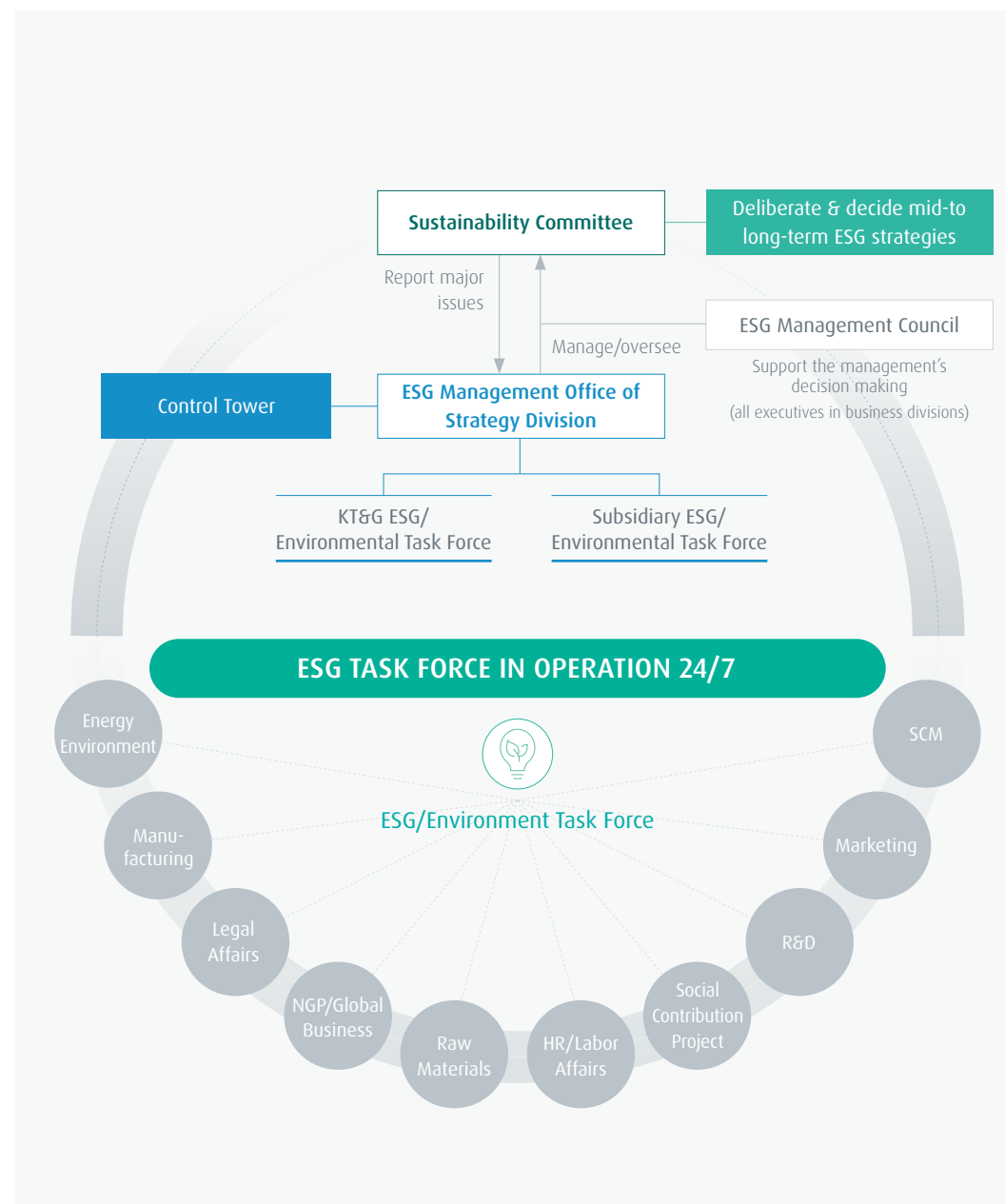


- This is the ESG control tower under the Sustainability Management HQ of the Strategy Division, which plays a key role in establishing an ESG and environmental management system that meets global standards.

KT&G ESG/Environmental Task Force



- Composed of working-level councils across all business areas, it holds meetings for each major ESG issue to discuss the status of implementation of detailed strategic tasks and future plans.



KT&G is focusing on ESG management as a sustainable growth strategy to transform the challenges of the times and market demands into new growth opportunities.

KT&G is promoting ESG management in line with its value chain, based on a strategy that goes beyond declarations to bring about real change. We strengthened our ESG and compliance risk management system through organizational restructuring, advanced the Group's net-zero strategy to enhance the company-wide response to the climate crisis, and increased the completeness of the environmental management vision system by declaring the goal of "deforestation and conversion-free" in protected areas by 2030 as a starting point for natural capital management. Moving forward, KT&G will strengthen our business engine through ESG-based innovation, systematically respond to sustainability disclosures required by global society, and actively communicate with stakeholders.



Kim, Seung-Taek
Chief of Sustainability Management HQ (CSO), KT&G

SUSTAINABILITY FUNDAMENTALS

Group's Mid-to Long-term Sustainability Management Goals

Since 2021, KT&G has established mid-to long-term goals targeting 2025 and 2030 to accelerate the execution of strategic tasks in priority areas. Each year, ESG KPIs related to the priority areas are assigned as performance evaluation targets for the executives, officers, and organizations to enhance internal execution.

In 2023, we established the Group-wide sustainability goals in consideration of global sustainability disclosure trends and topics, analyzed the areas for improvement in each division and subsidiary, and checked the cost-effectiveness and feasibility of the implementation process. KT&G will make continuous efforts to enhance the authenticity of sustainability management by setting specific goals and checking their implementation.

KT&G Group Sustainability Management Goals and Progress

| STRATEGIC PILLAR | KPI | TARGET | GOAL FOR 2030 | 2023 PERFORMANCE | PROGRESS | |
|-------------------------------------------------------------|-----------------------------------------|-------------------------------------------------------------------------|--------------------------|---------------------------|----------------------|------------------------------------------------------------------|
| Perform environmental responsibility across the value chain | Respond to climate change ¹⁾ | GHG reduction rate | All Group subsidiaries | 42% * Net zero by 2045 | 5.8% | <div style="width: 5.8%;"></div> |
| | Accelerate the circular economy | Renewable energy consumption rate | All Group subsidiaries | 80% | 13.5% | <div style="width: 13.5%;"></div> |
| | | Water withdrawal volume and reduction rate ²⁾ | KT&G, KGC | 20% | KT&G 8.7% KGC 11% | <div style="width: 8.7%;"></div> <div style="width: 11%;"></div> |
| | | Acquisition of global waste management certification | All Group subsidiaries | 100% | 15.8% ⁶⁾ | <div style="width: 15.8%;"></div> |
| Build a sustainable business ecosystem | Human rights protection | Execution rate of human rights impact assessment ³⁾ | All Group subsidiaries | 100% | 35.6% | <div style="width: 35.6%;"></div> |
| | Supply chain sustainability | Execution rate of ESG assessment of significant suppliers ⁴⁾ | KT&G, KGC, Yungjin Pharm | 100% | 28.6% | <div style="width: 28.6%;"></div> |
| | | Ratio of farms participating in sustainability program ⁵⁾ | KT&G, KGC | 100% | 16.7% | <div style="width: 16.7%;"></div> |

¹⁾ Based on all domestic business sites of KT&G and overseas manufacturing sites of subsidiaries, compared to the 2020 baseline

²⁾ Water withdrawal of domestic and overseas manufacturing sites of KT&G, reduction of KGC's water withdrawal intensity of domestic and overseas manufacturing sites

³⁾ Based on the number of directly employed employees (full-time and part-time)

⁴⁾ Definition of significant supplier: Domestic and overseas manufacturing sites of KT&G, KGC, Yungjin Pharm

⁵⁾ Based on direct contract farms, and including comprehensive management of farms' participation in ESG diagnosis, assessment, and improvement programs

⁶⁾ Based on domestic and overseas manufacturing sites of KT&G and the Group subsidiaries

SUSTAINABILITY FUNDAMENTALS

Progress in Implementing the KT&G Mid-to Long-term Sustainability Management Goals

| Strategic Pillar | Key Agenda | KPI | Scope | Performance | | | Progress | | Mid-to Long-term Goal (Baseline: 2020) |
|-------------------------------------------------------------|-------------------------------------|--------------------------------------------------------------------------------------------------------------------------------------------------------------|---------------------|-------------|---------|-----------------------|-----------------------------|--------------------------|-----------------------------------------------------------|
| | | | | 2021 | 2022 | 2023 | Compared to a previous year | Compared to the baseline | |
| Perform environmental responsibility across the value chain | Respond to climate change | GHG emissions (Scope 1+2, tons) | Domestic + Overseas | 120,516 | 114,595 | 112,787 | 1.6%↓ | | • 42% of reduction by 2030 |
| | | GHG emissions (Scope 3, tons) ¹⁾ | Domestic + Overseas | 421,864 | 697,091 | 326,621 ²⁾ | 53.1%↓ | | • 25% of reduction by 2030 (Targets: Category 1, 3, 11) |
| | Accelerate the circular economy | Water withdrawal (tons) | Domestic + Overseas | 743,323 | 733,014 | 699,228 | 4.6%↓ | | • 20% reduction by 2030 |
| | | Waste recycling rate (%) | Domestic + Overseas | 71.5% | 81.4% | 83.9% | 2.5%p↑ | | • Achieve 90% by 2030 |
| | | Consumption rate of recyclable packaging materials (by weight, %) | Domestic | 93.5% | 95.9% | 96.3% | 0.4%p↑ | | • Use 100% by 2025 |
| Build a sustainable business ecosystem | Practice responsible marketing | Rate of compliance with the Responsible Marketing Policy (%) | Domestic + Overseas | 100% | 100% | 100% | - | | • 100% compliance with the Responsible Marketing Policy |
| | Strengthen human rights protection | Percentage of business sites that have conducted a human rights impact assessment (%) ³⁾ | Domestic + Overseas | 52.6% | 47.3% | 45.8% ⁵⁾ | 1.5%p↓ | | • Implement 100% by 2025 |
| | | Percentage of female employees (%) | Domestic + Overseas | 13.5% | 13.4% | 13.6% | 0.2%p↑ | | • Achieve 20% by 2030 |
| | Manage human capital diversity | Percentage of female managers (senior manager-executive director) (%) | Domestic + Overseas | 10.4% | 11.4% | 13.4% | 2.0%p↑ | | • Achieve 15% by 2030 |
| | | Percentage of locally hired persons among management and managers in charge ⁴⁾ (%) | Domestic + Overseas | 20.8% | 23.5% | 26.0% | 2.5%p↑ | | • Achieve 30% by 2030 |
| | | Percentage of significant suppliers that conduct regular ESG evaluations (%) | Domestic + Overseas | 25.0% | 25.0% | 25.0% ⁶⁾ | - | | • Implement 100% by 2025 |
| | Improve supply chain sustainability | Amount of social and environmental contributions to leaf tobacco farms (including the cumulative amount of Tobacco Production Stabilizing Fund, KRW billion) | Domestic | 501.0 | 503.3 | 509.0 | 1.1%↑ | | • Achieve KRW 520 billion by 2025 |
| | | Amount of social contribution projects in value chain contributions ⁷⁾ (KRW billion) | Domestic | 1.5 | 3.0 | 2.3 | 24.4%↓ | | • Achieve a cumulative (2022-2025) KRW 10 billion by 2025 |

¹⁾ 2022 as a baseline year, Due to the advancement of emission factors, there are some discrepancies with the data disclosed last year
²⁾ Due to the reduction in emissions from the real estate business, which has high volatility in GHG emissions, the Scope 3 emissions for 2023 have changed significantly.
³⁾ Based on the number of directly employed employees (full-time and part-time)
⁴⁾ Domestic: Executive directors and managers in charge, overseas: G1/M1-G2/M2








⁵⁾ For domestic business sites, 100% of the assessment have been completed. For overseas operations, the number of subjects for the human rights impact assessment has increased due to the expansion of new hires.
⁶⁾ For domestic business sites, 100% of the evaluation have been completed with the plan to expand to overseas business sites
⁷⁾ Improving smoking environment and environmental social contribution project

I. DOUBLE MATERIALITY ANALYSIS

II. Stakeholder Engagement

KT&G actively communicates with stakeholders and encourages their participation in the pursuit of sustainable growth. We listen to the voices of our stakeholders through various communication channels, respect the opinions of all stakeholders, carefully evaluate and manage the impact of our decisions and management activities on them, and promote corporate growth from a long-term perspective.

Stakeholders Communication Channels

| Stakeholders |  Shareholders/Investors |  Government |  Communities/NGOs |  Employees |  Partners |  Customers |  Media |
|-------------------------------|------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|-------------------------------------------------------------------------------------------------------------------------------------------------------|--------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|---------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|---------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|--------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|
| Major Issues | <ul style="list-style-type: none"> Maximizing shareholder value Ensuring governance transparency Stable mid-to long-term growth Managing ESG risks Enhancing capital market predictability | <ul style="list-style-type: none"> Complying with legal and social responsibilities Job creation Tax payment | <ul style="list-style-type: none"> Social responsibility for communities and the environment Collaborating to address community issues Shared growth through community development Strategic social contribution activities Biodiversity and forest conservation activities | <ul style="list-style-type: none"> Creating a great place to work Labor-management win-win Protecting employee human rights and handling grievances | <ul style="list-style-type: none"> Growing together through collaboration Supporting partner sustainability | <ul style="list-style-type: none"> Product and service development to meet various needs Enhancing customer satisfaction Protecting customer information | <ul style="list-style-type: none"> Disclosing information transparently and quickly |
| Communication Channels | <ul style="list-style-type: none"> Annual general meeting (AGM) of shareholders, Conference call for quarterly earnings release Non-Deal-Roadshow (NDR) Investor/Analyst Day Management disclosure (electronic disclosure system) Business report, Operation report Sustainability management report | <ul style="list-style-type: none"> Policy roundtables and seminars Feedback system Public hearings/advisory meetings | <ul style="list-style-type: none"> SangSang Planet SangSang Madang SangSang Univ. SangSang Fund Welfare Foundation, Scholarship Foundation Support for leaf tobacco farms | <ul style="list-style-type: none"> Labor-management council Grievance handling system Channel for reporting unethical behavior Executive town hall meetings Organizational culture assessment Internal broadcasting (Seed on News, etc.) SangSang Global Jr. Committee | <ul style="list-style-type: none"> Integrated purchasing system (KAPS) Data/document standardization system (EDI) Supplier support programs Sustainable Tobacco Program for leaf tobacco farms Partner workshops Grievance handling process | <ul style="list-style-type: none"> Corporate website and social media, lil website MINIMULIUM, A/S Center CS Center, Customer inquiry Channel for reporting unethical behavior | <ul style="list-style-type: none"> Investor relations activities Press releases Corporate website and social media, lil website Sustainability management report |

I. DOUBLE MATERIALITY ANALYSIS

II. Double Materiality Assessment

KT&G conducts a double materiality assessment every year, which considers both social and environmental impacts as well as financial risks and opportunities to select and respond to issues deemed material to the company in terms of sustainability disclosure. Double materiality is the concept that not only the impact of corporate activities on the external environment and society should be considered, but also the financial impact of external sustainability factors on corporate value, including growth, performance, and risk. KT&G applied the EU European Sustainability Reporting Standards (ESRS) methodology to proactively respond to the international trend of mandatory sustainability information disclosure.

















To identify material issues from the Group-level perspective, KT&G expanded the scope of the assessment to include its tobacco and health functional food businesses, which account for approximately 85% of its sales in 2023, and value chain, including manufacturing, agriculture, transportation, sales, and distribution. Based on our understanding of the business model, we selected issues that are highly relevant to KT&G’s sustainability and identified the impact of the company’s activities and external factors on social/environmental impacts and financial risks/opportunities, respectively. We then conducted an impact assessment with internal and external stakeholders who have a good understanding of the company and industry ESG, and thus identified four material issues through the approval of the Sustainability Committee under the BOD.

KT&G’s double materiality assessment is reviewed from a comprehensive risk perspective in conjunction with the company-wide risk management process and is continuously monitored according to risks, opportunities, and impacts of material issues. The results of the materiality assessment are also verified by an independent third-party organization. KT&G will continue to enhance the double materiality assessment methodology to derive more reliable results and actively communicate them to stakeholders.



I. DOUBLE MATERIALITY ANALYSIS

Double Materiality Review and Results

| PROCESS | REVIEW POINTS | RESULTS | | | | |
|------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|----------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|---------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|---------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|-----------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|
| <p>STEP 1 Deriving sustainability issue pool</p>  <ul style="list-style-type: none"> Understanding business models, value chains, and sustainability contexts to derive a sustainability issues pool based on them | <ul style="list-style-type: none"> Business model: Business model/strategy, products and services, location, types of labor, etc. Value chain: Upstream and downstream business activities, products and services, etc. Sustainability context: Economic, environmental, social issues related to industries, activities, locations, and legal regulations, etc. <ul style="list-style-type: none"> 22023 company ESG-related activity data Issues identified through the company's overall risk management process ESG disclosure and assessment initiatives (GRI, SASB, MSCI, DJSI, etc.) Important ESG issues in the same industry | <p>Derivation of 16 relevant issues</p> <div style="display: flex; justify-content: space-around;"> <div data-bbox="2479 557 2581 656"></div> <div data-bbox="2651 557 2753 656"></div> <div data-bbox="2824 557 2926 656"></div> </div> <p>Environmental 6 issues Social 7 issues Governance 3 issues</p> | | | | |
| <p>STEP 2 Identifying the impact, risks, and opportunities of sustainability issues</p>  <ul style="list-style-type: none"> Identifying effects based on criteria for impacts, risks, and opportunities | <table border="1"> <thead> <tr> <th data-bbox="979 751 1558 795">Social and Environmental Impact</th> <th data-bbox="1558 751 2137 795">Financial Risks and Opportunities</th> </tr> </thead> <tbody> <tr> <td data-bbox="979 795 1558 1038"> <ul style="list-style-type: none"> Analyzing company business and value chain characteristics to define activities related to each issue Identifying social and environmental impacts according to classification criteria <ul style="list-style-type: none"> Positive/Negative Actual/Potential Short-term/Long-term Impact on human rights  </td> <td data-bbox="1558 795 2137 1038"> <ul style="list-style-type: none"> Analyzing financial effects induced by social and environmental impacts of each issue (ESG-related regulations, etc.), and dependency on resources acquired from natural environment and value chain Identifying financial risks and opportunities based on classification criteria <ul style="list-style-type: none"> Risk/Opportunity Short-term/Long-term  </td> </tr> </tbody> </table> | Social and Environmental Impact | Financial Risks and Opportunities | <ul style="list-style-type: none"> Analyzing company business and value chain characteristics to define activities related to each issue Identifying social and environmental impacts according to classification criteria <ul style="list-style-type: none"> Positive/Negative Actual/Potential Short-term/Long-term Impact on human rights  | <ul style="list-style-type: none"> Analyzing financial effects induced by social and environmental impacts of each issue (ESG-related regulations, etc.), and dependency on resources acquired from natural environment and value chain Identifying financial risks and opportunities based on classification criteria <ul style="list-style-type: none"> Risk/Opportunity Short-term/Long-term  | <p>Identification of 78 activities across the issues</p> <ul style="list-style-type: none"> Impact identification results: 39 activities identified Risk and opportunity identification results: 40 activities identified |
| Social and Environmental Impact | Financial Risks and Opportunities | | | | | |
| <ul style="list-style-type: none"> Analyzing company business and value chain characteristics to define activities related to each issue Identifying social and environmental impacts according to classification criteria <ul style="list-style-type: none"> Positive/Negative Actual/Potential Short-term/Long-term Impact on human rights  | <ul style="list-style-type: none"> Analyzing financial effects induced by social and environmental impacts of each issue (ESG-related regulations, etc.), and dependency on resources acquired from natural environment and value chain Identifying financial risks and opportunities based on classification criteria <ul style="list-style-type: none"> Risk/Opportunity Short-term/Long-term  | | | | | |
| <p>STEP 3 Conducting assessment on the impact, risks, and opportunities of sustainability issues</p>  <ul style="list-style-type: none"> Highly knowledgeable personnel on company and industry ESG selected for assessment (survey, interviews, workshops, etc.) | <table border="1"> <thead> <tr> <th data-bbox="979 1055 1558 1098">Social and Environmental Impact (out of 3 points)</th> <th data-bbox="1558 1055 2137 1098">Financial Risk and Opportunity Factors (out of 3 points)</th> </tr> </thead> <tbody> <tr> <td data-bbox="979 1098 1558 1333"> <ul style="list-style-type: none"> Severity assessment (magnitude + scope + correctability) X Likelihood assessment <ul style="list-style-type: none"> Positive impacts exclude likelihood assessment Real impacts exclude likelihood assessment  </td> <td data-bbox="1558 1098 2137 1333"> <ul style="list-style-type: none"> Financial impact assessment (quantitative + qualitative evaluation) X Likelihood assessment <ul style="list-style-type: none"> Quantitative evaluation: Sales, net profit Qualitative evaluation: Short, medium, and long-term outlook on the integration of mid-to long-term management strategies  </td> </tr> </tbody> </table> | Social and Environmental Impact (out of 3 points) | Financial Risk and Opportunity Factors (out of 3 points) | <ul style="list-style-type: none"> Severity assessment (magnitude + scope + correctability) X Likelihood assessment <ul style="list-style-type: none"> Positive impacts exclude likelihood assessment Real impacts exclude likelihood assessment  | <ul style="list-style-type: none"> Financial impact assessment (quantitative + qualitative evaluation) X Likelihood assessment <ul style="list-style-type: none"> Quantitative evaluation: Sales, net profit Qualitative evaluation: Short, medium, and long-term outlook on the integration of mid-to long-term management strategies  | <p>Prioritization of the issues</p> <ul style="list-style-type: none"> Setting issue prioritization thresholds: Based on the average values of impact, risk, and opportunity assessment scores exceeding 15% for each issue Stakeholder involvement: KT&G employees, shareholders and investors, partners, industry initiative representatives, etc. |
| Social and Environmental Impact (out of 3 points) | Financial Risk and Opportunity Factors (out of 3 points) | | | | | |
| <ul style="list-style-type: none"> Severity assessment (magnitude + scope + correctability) X Likelihood assessment <ul style="list-style-type: none"> Positive impacts exclude likelihood assessment Real impacts exclude likelihood assessment  | <ul style="list-style-type: none"> Financial impact assessment (quantitative + qualitative evaluation) X Likelihood assessment <ul style="list-style-type: none"> Quantitative evaluation: Sales, net profit Qualitative evaluation: Short, medium, and long-term outlook on the integration of mid-to long-term management strategies  | | | | | |
| <p>STEP 4 Selecting material issues</p>  <ul style="list-style-type: none"> Prioritizing through approval by the Sustainability Committee within the BOD | <ul style="list-style-type: none"> Quantitative analysis conducted on the impact of social, environmental, and business factors (risks and opportunities) identified through assessment Approval of issue prioritization by the executive management and the Sustainability Committee within the BOD Third-party verification of the process and results of materiality assessment | <p>Finalization of 2024 reporting topics</p> <table border="1"> <tr> <td data-bbox="2448 1407 2713 1631"> <ul style="list-style-type: none"> Impact Issues <ul style="list-style-type: none"> Environmental: Climate change response Social: Development of modified risk products Social: Management of product environmental friendliness Social: Responsible supply chain management </td> <td data-bbox="2713 1407 2959 1631"> <ul style="list-style-type: none"> Risk and Opportunity Issues <ul style="list-style-type: none"> Environmental: Climate change response Social: Development of modified risk products Social: Responsible supply chain management </td> </tr> </table> | <ul style="list-style-type: none"> Impact Issues <ul style="list-style-type: none"> Environmental: Climate change response Social: Development of modified risk products Social: Management of product environmental friendliness Social: Responsible supply chain management | <ul style="list-style-type: none"> Risk and Opportunity Issues <ul style="list-style-type: none"> Environmental: Climate change response Social: Development of modified risk products Social: Responsible supply chain management | | |
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Stakeholder Engagement

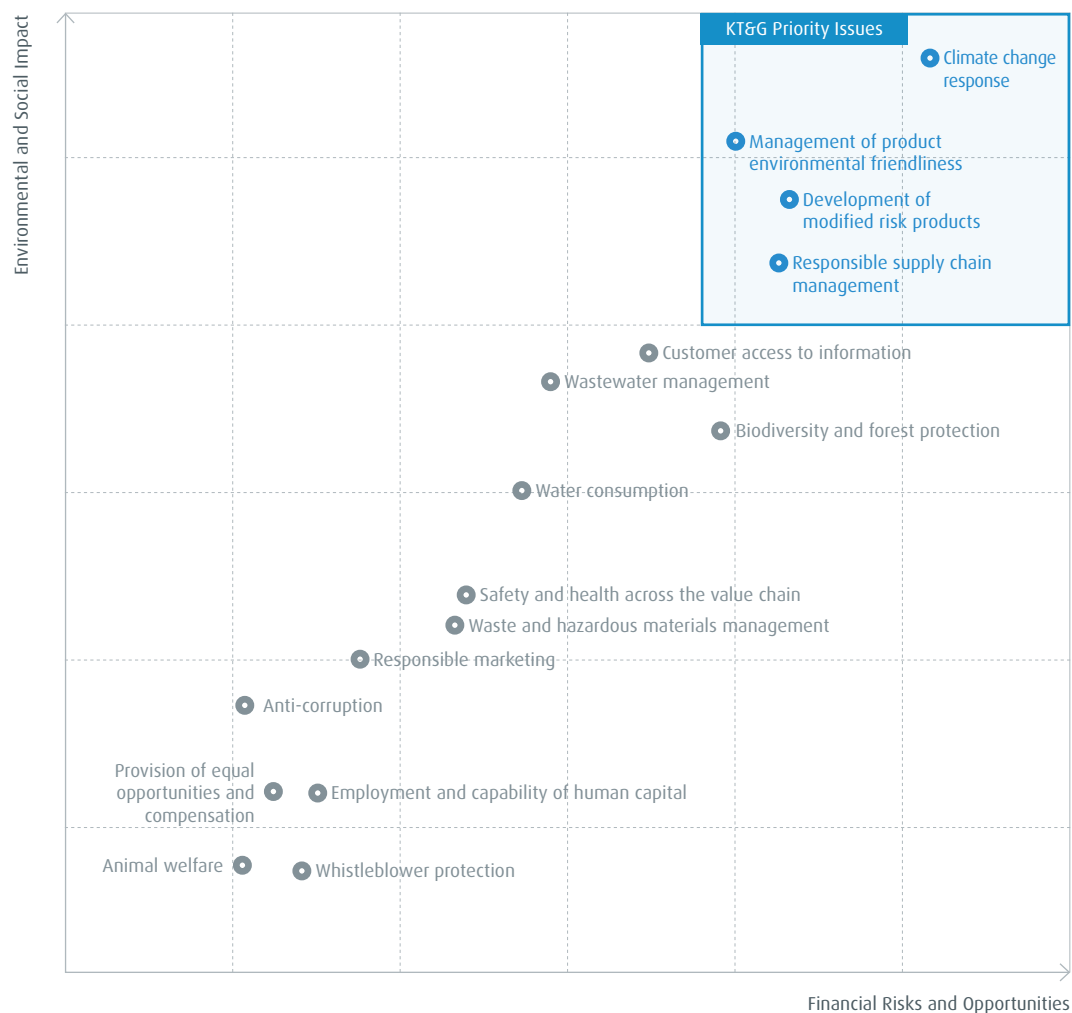
Involvement in identification and assessment processes
Focused interviews and surveys conducted with representatives from stakeholder groups

I. DOUBLE MATERIALITY ANALYSIS

II. Analysis of KT&G's 2023 Material Issues

In 2023, we conducted key stakeholder surveys, focus interviews, and analysis of environmental, social, and financial impacts to derive a total of 16 key sustainability issues, and four issues were selected as "KT&G Priority Issues" - Climate change response, Development of modified risk products, Management of product environmental friendliness, and Responsible supply chain management. In particular, Climate change response, Development of modified risk products, and Management of product environmental friendliness were assessed as material in terms of both social and environmental impacts and financial risks and opportunities. Biodiversity and forest protection was selected as an emerging issue where impacts are expected to increase in the future. KT&G will continue to improve its double materiality assessment methodology to produce more reliable results and actively communicate them to stakeholders.

Material Issue Identification Matrix



● High ● Medium ○ Low
 ◀ Upstream ◆ Own Operation ▶ Downstream

| | Topic | Impact | | Risk/Opportunity | | Scope of assessment within the value chain | Page |
|----------------------|---------------------------------------------------|----------------|------------|------------------|------------|--------------------------------------------|--------------|
| | | Identification | Assessment | Identification | Assessment | | |
| KT&G Priority Issues | Climate change response | Actual | ● | Risk | ● | ◀-◆-▶ | 50-76 |
| | Development of modified risk products | Potential | ● | Opportunity | ● | ◀-◆-▶ | 78-88, 91-95 |
| | Management of product environmental friendliness | Actual | ● | Opportunity | ● | ◀-◆-▶ | 102-106 |
| | Responsible supply chain management | Potential | ● | Risk | ● | ◀-◆-▶ | 122-135 |
| Emerging Issue | Biodiversity and forest protection | Actual | ● | Risk | ● | ◀-◆-▶ | 112-121 |
| E | Wastewater management | Potential | ● | Risk | ● | ◀-◆-▶ | 107-110 |
| | Water consumption | Potential | ● | Risk | ● | ◀-◆-▶ | 107-110 |
| | Waste and hazardous materials management | Potential | ● | Risk | ● | ◀-◆-▶ | 111, 91 |
| | Safety and health across the value chain | Potential | ● | Risk | ● | ◀-◆-▶ | 151-156 |
| S | Customer access to information | Potential | ● | Risk | ● | ◀-◆-▶ | 166-168 |
| | Responsible marketing | Potential | ● | Risk | ● | ◀-◆-▶ | 89-90 |
| | Employment and capability of human capital | Actual | ● | Opportunity | ○ | ◀-◆-▶ | 148-150 |
| | Provision of equal opportunities and compensation | Potential | ○ | Risk | ○ | ◀-◆-▶ | 142-147 |
| G | Whistleblower protection | Actual | ● | Risk | ○ | ◀-◆-▶ | 181 |
| | Anti-corruption | Potential | ○ | Risk | ● | ◀-◆-▶ | 182-185 |
| | Animal welfare | Potential | ○ | Risk | ○ | ◀-◆-▶ | 92 |

I. DOUBLE MATERIALITY ANALYSIS

Reporting on KT&G's Sustainability Material Issues

KT&G will actively respond to the KT&G Priority Issues identified to realize the 2025 Empowering Sustainability for Growth vision. Each sustainability issue can act as a risk and opportunity across the value chain. We have therefore identified the positive or negative impacts of KT&G Priority Issues at the Group level and establish a systematic management plan for each sustainability issue, and disclose them. In addition, we operate a performance evaluation system in conjunction with compensation for the management to improve execution capability of the Priority Issues.

Analysis of Material Issues for Corporate Value Creation Based on Risks and Opportunities

| Issue | Category | Business example | | Business impact | Period | KT&G's approach to risks and opportunities | | | |
|--------------------------------------------------|-------------|----------------------------------------------------------------------------------------------------------------------------------------------------|-------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|-----------------|-------------------------|----------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|----------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|--------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|
| | | External factors that drive risks and opportunities | Key financial risks and opportunities | | | Business strategy | Mid-to long-term goals | 2023 performance | Compensation for executives (tied to KPIs) |
| Climate change response | Risk | Acute and chronic physical risks caused by climate change | [Common] Increased cost of goods sold due to reduced supply of leaf tobacco and ginseng and decreased revenue due to lower quality | Revenue Cost | Short-, mid-, long-term | <ul style="list-style-type: none"> Establish and operate an environmental management vision system to minimize negative environmental impacts across the value chain Establish and implement mid-to long-term GHG reduction and renewable energy expansion goals Establish environmental management governance system (Sustainability Committee, ESG Management Council, ESG Management Office, and Energy Environment Department) Identify climate change risks/opportunities, establish strategic response plans, and continue to enhance climate disclosure | <ul style="list-style-type: none"> 42% reduction in Scope 1+2 emissions by 2030 Scope 1+2+3 carbon neutral by 2045 Transition to at least 80% renewable energy use across all domestic and overseas sites by 2030 | <ul style="list-style-type: none"> Scope 1+2 emissions in 2023: 112,787 tons - 9.0% reduction from 2020 Renewable energy consumption rate at all domestic and overseas sites: 19.0 % - (Domestic) 7.9% - (Overseas) 100.0 % | <ul style="list-style-type: none"> Total GHG emissions (Scope 1+2) Renewable energy adoption ratio Cumulative conversion rate of corporate vehicles to electric vehicles Implementation of improvement projects linked to energy audit results Purchase and use of renewable electricity for leased buildings |
| | Risk | Increased legislation and regulation to reduce GHG emissions and stakeholder demand for GHG reduction | [Common] Increase in cost of goods sold due to the rise in GHG emissions reduction costs for upstream suppliers and their investments in emission reduction equipment | | | | | | |
| | | | [Common] Increased costs to reduce GHG emissions, such as purchasing carbon credits and investing in renewables | | | | | | |
| Development of modified risk products | Risk | Rapidly changing consumer needs and scientific evidence | [Tobacco Category] Failure to diversify the portfolio in a timely manner around future innovation platforms that align with market and consumer needs, resulting in lost consumer choice and poor sales | Revenue Cost | Short-, mid-, long-term | <ul style="list-style-type: none"> Strengthen portfolio competitiveness based on an innovation platform Accelerate the NGP business through advanced PMI partnerships to secure a globally successful business model Secure world-class scientific R&D capabilities | <ul style="list-style-type: none"> Global presence across 50 countries by 2025 60% domestic market share by 2025 5 NGP platforms by 2025 | <ul style="list-style-type: none"> NGP sales in 2023: KRW 779.4 billion Global presence as of 2023: 32 countries (including Korea) Domestic stick market share in 2023: 46.6% | <ul style="list-style-type: none"> Expansion of NGP product sales and countries of entry Development and launch of market-leading NGP platforms Enhancement of scientific R&D capabilities |
| | Opportunity | Expansion of sales markets | [Tobacco Category] Growing need for less smell & modified risk products, leading to the expansion of the size of this market within the tobacco industry | | | | | | |
| Management of product environmental friendliness | Opportunity | Consumer demand and over-packaging regulations are driving the need to minimize packaging and replace it with lower environmental impact packaging | [Common] Increased internal resources and R&D costs to replace difficult-to-recycle materials such as aluminum laminates and plastic materials | Revenue Cost | Short-, mid-, long-term | <ul style="list-style-type: none"> Identify and implement short-term actionable tasks by 2025 to accelerate the improvement of product eco-friendliness Conduct life cycle assessments (LCA) for key products to ensure systematic environmental management at the product level | <ul style="list-style-type: none"> 100% use of packaging made from recyclable sources by 2025 | <ul style="list-style-type: none"> Proportion of recyclable packaging usage as of 2023: 96.3% (by weigh) | <ul style="list-style-type: none"> Conversion rate to recyclable packaging materials Recycling performance of waste device materials and partner participation Establishing a direction for "Eco-Design" of devices |

DOUBLE MATERIALITY ANALYSIS

Impact Assessment and Analysis of Key Issues for External Stakeholders

| Issue | Category | Relevance and significance of external stakeholders | | | | KT&G's assessment of impact | | | |
|--------------------------------------------|--------------------------------------|-----------------------------------------------------|------------------------|----------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|-----------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|-----------------------------|--------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|---------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|
| | | Impact area | Value chain position | Company activities causing the impact | Key environmental and social impacts | Impact type | Output indicators | Impact assessment | Impact indicators |
| Climate change response | Climate transition & physical risks | Environment | Across the value chain | <ul style="list-style-type: none"> Use chemical fertilizers and crop protection agents in the cultivation of raw materials such as leaf tobacco and ginseng Use non-renewable energy in manufacturing activities for general materials and products Use non-renewable energy to operate offline retail stores Use non-renewable energy for air and cargo transportation of raw materials, products, etc. | <p>[Common] GHG emissions cause climate change, including extreme weather events, changes in precipitation, sea level rise, desertification, water scarcity, spread of tropical diseases, and loss of biodiversity</p> | Positive/Negative | <p>[Reduce GHG emissions and increase renewable energy use]</p> <ul style="list-style-type: none"> Scope 1+2 reductions (tCO₂eq) Scope 3 reductions (tCO₂eq) Renewable energy use (MWh) | <ul style="list-style-type: none"> Calculate savings by utilizing KPMG TrueValue methodology to estimate the social cost¹⁾ of GHG emissions avoided and carbon saved, based on GHG reductions and renewable energy use. | <p>[Social cost of GHG (carbon) emissions]</p> <ul style="list-style-type: none"> Reduced social cost from reducing Scope 1+2 GHG emissions Scope 1+2 GHG reductions: 11,121 tCO₂eq Social cost savings: About KRW 821.04 million GHG reductions and social cost savings from using renewable energy Renewable energy consumption: 37,103 MWh Social cost savings: About KRW 1,258.41 million |
| Develop modified risk products | Product and service quality & safety | Consumers | Downstream | <ul style="list-style-type: none"> Diversify innovation platforms based on scientific capabilities and strengthen related R&D capabilities Conduct a thorough raw material verification process to ensure product safety and source government-certified ingredients from domestic contract manufacturers | <p>[Tobacco Category] Providing better choices to consumers through the continuous enhancement of the product evaluation system</p> <p>[HFF Category] Improving consumer health and product safety, thereby reducing the likelihood of product safety incidents and harm to consumers</p> | Positive/Negative | <ul style="list-style-type: none"> NGP sales performance (KRW 100 million) Share of NGP sales in the tobacco business (%) Number of KOLAS certified items (cases) Number of NGP patent applications (cases) | <ul style="list-style-type: none"> Social impact | <p>[Improving consumer accessibility to NGP]</p> <ul style="list-style-type: none"> Number of sales markets: 32 countries (as of 2023) Market share of consumer purchases: 46.6% (based on domestic CVS Pos data) Number of NGP platforms: 3 (as of 2023) |
| Product eco-friendliness management | Sustainable products & services | Society | Upstream | <ul style="list-style-type: none"> Produce and sell products with packaging or plastic materials that are not recyclable in some cases NGP devices contain a variety of materials, including batteries and metals, and are not easily recycled as small appliances. | <p>[Common] Materials such as polypropylene and aluminum laminate, which are difficult to biodegrade, have a negative impact on the environment</p> | Positive/Negative | <ul style="list-style-type: none"> LCA-based environmental impact assessment results Recycled or renewable packaging materials used (%) Plastic packaging materials used (tons) Purchases of eco-friendly packaging materials under the Sustainable Product Policy (KRW 100 million) | <ul style="list-style-type: none"> Calculate the reduction in social costs²⁾ associated with the disposal of materials that are difficult to recycle by using recyclable and renewable materials | <p>[Social costs associated with managing product eco-friendliness]</p> <ul style="list-style-type: none"> Reduced social costs from using recyclable packaging Recyclable packaging used: 40,923 tons Social cost savings from recycling: About KRW 69.59 million Reducing the social cost from recycling device materials Materials recycled: 7,196 kg Social cost savings from recycling: approx. KRW 10,000 |

¹⁾ Sources of social costs associated with GHG emissions: EPA, Technical Support Document: Social Cost of Carbon, Methane, and Nitrous Oxide Interim Estimates under Executive Order 13990 (2021)

²⁾ Sources of social costs related to the environmental impact of waste: A. Rabl, J. V. Spadaro and A. Zoughaib, Environmental impacts and costs of solid waste: a comparison of landfill and incineration (2009)

I. VOICE OF STAKEHOLDERS

KT&G strives to clearly understand and address the awareness and interest of stakeholders related to business sustainability issues and incorporate these into its management activities. To understand stakeholders' interests in promoting sustainability management and to identify social/environmental impacts and financial risks/opportunities, we conducted surveys and interviews with KT&G employees, shareholders and investors, industry experts, and ESG experts, and reflected them in the double materiality assessment process. KT&G will continue to expand exchanges with stakeholders and communicate with them transparently.

Supply chain sustainability



Q. What do you think are the most important contemporary ESG issues related to tobacco leaf farmers?

A. We work with our contracted growers to educate them on environmental and social topics as well as good governance practices. While each of these topics are important, we see a continued focus around climate change and an increasing emphasis on the related response and mitigation activities, such as the adoption of climate-smart agricultural practices and the reduction of greenhouse gas emissions and deforestation. There is also a strong focus on improved farmer livelihoods – promoting a sustainable standard of living within our contracted farmer base through crop diversification opportunities and implementation of good agricultural practices – and other human rights-related areas and due diligence requirements.

Q. How do you think KT&G should approach the sustainability of tobacco leaf farmers?

A. It is important to adopt a multi-faceted approach to sustainability that prioritizes engagement, alignment and partnership with the supplier base. By working together, we can increase tobacco leaf farmers' adoption of good agricultural practices, foster economic diversification, improve the communities in which we source tobacco and drive a more sustainable, responsible industry overall.



Hélio Moura

Vice President, AOI Crop Science & Value Chain (CSVC)

Q. To ensure responsible supply chain management (upstream), what activities is KT&G undertaking?

A. KT&G purchases all tobacco leaves grown domestically and additionally sources tobacco leaves from overseas. In Korea, the number of foreign workers is increasing due to the aging population of leaf tobacco farms, while overseas, many of the countries that produce tobacco leaves are developing countries, so it is necessary to manage the both domestic and overseas supply chain with the potential for human rights issues, including child labor, in mind. KT&G conducts direct visits (monitoring) and immediate on-site feedback to domestic leaf tobacco farms during the entire growing season, and plans to expand the scale and scope of monitoring. For overseas leaf tobacco suppliers and farms, supply chain assessments and farm monitoring are conducted through the Sustainable Tobacco Program (STP), a global ESG program in the leaf tobacco sector. In addition, based on on-site inspections by third-party organizations and action plans for each supplier, we conduct our own human rights-related on-site training and support after-school education programs to prevent child labor. Going forward, we will implement responsible supply chain management by continuously identifying issues and conducting improvement activities.



Cho, Chong-hoon

Head of G-STP Leaf Tobacco Team, KT&G

Response to climate crisis



Q. Please introduce details of the GHG-related projects that Green Asia Network and KT&G are collaborating with.

A. As the only Korean participant in the pilot test of the global GHG Protocol "Land Sector and Removal Guidance," Green Asia Network is collaborating with KT&G to examine the GHG emissions of leaf tobacco farms and measures to reduce them. KT&G and Green Asia Network have initiated a pilot project to estimate GHG emissions generated from land-use changes and land management processes at home and abroad. The project aims to develop methods to reduce and remove emissions by utilizing biochar and other techniques in tobacco leaf farming. Through this project, we plan to actively discuss ways to analyze the reduction effects of biochar application and establish a farm management system to prevent land-use changes during the cultivation of tobacco leaves and ginseng. I hope that KT&G will establish and operate a monitoring system using remote sensing and other technologies for domestic and international farm management, thereby becoming a global company leading GHG emissions reduction.



Kim, Yong-bum

Principal Adviser of Decarbonization Strategy Team, Green Asia Network

I. VOICE OF STAKEHOLDERS

Response to climate crisis



Q. Can you please explain KGC’s response to climate change (upstream)?

A. Ginseng is a semi-shade plant that thrives in cooler climates, but global warming is pushing its growing areas further north. If global warming continues to progress and extreme weather conditions such as heavy rainfall persist, problems such as decreased production may occur. KGC is doing its utmost to strengthen the competitiveness of the ginseng industry by researching, developing, and disseminating new cultivation methods to respond to climate change. For example, we are conducting research on sunshade facilities, which are essential for ginseng cultivation, to develop small tunnel sunshade facilities that are more resistant to high temperatures.



Yang, Bo-sun
Manager of Material Business Office, KGC

Accelerating the circular economy



Q. What are the background and future expectations for the resource circulation project being implemented in collaboration with KT&G?

A. Currently, small electronic devices such as e-cigarette devices are not subject to mandatory recycling in Korea, so it is difficult to create a virtuous cycle of resources from proper separation to recycling without voluntary efforts from businesses. TerraCycle Korea is working with KT&G to establish and operate a recycling platform so that various materials such as plastics and metals that make up the devices can be used as resources again rather than being discarded once they are used. On the back of KT&G’s continuous efforts and support for the environmental protection, we have been able to create a positive example of a virtuous cycle of resources. Based on this, I hope that not only KT&G, but also other companies that produce small electronic devices will join our efforts to recycle materials, and together we will lead a culture of resource recycling in Korea.



Lee, Yu-jeong
Korea Team Lead, TerraCycle Korea

Q. How is KT&G responding to the development of product eco-friendliness?

A. In 2024, the fifth meeting of the Intergovernmental Negotiating Committee (INC) to develop an international legally binding instrument on plastic pollution will take place Korea, and the related agreement is expected to impact various industries where plastics are used. KT&G has been conducting research in collaboration with KOLON Industries since 2013, to develop cigarette filters utilizing lyocell tow, a non-plastic eco-friendly material. This is expected to accelerate the transition to non-plastic/biodegradable materials for core material products.



Yang, Jin-chul
Team Leader of Advanced Material Development Team, KT&G

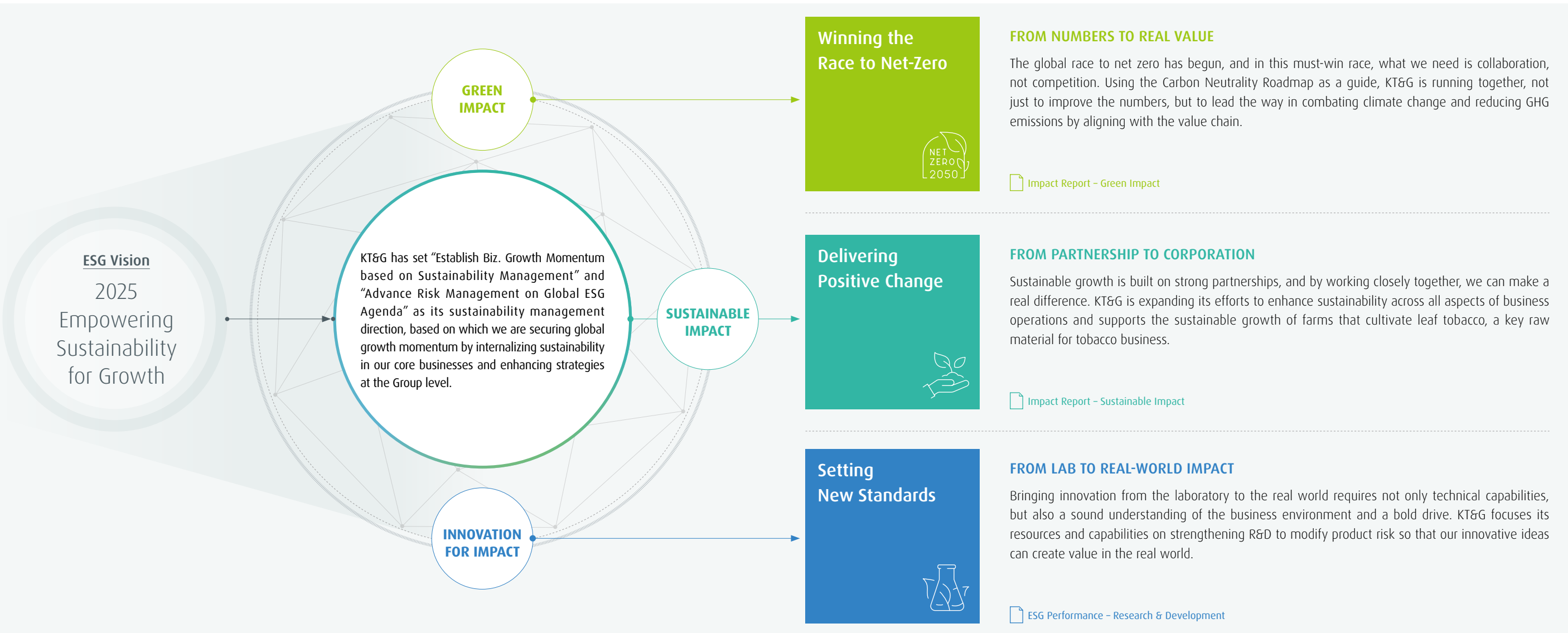
OUR MATERIALITY PROGRESS

- **MATERIAL ISSUES & IMPACT REPORT**
 - 1. Green Impact
 - 2. Sustainable Impact
- **KT&G SUSTAINABILITY DISCLOSURE**



I. MATERIAL ISSUES & IMPACT REPORT

KT&G systematically develops and responds to key sustainability issues that have significant social and environmental impacts, and include both financial risks and opportunities, such as climate change response, development of modified risk products, and responsible supply chain management. In this process, we efficiently allocate resources and actively communicate with stakeholders. By proactively responding to material issues and managing them appropriately, KT&G is firmly establishing itself as a resilient company and spreading economically, socially, and environmentally positive impacts.



II. OUR SUSTAINABILITY PERSPECTIVE

KT&G VISION OUR SUSTAINABILITY APPROACH **OUR MATERIALITY PROGRESS**



IMPACT REPORT 01.

Responding to climate change is both a collective human challenge and a strategy for sustainable growth for businesses. As the Intergovernmental Panel on Climate Change (IPCC) has pointed out, it is unequivocal that human activities have caused climate change, and we must expedite the transition to a decarbonized society to prevent the climate crisis from reaching an irreversible tipping point. KT&G participates in the race that the world has begun to run to survive and prosper. In the process, we will strengthen the Group-wide initiatives to address climate change and protect the global environment through sustainable management of natural resources, and align them with our value chain to accelerate the pace of innovation toward the essential goal of carbon neutrality.



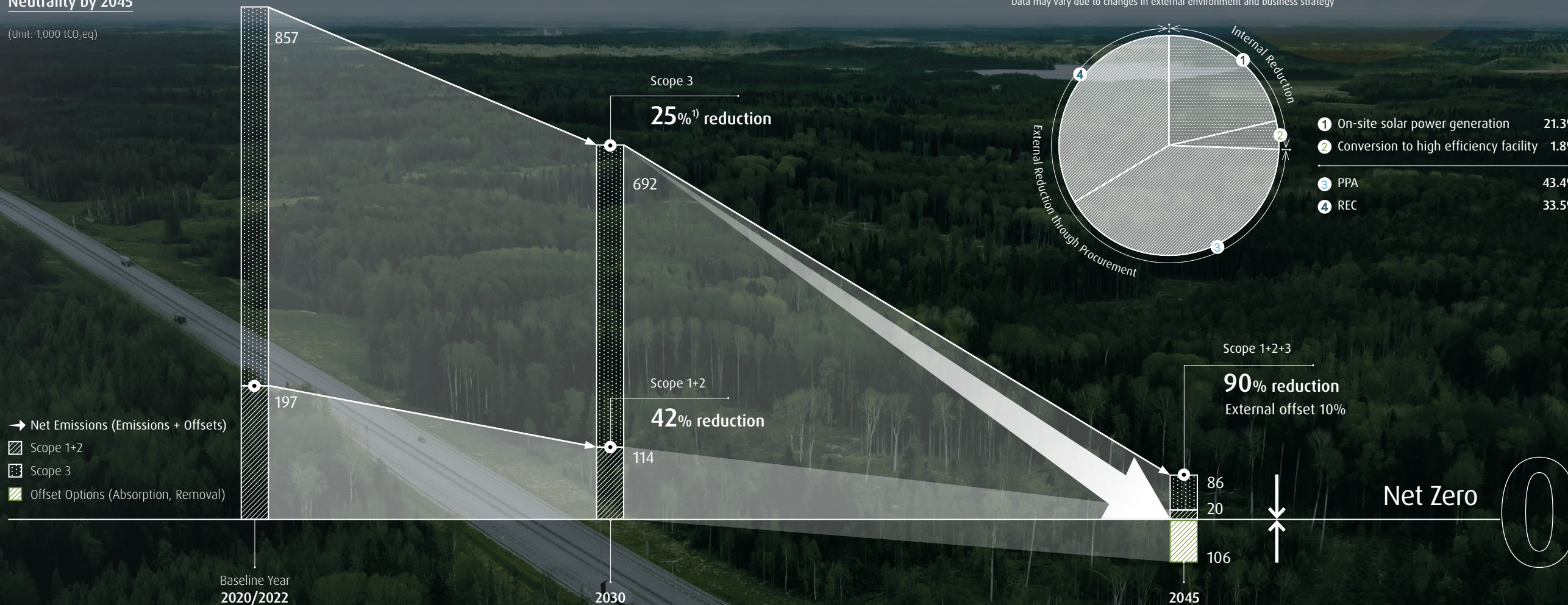
GREEN IMPACT

KT&G NET-ZERO JOURNEY

KT&G is making unified efforts at the Group level to strengthen its capabilities to respond to climate change. In particular, we have established a carbon neutrality strategy that meets international standards, and are enhancing the strategy, accelerating its implementation, and realizing sustainable management in consideration of economics, global trends toward carbon neutrality, and changes in the corporate business environment. In doing so, we are playing a leading role in responding to global climate change and laying a solid groundwork for sustainable growth.

GHG Reduction Pathway to Achieve Carbon Neutrality by 2045

(Unit: 1,000 tCO₂e)



¹⁾ Targets: Category 1, 3, 11

Responding to Climate Change

With the goal of achieving carbon neutrality by 2045, KT&G has established a Group-wide carbon neutrality strategy, expanding its scope to include subsidiaries and developing Group-wide collaboration to reduce GHG emissions. This is an integrated approach that goes beyond KT&G's company-wide reduction efforts to include all companies that make up KT&G Group and is expected to result in broader and more effective emissions reductions.



KT&G has established a more comprehensive and challenging "2045 Net Zero Strategy" that extends to the Group level to realize carbon neutrality for a sustainable future.

KT&G Group's direction to carbon neutrality is clear. We will lead environmental management by reducing energy consumption as much as possible through energy efficiency and converting existing fossil fuels to renewable energy. In particular, we will disseminate examples of technological reduction practices in the manufacturing sector not only within our own facilities but also throughout the entire value chain, leading environmental management together. In addition, we will make continuous efforts to minimize environmental impacts by focusing on various tasks such as expanding water reuse, Zero Waste to Landfill (ZWTL), and switching to eco-friendly materials, thereby accelerating the Group's pace towards carbon neutrality.



Oh, Chi-bum
Chief of Manufacturing Division (Executive Vice President), KT&G

KT&G has established mid-to long-term GHG reduction targets in accordance with the Science Based Targets Initiative (SBTi) guidelines, and has been evolving its strategy in light of major environmental changes, such as the trend toward mandatory non-financial disclosure and the targets and pathways of global leading companies. In 2023, KT&G revised its previously established 2050 carbon neutrality target to 2045, ahead of schedule, to play a leading role in the global race to overcome the climate crisis. Accordingly, we aim to reduce our Scope 1 & 2 emissions by 42% (compared to 2020) and Scope 3 emissions by 25%¹⁾ (compared to 2022) by 2030.

Recognizing the seriousness of the climate change problem and the need for a faster and more effective response, KT&G has set more ambitious goals on its path to carbon neutrality and is actively utilizing various reduction measures to realize them, including expanding its own solar power generation facilities, switching to high-efficiency equipment, utilizing power purchase agreements (PPAs), and introducing i-RECs. In 2023, we focused on introducing renewable energy and improving energy efficiency, resulting in a reduction of 2,112 tons of GHG emissions.

As of 2023, KT&G Group's total emissions were approximately 190,000 tons, and in 2024, we plan to implement new renewable energy projects and improve the efficiency of existing facilities aimed at reducing emissions even further compared to 2023. KT&G Group's renewable energy consumption rate increased significantly from 0.1% in 2020 to 13.5% in 2023. With the goal of achieving 80% renewable energy consumption rate at its plants by 2030, KT&G aims to further increase this ratio to 20.0% in 2024 by increasing the capacity of its own solar power generation facilities and signing additional PPAs. To this end, in 2024, we plan to build our own solar power generation facilities of 2.2 MWp at Daejeon Plant, 2.5 MWp at Yeongju Plant, and 0.3 MWp at Gimcheon Plant, totaling 5.0 MWp, and from 2023, we are actively utilizing PPAs to expand procurement of renewable energy.

As such, KT&G Group is moving toward the bold goal of carbon neutrality, with all Group subsidiaries working together to realize sustainable growth by taking the lead in the net-zero race with an integrated, systematic, and strategic approach.

Renewable Energy Performance and Outlook for KT&G's Domestic and Overseas Business Sites

| Category | Performance | | | Outlook | |
|--------------|-------------|--------------|--------------|--------------|--------------|
| | 2020 | 2022 | 2023 | 2027 | 2030 |
| Domestic | 0.1% | 8.9% | 7.9% | 35.0% | 72.0% |
| Overseas | 0.0% | 71.7% | 100% | 100% | 100% |
| Total | 0.1% | 15.6% | 19.0% | 50.0% | 80.0% |

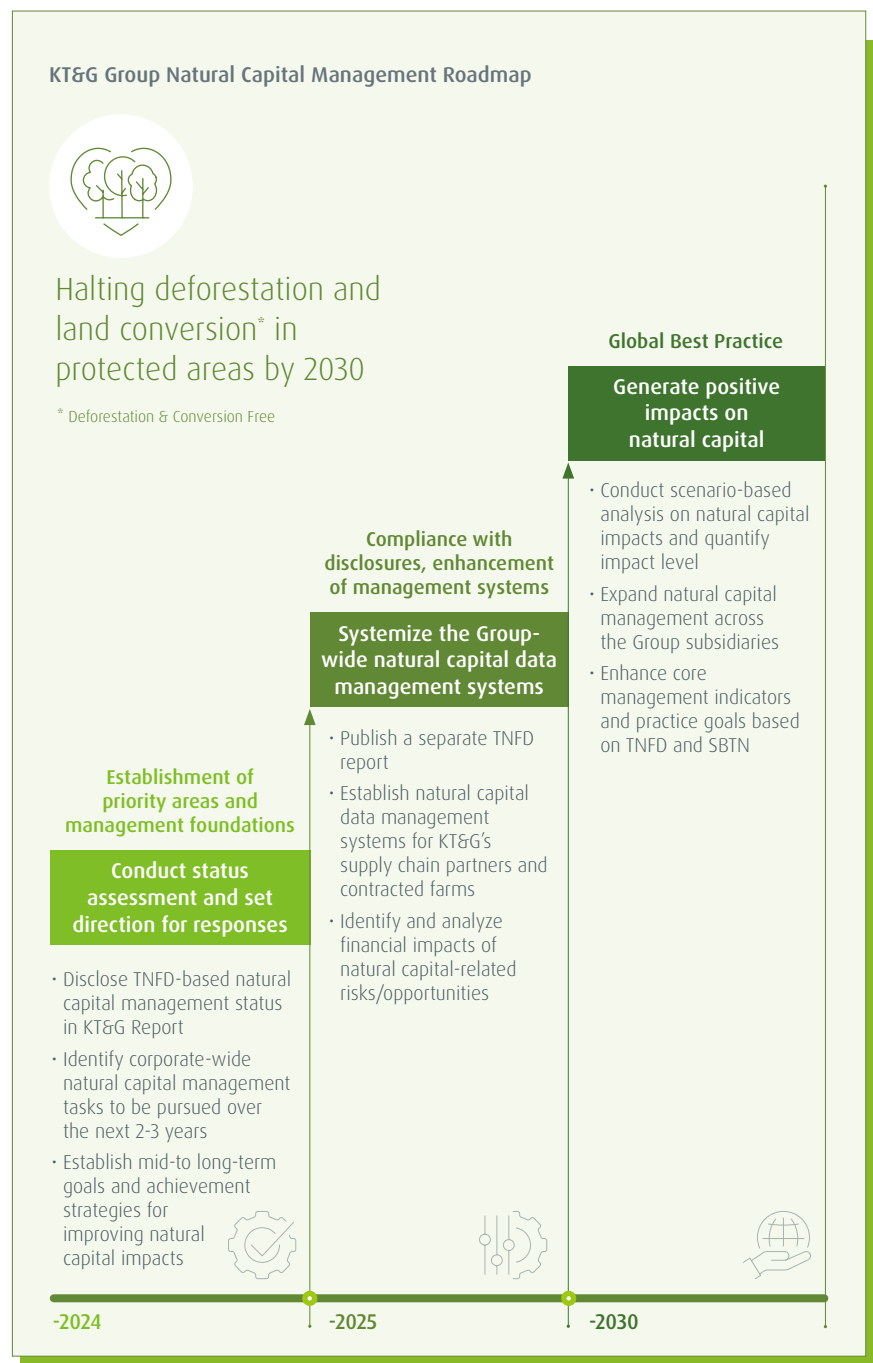
^{*} Scope of coverage: All domestic business sites (138), overseas manufacturing sites (3)
^{**} May be subject to change based on future external environmental changes and variations in business operations

Performance and Goal of KT&G Group's Renewable Energy Consumption Ratio



^{*} Based on all domestic business sites and overseas manufacturing sites of KT&G and manufacturing sites of subsidiaries

¹⁾ Targets: Category 1, 3, 11



Enhancing Ecosystem Sustainability

Natural capital, such as forests, soil, and water, is a resource that is available to all, but it is finite and must be used responsibly and distributed fairly. In addition, recent social interest in and demands on businesses to manage natural capital have increased, prompting corporate efforts around the world to disclose and manage related information.

KT&G's main business is in the agriculture-based food and beverage industry, which is highly dependent on natural capital. This means that we need to systematically and strategically manage natural capital for stable and sustainable growth, but it also means that we can contribute to preventing biodiversity loss and ecosystem collapse, and explore new growth opportunities by positively impacting the natural environment and industrial development. KT&G therefore joined the TNFD (Taskforce on Nature-related Financial Disclosures) Forum Membership in December 2022, and announced that it will adhere to global standards for natural capital management and transparently disclose risks and opportunities related to natural capital.

Then, in 2023, KT&G established the Biodiversity & No Deforestation Policy and set a goal to halt deforestation and land conversion in protected areas¹⁾ by 2030. In the process of setting this goal, KT&G assessed how its operations and assets impact natural capital, and found that most of the Group's operations do not have a significant negative impact on protected areas. For the major material supply chain, we have identified some implementation tasks and are taking measures for improvement. To achieve the goals, we will establish a natural capital management roadmap at the Group level and focus on solidifying the implementation foundation.

Moving forward, KT&G will integrate its established environmental management system with its natural capital response strategy to realize carbon neutrality by responsibly using natural capital to enhance the sustainability of ecosystems. A series of these efforts will enable us to go beyond zeroing out negative impacts on nature and create a net positive impact, leaping into a true top-tier player.

Please refer to the "Performing Environmental Responsibility across the Value Chain: Management of Natural Capital and Biodiversity" part of this report to find detailed information.



¹⁾ Natural forests, including protected/primary forests designated by the International Union for Conservation of Nature (IUCN) and Science-Based Targets for Nature (SBTN), and areas identified as having high nature conservation needs.

II. OUR SUSTAINABILITY PERSPECTIVE

KT&G VISION OUR SUSTAINABILITY APPROACH OUR MATERIALITY PROGRESS



IMPACT REPORT 02.

Building a sustainable industrial ecosystem is a concept that encompasses economic, environmental, and social values and must be considered for long-term corporate growth and social responsibility. For KT&G, where cultivation and growing of raw materials in the supply chain is important, it is crucial to secure a sustainable production base for farmers who are an important pillar of our value chain. KT&G is therefore participating in the global Sustainable Tobacco Program (STP) initiative, an ESG program for leaf tobacco cultivation, to ensure that leaf tobacco is grown in sustainable farming environments and sourced sustainably.



SUSTAINABLE IMPACT

I. KT&G LEAF ESG APPROACH

KT&G is committed to building a sustainable industrial ecosystem by sharing and communicating the importance of ESG management with all partners in the supply chain through various methods and channels, including the STP initiative. In addition, as the importance of disclosing corporate activities related to supply chain sustainability is increasing, we aim to systematically manage ESG in the supply chain based on effective action programs.

Status of the Domestic STP Initiative and the Implementation Plan

2023

Conduct monitoring of 340 items in four areas – Crop, Environment, and People (Labor, Human Rights)

Major Implementation Items



CORP

- Growing only distributed varieties, using designated crop protection products, using designated fertilizers, avoiding self-composting, and applying lime
- Analyzing soil and recommending fertilization, securing appropriate dryers, removing tobacco plant residues, recording the use of crop protection products, etc.



ENVIRONMENT

- Prevention of NTRM¹⁾, and collection, disposal, and recycling of plastic agricultural materials (mulching film, etc.)
- GHG emissions reduction (by expanding exhaust heat, etc.), safe handling of crop protection agents (establishing buffer zones near waterways), etc.



HUMAN & LABOR RIGHTS

- Working hours, labor contracts, prohibition of child labor, prohibition of unlawful confinement, and guarantee of minimum wages
- Installation of crop protection agent storage (worker safety), etc.



GOVERNANCE

- Establishment of related manuals and STP evaluation indicators, revision of standard tillage methods, etc.

¹⁾ Non Tobacco Related Material

Creating a Sustainable Agricultural Ecosystem

Supply chain sustainability management is a key issue for KT&G's pursuit of creating an industrial ecosystem and an essential item in the implementation of our mid- to long-term business strategy. KT&G is therefore making various efforts to strengthen the sustainable competitiveness of our partners in the supply chain of the global tobacco industry. In particular, we are promoting the introduction of the Sustainable Tobacco Program (STP) for overseas leaf tobacco suppliers and domestic leaf tobacco farmers to support the sustainable agricultural operations of farmers who supply leaf tobacco, a core raw material for our tobacco business.



Based on KT&G's long-standing philosophy of being a "Inclusive Company," we are engaging with our stakeholders to create a new future for sustainable agriculture.

KT&G is closely connected to the agriculture-based primary industry, including the purchase of leaf tobacco, and its dependence on natural capital is higher than other industries, making supply chain sustainability management crucial. Accordingly, KT&G has been striving to achieve a global top-tier level of "leaf ESG" practices, starting with joining the global Sustainable Tobacco Program (STP) in 2022. In addition, we are creating value of "growing together" by focusing on supply chain sustainability management, including contributing to the realization of sustainable agriculture and improving the quality of life of domestic leaf tobacco farms.



Kim, Jung-ho
Chief of SCM HQ, KT&G

STP is a platform jointly developed by global tobacco manufacturers and third-party consulting agencies to assure standards in environmental and social responsibility, promote sustainable tobacco production, and minimize negative impacts during the cultivation process. KT&G purchases all domestically produced tobacco leaves, and in terms of sourcing foreign tobacco leaves, we began to fully implement the STP by starting to purchase tobacco leaves from farms certified by the GAPC (Good Agricultural Practices Connection program)¹⁾ in 2022. As of 2023, we purchase approximately 99.4% of foreign tobacco leaves from suppliers who have joined the STP.

Although domestic tobacco leaf farms do not account for a large proportion of KT&G's total tobacco leaf purchases, we are actively promoting the adoption of STP for the sustainable development of domestic tobacco leaf farms. KT&G created the Domestic Leaf Tobacco Production STP Guidelines, a self-management program, to inform farmers about STP through monitoring and education, and in 2023, we created the Domestic Leaf Tobacco Production STP Monitoring Index Handbook and conducted monitoring on 340 items across four areas - Crop, Environment, and People (Labor, Human Rights). In 2024, we plan to expand the number of farms subject to monitoring and conduct intensive training on areas identified for improvement based on evaluation results. In the mid- to long-term, KT&G aims to enhance cultivation methods for sustainable tobacco leaf production through R&D and consulting.

In addition to the leaf tobacco farms who have already been monitored, we will expand the scale of monitoring by selecting new farmers, and provide intensive training (KT&G regular training, collective training targeting farmers in Korea Tobacco Growers Organization, etc.) to focus on areas that were not met in the previous year's assessment.

In the mid- to long-term, in collaboration with R&D HQ, we will also provide professional consulting advice and improvement activities, including upgrading the standard farming methods of our direct contract farms through strategic projects such as domestic farming management and raw material improvement research for sustainable raw leaf tobacco production.

KT&G aims to ensure that 100% of the leaf tobacco farms we do business with participate in the STP by 2030, and through these efforts, we expect all raw material producers and partners involved in the process to manage their social and environmental impacts, fulfill their ethical responsibilities, and contribute to creating a sustainable industrial ecosystem together with KT&G.

 Please refer to the "Building a Sustainable Business Ecosystem: Sustainable Agriculture" of this report to find detailed information.



¹⁾ A Tennessee-based service company that conducts a third-party audit on the cultivation, environmental, and labor of U.S. growers.

KT&G Sustainability Disclosure

CLIMATE

GOVERNANCE

1. Decision-making Body

- (1) Decision-making Body and Responsibility Policy
- (2) Determining and Developing Competencies for Management/Supervision
- (3) Method and Frequency of Acquiring Information Related to Risks and Opportunities
- (4) Method of Considering Climate-related Risks and Opportunities in the Major Decision-making Process
- (5) Management/Supervision of Goal-Setting and Progress

2. Top Management

- (1) Delegation of Climate-related Management/Supervision Roles
- (2) Top Management's Use of Control and Procedure

STRATEGY

1. Climate-related Risks and Opportunities and Types

- (1) Estimating Risk and Opportunity Impact Based on Time Horizon
- (2) Time Horizon of Impact of Identified Risks and Opportunities
- (3) Connection between Strategic Decision-making Plan Periods

2. Business Model and Value Chain

- (1) Current and Anticipated Impact on the Business Models and Value Chain
- (2) Areas Where Risks and Opportunities are Concentrated

3. Strategy and Decision-making

- (1) Response to Risks and Opportunities, and Plan
- (2) Resource Procurement Plan
- (3) Quantitative and Qualitative Information on the Progress of Plans Disclosed in Past Reporting Periods

4. Financial Position and Financial Performance Impact

- (1) Carbon Pricing System's Impact on Financial Statements
- (2) Impact of Consumer Preference for Eco-friendly Low-carbon Products on Financial Statements

5. Climate Resilience

- (1) Implications of Company Assessment on Strategy and Business Model
- (2) Climate-related Scenario Analysis Method

RISK MANAGEMENT

1. Climate-related Risk and Opportunity Management Process (identify, assess, prioritize, and monitor)

- (1) Inputs and Parameters
- (2) Identification of Climate-related Risks and Opportunities
- (3) Climate-related Risk and Opportunity Assessment Method
- (4) Level of Priority of Climate-related Risks and Opportunities When Compared to Other Sustainability Risks
- (5) Monitoring of Climate-related Risks and Opportunities
- (6) Changes in the Risk Management Process

2. Integration with the Company-wide Risk Management System

METRICS AND TARGETS

1. Climate-related Metrics

- (1) Greenhouse Gas
- (2) Assets or Business Activities Vulnerable to Climate-related Transition Risks
- (3) Assets or Business Activities Vulnerable to Climate-related Physical Risks
- (4) Assets or Business Activities Aligned with Climate-related Opportunities
- (5) Capital Deployment
- (6) Internal Carbon Price
- (7) Compensation (Management)
- (8) Industry-based Metrics

2. Climate-related Targets

- (1) Information Related to Metrics Used to Set the Targets (Target Metric, Objective, Application Scope, etc.)
- (2) Method of Monitoring Progress towards the Target
- (3) Analysis of Performance against Target
- (4) Information on GHG Emissions Reduction Target



I.

II.

III.

IV.

I. KT&G SUSTAINABILITY DISCLOSURE – [CLIMATE]

II. CLIMATE-RELATED FINANCIAL DISCLOSURE

• The reporting period of this report is based on Jan 1, 2023 to Dec 31, 2023. In case of some activities, including the status of the BOD and Sustainability Committee, information through June 2024 was reflected to provide timely information.

• In writing this report, KT&G uses judgments, estimates, and assumptions that impact the identification of sustainability-related risks and opportunities, evaluation, etc. This is based on KT&G’s reasonable assumptions, estimations, and expectations based on the report creation date, and thus accompanies known or unknown material risks and uncertainties. The actual results of predictions, forecasts, and estimates may be different from what was originally estimated in important matters. KT&G believes that the anticipations reflected in future forecast statements are reasonable but cannot guarantee that they are completely right. We ask for your understanding that this report cannot be used as evidence, etc. for legal responsibility in relation to investors’ investment results under any circumstances.

Governance

1. Decision-making Body

(1) Decision-making Body and Responsibility Policy

The Sustainability Committee¹⁾ under the BOD is a decision-making body in relation to sustainability, including climate change. It establishes execution strategies for sustainability management of KT&G and subsidiaries that are subject to consolidation and has the authority to manage/supervise approval and implementation of policies.

Before the establishment of the Sustainability Committee, the overall BOD reviewed the establishment of mid- to long-term environmental management strategies (April 2021). The Sustainability Committee under the BOD reviewed climate change scenario-based risks and opportunities in April 2023, and decided on mid- to long-term goals on responding to climate change at the Group level in August 2023. Through the Audit Committee, which consists only of independent directors, KT&G examines the status of company-wide risk management. The audit planning team, which is an independent organization under the Audit Committee, examined the status of ESG management implementation, including climate change issues, in 2022 and reported the results to the Audit Committee.

By doing so, we are striving to have ESG issues, including climate-related issues, be essentially reflected in KT&G’s establishment of strategies, governance, and overall corporate responsibility. Please refer to the “Metrics and Targets: (7) Compensation (Management)” for information on the compensation policy for top management, which is responsible for supervising climate-related risks and opportunities.

(A) Management/Supervision roles and mandates

| Category | Sustainability Committee Operation Regulations | KT&G Environmental Management Policy |
|---------------------------------------|----------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|----------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|
| Scope of authority and responsibility | <p><u>Article 4 (Committee Authority)</u></p> <p>① Matters that shall be deliberated/decided by the Committee are as follows:</p> <ol style="list-style-type: none"> 1. Establish basic policies and strategies on sustainability management 2. Set mid- to long-term goals of sustainability management | <p><u>Scope of responsibilities</u></p> <p>At KT&G, the Sustainability Committee, which is a board committee, reviews execution strategies in the environmental area and the direction of response to major issues, and manages and supervises execution outcomes.</p> |

¹⁾ The name of the “ESG Committee” was changed to the “Sustainability Committee” as of December 7, 2023

(B) Management and supervision system of the BOD

To take responsible responses to climate change, KT&G established the Sustainability Committee under the BOD and strengthened its governance system. The Sustainability Committee supervises ESG and climate change-related issues and risks, reviews the company’s response strategies and policies, and monitors operational outcomes and progress. We are actually implementing climate change response strategies by operating the ESG Management Office within the Strategy Division and company-wide ESG taskforce. Each subsidiary runs an ESG Taskforce Council by company, thereby taking part in responding to climate change.



(C) Composition of the Sustainability Committee (as of April 2024)

| Category | Name | Position | Director appointment date ¹⁾ | Gender |
|----------------------|-----------------|-------------|-----------------------------------------|--------|
| Independent Director | Lee, Jee-hee | Chairperson | Mar. 30, 2022 | Female |
| Independent Director | Shon, Dong-hwan | Member | Mar. 29, 2024 | Male |
| Executive Director | Bang, Kyung-man | Member | Mar. 20, 2021 | Male |

¹⁾ Served as an executive director from the following day of the 34th annual general meeting (Mar 19, 2021) to the 37th annual general meeting (Mar 28, 2024). He was appointed as the new CEO at the 37th annual general meeting (Mar 28, 2024).

(D) Criteria for convening the Sustainability Committee

| Category | Content |
|-----------------|-------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|
| Operation cycle | At least twice a year (the chairperson convenes the Committee whenever necessary based on the chairperson’s authority or the working-level organization directly introduces agenda) |

I. KT&G SUSTAINABILITY DISCLOSURE - [CLIMATE]

II. (2) Determining and Developing Competencies for Management/Supervision

KT&G determines that it has the appropriate competencies necessary to supervise strategies that are aimed at responding to climate-related risks and opportunities based on an understanding of environmental management and leadership as well as sufficient understanding of climate-related international community demands and laws/regulations related to energy/GHG. As a process to determine whether these criteria are met, we use the "KT&G Board Skills Matrix," which is a BOD evaluation matrix, when choosing a new director candidate. Of the eight evaluation indexes of BSM, sustainability skill is defined as "helping the company achieve sustainable growth and contributing to the management and supervision of ESG-related risks and opportunities." By reflecting this in director candidate evaluation, we are judging whether a director has appropriate sustainability management-related experience and expertise.

(A) KT&G Board Skills Matrix

Independent director Lee, Jee-hee is a consumer goods industry expert who accumulated diverse experiences at international organizations and groups related to sustainability management, including the Women Corporate Directors (2022-2023). She has been a member of the Sustainability Committee since 2022 and has been the chairperson since May 2024. Executive Director Bang, Kyung-man established the ESG Committee within the BOD at the time he served as the Chief of Strategy Division (2020-2022). By creating and operating an organization dedicated to ESG under direct control of the Chief of Strategy Division, he directed ESG management and managed and supervised risks and opportunities related to sustainability, including climate change.

| Experiences & Expertise | Shon, Kwan-soo | Kim, Myung-chul | Koh, Yun-sung | Lee, Jee-hee | Kwak, Sang-wook | Shon, Dong-hwan | Bang, Kyung-man (CEO) |
|-----------------------------------|-------------------------------|------------------------------------|------------------------------------|----------------------------|------------------------|---------------------------------------------|----------------------------|
| Senior Executive Leadership (6/7) | ● | ● | | ● | ● | ● | ● |
| Manufacturing/Supply chain (1/7) | ● | | | | | | |
| Finance/Accounting (3/7) | | ● | ● | | | | ● |
| Risk Management (3/7) | ● | ● | | | | | ● |
| Global Business (4/7) | ● | ● | | ● | | | ● |
| Sustainability (2/7) | | | | ● | | | ● |
| Consumer Industries (3/7) | ● | | | ● | | | ● |
| Legal Regulatory (3/7) | | | ● | | ● | ● | |
| Tenure | Mar. 30, '22 - '25 AGM | Mar. 29, '23 - '26 AGM | Mar. 29, '23 - '26 AGM | Mar. 30, '22 - '25 AGM | Mar. 29, '24 - '27 AGM | Mar. 29, '24 - '27 AGM | Mar. 29, '24 - '27 AGM |
| Independence (86%) | ● | ● | ● | ● | ● | ● | |
| Committee | Governance, Management, Audit | Evaluation and Compensation, Audit | Evaluation and Compensation, Audit | Governance, Sustainability | Governance, Audit | Evaluation and Compensation, Sustainability | Management, Sustainability |
| Gender (Female ratio: 14%) | Male | Male | Male | Female | Male | Male | Male |

(B) Measures to strengthen competencies

To improve directors' management/supervision competencies KT&G provides relevant training. We determine the level at which competencies were strengthened by performing a BOD evaluation every year. Director Lee, Jee-hee, who is the chairperson of the Sustainability Committee, is taking relevant courses at Seoul National University to strengthen her competencies in responding to ESG issues, including climate change.

| Date | Trainee | Content |
|-------------------------------|--------------|-----------------------------------------------------------------------|
| Apr. 09, 2024 - Nov. 26, 2024 | Lee, Jee-hee | Seoul National University ESG Management Executive Leadership Program |

(3) Method and Frequency of Acquiring Information Related to Risks and Opportunities

The Sustainability Committee receives mainly from the ESG Management Office in the Strategy Division information that is required to manage/supervise climate-related risks and opportunities. When a Sustainability Committee meeting is held, the ESG Management Office provides reports and various materials beforehand so that committee members can sufficiently understand agenda content and make decisions. The Sustainability Committee can receive outside expert advice, if needed, with company funds.

(A) Method and frequency of reporting to the decision-making body

KT&G reports agenda on climate-related risks and opportunities to the BOD or Sustainability Committee in accordance with the Board of Directors Regulations. Matters decided on by the Committee are notified to each director within three days from the resolution date.

| Target | Sustainability Committee | BOD |
|----------------------|--------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|---------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|
| Main agent | Head of ESG Management Office | Chairperson of the BOD Committee |
| Frequency and timing | <ul style="list-style-type: none"> At least twice a year When a Sustainability Committee meeting is held, each member expresses his/her opinion and makes a resolution on discussed agenda | <ul style="list-style-type: none"> At least twice a year Make a notice to each director rather than the Committee within three days from the Sustainability Committee resolution date |
| Main content | <ul style="list-style-type: none"> Agenda related to sustainability, including climate-related risks and opportunities | <ul style="list-style-type: none"> Deliberation/resolution results of agenda related to sustainability, including climate-related risks and opportunities |

I. KT&G SUSTAINABILITY DISCLOSURE – [CLIMATE]

(B) Major status on acquisition of relevant information during the reporting period

| Date | Agenda content | Relevant information |
|---------------|--------------------------------------------------------------------------------------------------|---------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|
| Jan. 13, 2023 | 2023 ESG management implementation plan | <ul style="list-style-type: none"> Global ESG trends and outlook, including climate crisis response disclosures Disclosure of information related to reducing carbon emissions and shareholder engagement trends in relation to climate change response strategies Status of internal execution system activities in relation to climate change response, and quantitative performance of climate-related indexes 2023 climate-related goals and key execution plan |
| | Plan to advance climate change response disclosures | <ul style="list-style-type: none"> Global disclosure changes, such as disclosure of information related to climate change response and compliance with regulations Company's progress with responding to climate change Climate change scenario-based risk evaluation results and future direction of advancement |
| Aug. 03, 2023 | ESG materiality assessment and establishment of mid- to long-term ESG goals of the Group (draft) | <ul style="list-style-type: none"> 2023 materiality assessment plan and results (identify material issues including climate change) Establish the Group's mid- to long-term climate change response goals (GHG reduction rate, renewable energy usage rate) Major global initiatives related to responding to climate change |
| | Establishment of an ESG policy (draft) | <ul style="list-style-type: none"> Major policy content related to climate change response that is in line with global standards |
| May 09, 2024 | 2024 ESG management implementation plan (draft) | <ul style="list-style-type: none"> Global ESG trends, including the climate crisis and financial impact disclosures Major performance in 2023, including progress with implementing the Group's ESG goals (including climate change response) 2024 climate-related goals and key execution plan, including advancement of net-zero strategy 2024 materiality assessment plan and results (identify material issues including climate change) |

(4) Method of Considering Climate-related Risks and Opportunities in the Major Decision-making Process

(A) How climate-related risks and opportunities are considered

Monitoring of climate-related risks and opportunities of KT&G and its subsidiaries that are subject to consolidation takes place through regular holding of the Sustainability Committee. The BOD deliberates/decides on matters that accompany large-scale facility investments, etc.

(B) Major agenda that considered the climate-related risk and opportunity aspect during the reporting period

| Category | Date | Approval status | Major agenda content | Considerations for climate-related risks and opportunities |
|--------------------------|---------------|-----------------|------------------------------------------------------------------------------------------|-------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|
| BOD | Jan. 18, 2023 | Approval | Approval for investment in KT&G's Kazakhstan Manufacturing Cooperation (draft) | Establish production execution systems, such as the Manufacturing Execution System (MES), and energy management system |
| | Mar. 16, 2023 | Report | Change the budget for the new printing factory construction project | (Build an ESG infrastructure) Establish photovoltaic power generation, secure water augmentation facility, and apply an energy management system, etc. to realize the environmental management vision |
| Sustainability Committee | Apr. 13, 2023 | Report | 2023 ESG management implementation plan | Company-wide ESG management implementation plan, action plan to respond to climate disclosures and alleviate/adapt to climate change, outcome |
| | | Report | Plan to advance climate change response disclosures | Setting of KT&G's climate change scenario, results of scenario-based risk evaluation, and future advancement task |
| | Aug. 03, 2023 | Approval | ESG materiality assessment and establishment of mid-to long-term Group ESG goals (draft) | Establish Group-level mid- to long-term climate change response goals (GHG reduction rate, renewable energy usage rate) |
| | | Approval | Establishment of an ESG policy (draft) | Discuss major climate change response policies that are in line with global standards |
| | May 09, 2024 | Approval | 2024 ESG management implementation plan (draft) | Company-wide ESG management implementation plan, action plan to respond to climate disclosures and alleviate/adapt to climate change, outcome |

I. KT&G SUSTAINABILITY DISCLOSURE – [CLIMATE]

II. (5) Management/Supervision of Goal-Setting and Progress

Through the Sustainability Committee, KT&G manages and supervises the setting of goals to respond to climate-related risks and opportunities and the progress. In August 2023, the Sustainability Committee reviewed and decided on Group-level mid- to long-term goals based on Science Based Targets initiative (SBTi) guidelines. Please refer to “Metrics and Targets: [2. Climate-related Targets](#)” to find detailed information about each target. In addition, the Sustainability Committee manages progress and performance through regular monitoring of the established goals.

To clarify the top management’s responsibilities regarding climate change response, KT&G connects sustainability performance that includes climate-related response with executive director’s compensation based on KT&G’s Executive Director’s Compensation Policy. Based on the results of evaluating the top management’s performance through the Evaluation and Compensation Committee, which is a board committee, we reflect in the executive director’s bonus the level of performance compared to the pre-established goals every year.

(A) Results of managing/supervising goal-setting and progress

| Category | Date | Content |
|---------------------------|---------------|-------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|
| Manage/supervise progress | Apr. 13, 2023 | • Performance in reducing the Group’s GHG emissions in 2022 compared to 2020, status of achieving renewable energy goals, etc. |
| Goal-setting | Aug. 03, 2023 | • Group’s climate change response goal for Year 2030 - GHG reduction rate from 2020: 42% - Renewable energy usage rate: 80% • Achieve the Group’s Scope 1, 2, and 3 net-zero by 2050 ¹⁾ |
| Manage/supervise progress | May 09, 2024 | • Performance in reducing the Group’s GHG emissions in 2023 compared to 2020, status of achieving renewable energy goals, etc. |
| Goal-setting | May 09, 2024 | • Achieve the Group’s Scope 1, 2, and 3 net-zero by 2045 |

¹⁾ The target year was changed from 2050 to 2045 on May 9, 2024

(B) Compensation regulations and target

The KT&G executive director’s compensation (short-term and long-term incentives) is determined based on comprehensive evaluation results that include the outcomes of advancing ESG management and practicing ESG management. This compensation system provides strong motivation to the executive director to achieve ESG goals, which include responding to climate change. In April 2024, we raised the ESG index weight from 5% to 10% when setting short-term management goals for the executive director. In particular, an index on reducing GHG emissions to implement the Group’s low-carbon transition strategy was more directly reflected in long-term management goals, thus reorganizing the compensation system so that actual climate change response outcomes can be generated. In addition, the short-term management goals reflect major global ESG evaluation organizations’ evaluation results, including the Carbon Disclosure Project (CDP), to enhance the ability to execute climate change response that meets global standards.

Furthermore, KT&G operates a stock compensation system linked with performance for the top management, including the executive director, and executives. Some of the incentives are paid in stocks. The value of the top management’s compensation changes according to the stock price at the time of stock payment. In case of long-term incentives for the executive director, we apply a method of stock payment on the condition of restricted transfer, through which a certain settlement of a right period is assigned and a three-year deferred payment method is applied so that shareholder value and the compensation system are connected from a long-term perspective.

This approach encourages the top management, including the executive director, to more actively implement management policies that enhance the company’s mid-to long-term value by strengthening response to climate change and sustainability issues and performs the role of enhancing their commitment towards responsible management. In addition, an incentive redemption clause regarding intentional fraudulent accounting and distortion of evaluation materials is included in the Executive Director’s Compensation Policy, thereby enhancing soundness of executive director performance compensation.

| Category | Content | | | |
|-------------------------|------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|-----------------------------------------------------------|-----------------------|-------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|
| Compensation rule | <ul style="list-style-type: none"> • Salary: A basic annual income is determined through a BOD resolution in consideration of position and responsibilities/roles of entrusted work, etc. in accordance with the Executive Director’s Compensation Policy. It can be adjusted by a BOD resolution if such is determined as needed in accordance with management conditions and changes. • Incentives: A short-term incentive is provided every year and a long-term incentive is provided every three years based on management performance evaluation results according to the Executive Director’s Compensation Policy. <ul style="list-style-type: none"> – Short-term incentive: This incentive is paid after a BOD resolution by reflecting target evaluation results every year. By putting together quantified indexes and non-quantified indexes for major matters of the corresponding year, this incentive is paid within the base pay’s 0-280% (president) and 0-165% (executive director) range. – Long-term incentive: This incentive is paid after a BOD resolution by reflecting the results of a comprehensive evaluation on long-term management performance (3 years). By putting together quantified indexes for major management matters, this incentive is paid within the base pay’s 0-600% (president) and 0-300% (executive director) range. We operate a stock compensation system linked with performance to promote top management’s responsible management and maximize shareholder value. Of the long-term incentives of executive directors, including the CEO, stock compensation is paid as stocks with limited transfer conditions. • Benefits: Medical examination expenses, accident insurance, etc. are covered in accordance with the Executive Director’s Compensation Policy. | | | |
| | • Executive Director (as of April 2024) | | | |
| Corresponding personnel | Name | Position | Type of compensation | Measurement standard and method |
| | Bang, Kyung-man | CEO (BOD, Management Committee, Sustainability Committee) | Earned income (bonus) | <ul style="list-style-type: none"> – Short-term incentive: A comprehensive evaluation is performed on quantified indexes that include revenues, operating profit, and ESG evaluation results, and non-quantified indexes that include advancement of ESG management, strengthening of key growth businesses, advancement of business foundation, and expansion of business portfolio. In particular, in the ESG management advancement items, an evaluation is carried out on execution performance in responding to climate change at the company-wide level, establishment of the Group’s mid- to long-term net-zero strategies, establishment of a response system, etc. – Long-term incentive: An objective evaluation is carried out on quantified indexes that include revenues, operating profit, ROE, ESG task results, TSR, etc. In particular, the GHG reduction rate is chosen as one of the ESG task results to assess execution of climate change management. <p>The company assigns to the top management climate change response responsibilities in short- and long-term performance indexes.</p> |

I. KT&G SUSTAINABILITY DISCLOSURE – [CLIMATE]

II. 2. Top Management

(1) Delegation of Climate-related Management/Supervision Roles

The Sustainability Committee entrusted top management with the responsibility to manage/supervise climate-related risks and opportunities. KT&G's CEO manages/supervises execution of climate change strategies, and oversees the company's climate change-related management activities.

(A) ESG Management Council

This Council consists of C-level executives of all business divisions and supports top management's decision-making. It holds discussions to strengthen climate change response and continually communicates about issues that arise in the business execution process. Based on what was discussed at the ESG Management Council, the top management makes decisions on ESG issues from an integrated company-wide perspective.

(B) Strategy Division

The Chief of Strategy Division, who is KT&G's CSO and CFO, performs the role of reviewing and managing KT&G's ESG issues, including climate-related issues, major financial plans, investments, and budgets. By simultaneously fulfilling two important responsibilities, the Strategy Division Officer performs reviews so that ESG issues and financial issues are interconnected for discussions. The Chief of Strategy Division also receives reports on major climate-related strategies and performance from the ESG Management Office, which is the ESG management control tower, and examines the progress of executing detailed tasks.

(C) Execution organization

KT&G's top management operates the Energy Environment Department under Manufacturing HQ to support the supervision of climate-related risks and opportunities. The Energy Environment Department tallies and manages the company's climate performance based on the mid-to long-term environmental management goals. It implements activities to minimize climate impact through the establishment and implementation of detailed strategies such as switching to renewable energy, improving energy efficiency, expanding water reuse, and minimizing waste to landfills. We also designate an environmental performance officer in each organization (HQs in head office, plants, regional sales offices, etc.) to implement tasks through organic collaboration with the Energy Environment Department.

KT&G has been operating the Industrial Regulation Compliance Operating System to systematically manage environmental regulations and compliance. The system consists of a total of 23 laws across four key areas encompassing safety, material management, environment, and energy related to plant operations; monitoring and updating laws and regulations on 130 items; self-audit for regulatory compliance; and reminder of implementation at the end of the implementation cycle.

(D) Outside advisory group

The Energy Environment Working Group, which is a working-level council, uses an outside advisory group that consists of consultants, investment analysts, professors, and others to monitor climate-related risks and opportunities to support the top management's supervision of climate-related risks and opportunities. Through a climate scenario analysis, the outside advisory group reviewed factors related to transition and physical risks.

(2) Top Management's Use of Control and Procedure

KT&G examines the status of company-wide risk management through the Audit Committee, which consists of non-executive directors. The audit planning team under the Audit Committee performs independent internal audits on ESG management implementation matters. Internal audit results are reported to the Audit Committee and top management. Within a month after a notice is sent on audit results, the relevant field department submits to the audit planning team an improvement plan for matters that were pointed out after the audit. The audit planning team periodically examines if measures were executed for the matters and reports the results to the Audit Committee once a year. Selection of an internal audit topic is based on the audit planning team's own risk evaluation when an annual audit plan is established.

When risks are evaluated, we comprehensively consider opportunities, risks, regulation changes, and others. In 2022, we reviewed appropriateness of the overall ESG management system and reviewed the execution status of short- and mid- to long-term ESG-related tasks, such as response to climate change and ways to achieve mid- to long-term environmental goals. In 2023, we performed a focused review of whether efforts are being made to implement environmental management by reducing wastes in relation to achieving our environmental vision – KT&G Green Impact. Moving forward, we will make continuous efforts to examine company-wide ESG management implementation levels and the progress of mid- to long-term ESG-related tasks, and also examine roles and responsibilities that were assigned to major organizations.



I.

II.

III.

IV.

KT&G SUSTAINABILITY DISCLOSURE – [CLIMATE]

Strategy

1. Climate-related Risks and Opportunities and Types

KT&G and its subsidiaries that are subject to consolidation referred to SASB disclosure topics in the step of identifying climate-related risks and opportunities that can be reasonably estimated to have an impact on the company's outlook. For the business model, we referred to the disclosure topics such as "tobacco" and "processed foods" in the food and beverage category. For the value chain, we referred to such disclosure topics as "agricultural products" in the food and beverage category, and "containers packaging" in the resource transformation category, and "chemicals."

(1) Estimating Risk and Opportunity Impact Based on Time Horizon

KT&G performed a materiality assessment on climate change risks and set priority in consideration of the possibility of occurrence and size of impact for all climate change risks. Of the total 21 climate change risks, we described eight climate change risks and three climate change opportunities that recorded a relatively high ranking by major area.

| Category | Risk and opportunity categorization | Description | Short-term | Mid-term | Long-term | |
|---------------|-------------------------------------|---------------------------------------------------------------------------------------------|----------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|----------|-----------|--------|
| Transition | Policy and legal | Carbon pricing system | The government or an international organization charges a price for carbon emissions to facilitate GHG reduction. This raises the cost of carbon emissions that arise in KT&G's tobacco manufacturing process and raw material supply process, and can lead to an increase in production costs and weakened product price competitiveness. In addition, additional costs may arise to reduce carbon emissions in the raw material procurement and processing process for manufacturing health functional food. | Medium | High | High |
| | Markets | Rise in raw material costs | Due to climate change response policies and regulations, raw material supply and demand may become unstable for tobacco leaves and health functional food, which are our main raw materials, which may in turn lead to a rise in procurement costs. This can have a direct impact on KT&G's product manufacturing costs, causing weakening of price competitiveness. | High | High | High |
| | Reputation | Prejudice against the business area | Negative social perception of the tobacco industry may be combined with climate change issues to have a negative impact on KT&G's reputation. | Medium | Medium | Medium |
| Physical | Acute | Rise in stakeholder concerns or negative views | Insufficient measures taken to respond to climate change may decrease the sense of stakeholder trust, including investors, customers, and government officials, which can have a negative impact on KT&G's business continuity. This can especially have an adverse impact on company evaluations and investment attraction in the global market. | Medium | Medium | Medium |
| | | Cyclone, hurricane | Extreme weather that accompanies strong winds and heavy rainfall may cause damage to KT&G's domestic and overseas manufacturing plants and logistics facilities, and may increase the risk of stoppage of production and supply chain. In case of tobacco products, significant damage may be caused to leaf tobacco-producing areas. Also, there may be setbacks in the supply of raw materials for health functional food. | Medium | Medium | Medium |
| | Chronic | Heavy rainfall and flood | Localized heavy rain and flood increase the risk of business site flooding and operation stoppage as well as damage to major infrastructure. This can have an impact on KT&G's continuous production and product supply. In particular, damage to a raw material storage facility or logistics center can trigger supply setbacks. | High | High | High |
| | | Temperature change | A rise in average temperatures reduces agricultural productivity of tobacco plantations and leads to changes in energy consumption patterns. This has an impact on KT&G's raw material supply and operational costs. Changes in the yield and cultivation regions, etc. of plants and agricultural products, which are raw materials of health functional food, may lead to instability in supply and demand as well as lower quality. | Medium | Medium | High |
| Opportunities | Products and services | Water shortage | If availability of water resources goes down owing to changes in rainfall patterns and an increase in drought that are caused by climate change, this directly impacts KT&G's production activities. In particular, restricted use of water in the raw material processing and manufacturing process may lower production efficiency. | Medium | Medium | High |
| | Resilience | Consumer preference for eco-friendly, low-carbon products | New market opportunities can be seized ahead of others and corporate competitiveness can be enhanced by expanding low-carbon and eco-friendly product development and sales. By launching products that applied eco-friendly packaging and non-plastic cigarette filters, sustainability can be developed into key competitiveness. This creates the company's growth engine by discovering new business opportunities while actively responding to a rise in consumer demand for eco-friendly products. | Medium | High | High |
| | Resource efficiency | Secure key competitiveness by strengthening the ability to respond to climate change risks | Strengthened ability to respond to climate change is expected to lead to a rise in corporate value over the long term as a result of enhanced sustainability and key competitiveness of KT&G. In particular, we can expect stable business operations by establishing a sustainable raw material supply chain and overhauling a disaster response manual to respond to climate risks. | Medium | Medium | High |
| | | Reduce operational costs by expanding low-carbon facilities and renewable energy facilities | By improving energy efficiency and increasing use of renewable energy, KT&G can reduce operational costs while fulfilling environmental responsibilities. For example, installation of photovoltaic panels can curtail energy costs and reduce GHG emissions. | Medium | Medium | Medium |

I. KT&G SUSTAINABILITY DISCLOSURE – [CLIMATE]

II. (2) Time Horizon of Impact of Identified Risks and Opportunities

KT&G defines the time horizon in which it expects climate-related risks and opportunities to arise as follows.

| Time horizon | Target period | Target period based on current term |
|--------------|-------------------------------------------|-------------------------------------|
| Short-term | 1 year | - 2024 |
| Mid-term | More than 1 year and no more than 5 years | 2025 - 2028 |
| Long-term | More than 5 years | 2029 - |

III. (3) Connection between Strategic Decision-making Plan Periods

KT&G's strategic decision-making takes place through establishment of a business plan (3 years) and establishment and review of a mid- to long-term vision (5 years). This is in consideration of the major Group business portfolio's market change cycle, new product R&D period, etc. Climate-related risks and opportunities are considered in overseas trend analysis and internal status diagnosis in the plan-establishing process.

IV. 2. Business Model and Value Chain

(1) Current and Anticipated Impact on the Business Models and Value Chain

According to the nature of the business that KT&G and its subsidiaries that are subject to consolidation engage in, KT&G categorizes its business models into the "tobacco area" that runs the business of manufacturing and selling cigarette products and the next-generation e-cigarette HNB, etc., the "health functional area" that runs the business of manufacturing and selling red ginseng and non-red ginseng health functional food, etc., the "real estate area" that runs the business of real estate development and lease, and the "other area" that runs the business of R&D, manufacturing, sales, etc. of drugs/cosmetics. Each business model's value chain includes used and dependent interactions, resources, and relationships for KT&G to produce the company's products or services, ranging from product planning to shipment, consumption, and end of life.

In relation to the expected strategy-1-(1) time horizon-based risk and opportunity impact, KT&G identified sustainability-related risks and opportunities in the "tobacco area" and "health and function area." The "tobacco area" and "health functional area" business model is ① product and technology R&D, ② production and manufacturing of outputs, and ③ sales and marketing, and value chain activities are ① purchase of inputs, including raw materials/materials, in the upstream, ② distribution and transport of inputs and outputs, and ③ use and disposal of sold products in the downstream.

(A) Transition risk: Carbon pricing system

If carbon prices surge or stricter and enhanced carbon pricing regulations are implemented, it could lead to a significant risk of increased operating costs based on greenhouse gas (GHG) emissions. In addition, there may be indirect increases in carbon costs across the entire value chain, including partners, supply networks, and distribution networks. The carbon pricing system transition risk mainly impacts purchase of inputs, including raw materials/materials, and production and manufacturing from among KT&G's business models and value chain.

| Activity | Current | Anticipated |
|-------------------------------------------------------|------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|-------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|
| Purchase of inputs, including raw materials/materials | Farms, which are a major raw material supply chain, are not directly subject to regulations. Also, a low percentage of materials suppliers, which are mostly located in Korea, are directly subject to regulations. | Expansion of carbon emissions regulations is expected to result in the inclusion of carbon emissions costs throughout all value chain processes, including raw materials, production, and distribution, including raw material suppliers. We expect indirect carbon cost increases in the overall value chain, including partner companies, supply chain, and distribution network. |
| Production and manufacturing | KT&G is subject to allocation of GHG emissions allowances and is subject to the emissions trading system's emissions regulations. As such, low-carbon facilities and renewable energy facilities continue to be expanded with a focus on KT&G. | There is a higher possibility of an increase in allowance and carbon prices as a result of each country's strengthened GHG reduction policy on manufacturing business sites and facilitation/adoption of the carbon credit trading market. There will likely be an increase in corporate input of resources to transition to a low-carbon production system. |

(B) Transition opportunity: Consumer preference for eco-friendly, low-carbon products

A change in consumer preference toward eco-friendly, low-carbon products can become a risk to KT&G product demand but can also become an opportunity to enhance the company's reputation and increase market share by developing alternatives. We can strengthen our technological competitiveness by carrying out R&D on materials that can reduce carbon and securing patents, and generate additional profits through new product launch and licensing.

The adoption of such materials creates new business opportunities, gives concrete shape to sustainable growth strategies, and can strengthen competitiveness in the global market. In detail, we can continually launch innovative products and lead the market based on technology patents and the ability to manufacture carbon reduction products. Accordingly, increased consumer preference for eco-friendly, low-carbon products mainly impacts product and technology R&D from among KT&G's business models and value chain.

| Activity | Current | Anticipated |
|----------------------------|-------------------------------------------------------------------------------------------------------------------------------|------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|
| Product and technology R&D | We have been carrying out R&D since 2013 to develop eco-friendly materials, including non-plastic and biodegradable materials | Amid an expansion of the eco-friendly, low-carbon product market, products' eco-friendliness is forecast to act as a factor that impacts the company's brand image. As the importance of developing products and technologies that apply environmental factors gains more emphasis, relevant R&D costs are expected to rise. |

I. KT&G SUSTAINABILITY DISCLOSURE – [CLIMATE]

(C) Physical risk

Climate change is associated with changes in weather patterns and crop cultivation seasons, which can impact the production and cost of crop raw materials, such as leaf tobacco. Furthermore, it may result in reduced quality or quantity of tobacco leaves and intensified competition for resources, leading to higher costs. If these factors cumulatively lead to an unstable supply situation for raw materials, it can escalate production costs, negatively affecting KT&G’s profitability and overall financial performance. Physical risk mainly impacts purchase of inputs, including raw materials/materials, and production and manufacturing from among KT&G’s business models and value chain.

| Segmentation | Current | Anticipated |
|----------------------------------------------------------|---------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|-------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|
| Procurement of inputs, including raw materials/materials | The supply chain of major raw materials, which are tobacco leaves, ginseng, and crops, is currently stable. However, ginseng is a half-shade plant that grows well in cool weather, and its cultivation areas are steadily moving north due to climate change which may lead to relocation of farmlands and changes in yield. Accordingly, we are carrying out climate response activities, such as researching new varieties to respond to the climate disaster and developing sun shading facilities. | Temperature changes impact tobacco plant growth and can potentially lead to a decrease in yield or changes in geographical locations that are suitable for cultivation. This may cause setbacks in procuring high-quality raw materials. |
| Production and manufacturing | There are no cases where water accessibility led to a setback in production activities. However, as a result of water risk analysis of WRI, the Daejeon Plant and Türkiye Plant were categorized as relatively high water stress risk regions. Accordingly, we are increasing investments in the water reuse process in preparation for water stress risk and acute drought. | Water is a resource used in several processes within production facilities, such as cooling and cleaning. It is a main ingredient of some products. If water availability deteriorates, there will be setbacks in these processes, leading to a slowdown or stoppage of production. |

(2) Areas Where Risks and Opportunities are Concentrated

Areas where climate-related risks and opportunities of KT&G and its subsidiaries are focused are purchase of inputs, including raw materials/materials, production and manufacturing, and product and technology R&D.

3. Strategy and Decision-making

(1) Response to Risks and Opportunities, and Plan

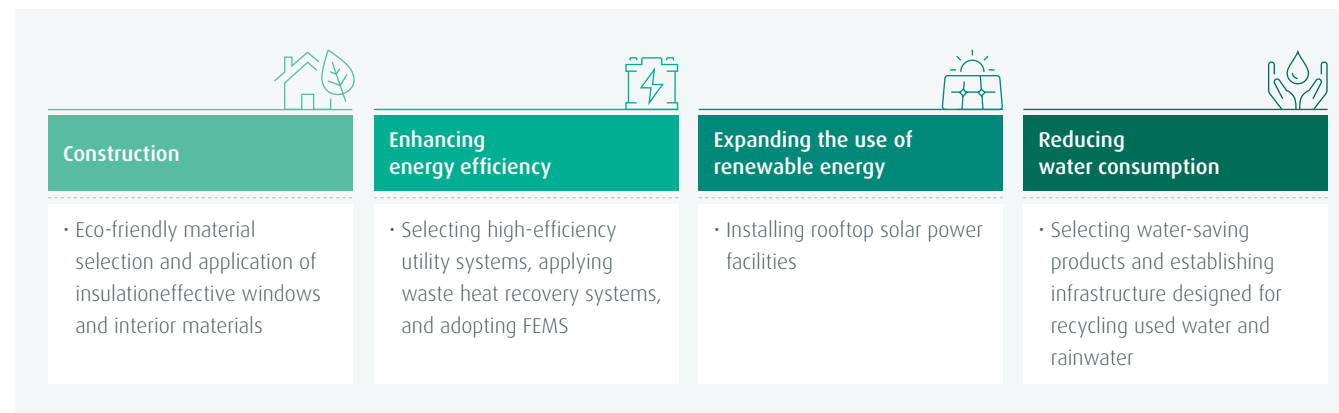
(A) Changes in resource allocation for business models

KT&G has no direct climate-related resource allocation changes for business models in 2023. We establish and execute resource allocation plans to adopt renewable energy and expand high-efficiency facilities, including the establishment of eco-friendly printing plants, to build eco-friendly facilities and processes.

Establishment of the Sejong Business Site, an eco-friendly printing factory

KT&G is building a printing factory by investing around KRW 180 billion in a 48,583m² site in the Mirae Industrial Complex located in Sejong Special Self-Governing City, and the factory is planned for completion in 2025. The newly established printing factory will produce packaging materials such as cigarette packaging and paper boxes for KT&G’s tobacco products. It will incorporate state-of-the-art logistics automation and smart printing processes to significantly enhance operational efficiency. The construction of this future-oriented factory emphasizes environmental friendliness from design and utility selection to operation. It aims to incorporate eco-friendly elements throughout all aspects, ensuring environmental sustainability. After completion, we aim to have the printing factory become the first manufacturing facility in Korea to achieve LEED[®] GOLD certification.

Eco-friendly Technology Applied to Sejong Business Site



¹⁾ Leadership in Energy & Environmental Design: Green building certification program developed by the U.S. Green Building Council (USGBC). It is a globally recognized green building rating system that provides guidelines for environmentally friendly design and construction, taking into account aspects such as water efficiency, energy efficiency, and resource reuse. There are four certification levels based on the evaluation criteria.

KT&G SUSTAINABILITY DISCLOSURE – [CLIMATE]

(B) Direct mitigation and adaptation efforts

| Category | Content | Mitigation | Adaptation | Current | Anticipated |
|----------------------------------------------------------------------------------|-----------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|------------|------------|---------|-------------|
| 1 Product material change | <ul style="list-style-type: none"> R&D of alternative materials, including non-plastic and biodegradable materials <ul style="list-style-type: none"> Development of cigarette filters with lyocell fibers that can reduce carbon compared to cellulose acetate (CA) material Working on paper filter technology development and review in parallel | ● | | ● | ● |
| | <ul style="list-style-type: none"> Establishing an "Eco-Design" process and guidelines to consider life cycle carbon footprint when developing new products based on LCA execution results | ● | | ● | ● |
| 2 Expansion of renewable energy production and procurement | <ul style="list-style-type: none"> Installation of photovoltaic power generation facilities on the roof of manufacturing plants | ● | | ● | ● |
| | <ul style="list-style-type: none"> Renewable Energy Certificate (REC) and I-REC spot purchasing | ● | | ● | ● |
| | <ul style="list-style-type: none"> Power Purchase Agreement (PPA) | ● | | ● | ● |
| 3 Adopt high-efficiency facilities and transition to electric vehicles | <ul style="list-style-type: none"> Participate in the K-EV100 initiative and change company vehicles to electric vehicles | ● | | ● | ● |
| | <ul style="list-style-type: none"> Improve energy efficiency of internal processes <ul style="list-style-type: none"> Improve steam boiler operation Apply inverter control to air compressors Make a replacement to high-efficiency utility facilities Adopt Factory Energy Management System (FEMS) Transition to energy-saving compressed air dryers | ● | | ● | ● |
| | <ul style="list-style-type: none"> Reusing heat <ul style="list-style-type: none"> Directly reuse hot water generated during the cooling process of drying equipment for the equipment component cleaning plant In the boiler system, KT&G has installed air preheaters to increase the temperature of incoming air and improve boiler combustion efficiency. Utilize high-temperature condensate from the process for reusing in the hot water production process | ● | | ● | ● |
| | <ul style="list-style-type: none"> Reduce use of oil-based fuel and transition to/procure renewable energy | ● | | ● | ● |
| | <ul style="list-style-type: none"> Adopt LED at major plants | ● | | ● | ● |

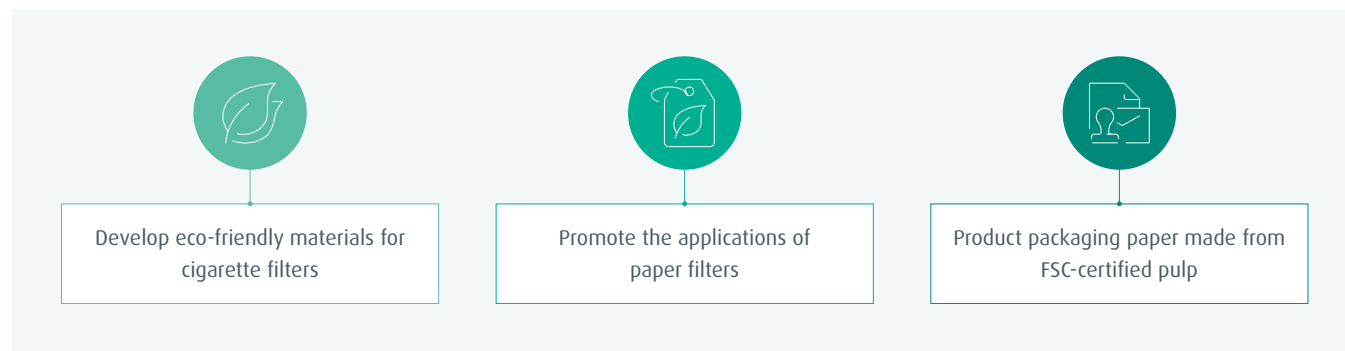
| Category | Content | Mitigation | Adaptation | Current | Anticipated |
|----------------------------------|--------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|------------|------------|---------|-------------|
| 4 Internal policy | <ul style="list-style-type: none"> Reflect potential carbon prices in long-term business plans and financial risk evaluations through internal carbon pricing | ● | | | ● |
| | <ul style="list-style-type: none"> Implement the company-wide energy costs settlement system | ● | | | ● |
| | <ul style="list-style-type: none"> Publish the "Best Practice Casebook for GHG Reduction and Water Reduction," which summarizes the best practices for energy reduction that have been proven at domestic plants and induces voluntary benchmarking for domestic and overseas plants and the Group subsidiaries | ● | ● | ● | ● |
| 5 Personnel adjustment | <ul style="list-style-type: none"> To advance our environmental management, we promoted the Energy Environment Technology Team under the Manufacturing HQ to the Energy Environment Department and strengthened its roles | ● | | ● | |
| | <ul style="list-style-type: none"> Designate an environmental performance officer in each organization (HQs in head office, plants, regional sales offices, etc.) to implement tasks through organic collaboration with the Energy Environment Department | ● | | ● | |
| 6 Physical risk | <ul style="list-style-type: none"> Provided a total of 14 environmental training sessions through outsourcing to employees in charge of ESG at plants and head office | ● | | ● | |
| | <ul style="list-style-type: none"> Develop and implement a disaster management standard manual, which includes guidelines for disaster recovery in the event of natural disasters like cyclones and floods | | ● | ● | ● |
| | <ul style="list-style-type: none"> Regular risk assessments are conducted to identify, evaluate, and mitigate risk factors at each business site, enhancing safety and health management to prevent major disasters | | ● | ● | ● |
| | <ul style="list-style-type: none"> Establish emergency response manuals tailored to specific locations and situations | | ● | ● | ● |
| | <ul style="list-style-type: none"> Periodically checking drainage to prevent flood damage | | ● | ● | ● |
| | <ul style="list-style-type: none"> Managing an emergency network to communicate the situation in the event of a natural disaster | | ● | ● | ● |

I. KT&G SUSTAINABILITY DISCLOSURE – [CLIMATE]

II. ① Product material change

Since 2013, KT&G has been conducting research and development of alternative materials such as non-plastic and biodegradable materials. Among alternative materials, lyocell tow is a material known for its excellent biodegradability after being discarded for it uses a method of converting natural pulp extracted from trees into fibers by simply dissolving it into fibers without chemical modification. Having confirmed the applicability of cigarette filters using lyocell fibers, KT&G signed an agreement with KOLON Industries in February of 2023 to jointly develop cigarette filters with eco-friendly lyocell fibers. In addition, we have secured intellectual property rights by receiving the patent grant for related technologies while continuing our research and development for realization and commercialization of products with quality similar to that of existing filters.

Develop Eco-friendly Materials and Use Eco-friendly Certified Materials



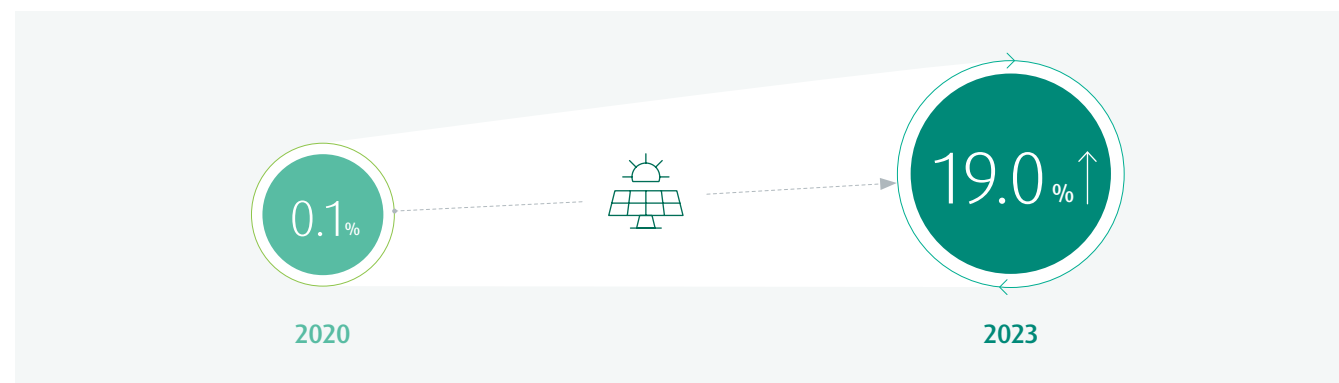
III. ② Expansion of renewable energy production and procurement

KT&G is striving to transition to renewable energy over the mid-to long-term to achieve its 80% renewable energy goal by 2030 and reduce GHG emissions. We are moving forward with the adoption of solar power generation facilities on the rooftops or roofs of domestic factories and SangSang Madang Nonsan. We have been operating a 3.1 MWp solar power generation system on the roof of the Gwangju Plant since June 2023. This marks the beginning of our plan to install around 26.2 MWp solar power generation systems at five domestic factories by 2026. In doing so, we aim to achieve our goal of reducing an annual 15,377 tCO₂eq tons of GHG emissions.

We are also reviewing and implementing other forms of renewable energy adoption. We purchased Renewable Energy Certificates (RECs) in consideration of continued reduction based on our mid- to long-term GHG reduction roadmap, and completed a 15,126MWh International Renewable Energy Certificate (I-REC) purchase for the Indonesia Plant and 3,018MWh I-REC purchase for the Türkiye Plant as well as a 5,350MWh Green Energy purchase for the Russia Plant in 2023. In addition, we signed a 12MWp-level (7.5% of company-wide electric power amount) power purchase agreement (PPA) to stably secure renewable energy. Supply was commenced in December 2023 and 17 business sites are using renewable electricity, including KT&G's Seoul Office Building.

As a result of these efforts, KT&G Group's¹⁾ renewable energy consumption rate increased from 0.1% in 2020 to 13.5% in 2023. It has grown to 19.0% in 2023 based on domestic and overseas business sites²⁾ of KT&G. In 2024, we aim to further enhance the renewable energy rate to reach approximately 20% through the introduction of PPA and other initiatives. We also plan to accelerate the adoption of renewable energy by facilitating discussions by Group subsidiary councils.

Percentage of renewable energy consumption at domestic and overseas business sites of KT&G



¹⁾ Based on all domestic business sites of KT&G and manufacturing sites of KT&G Group

²⁾ Based on all domestic business sites of KT&G and manufacturing sites of KT&G overseas subsidiaries

I. KT&G SUSTAINABILITY DISCLOSURE - [CLIMATE]

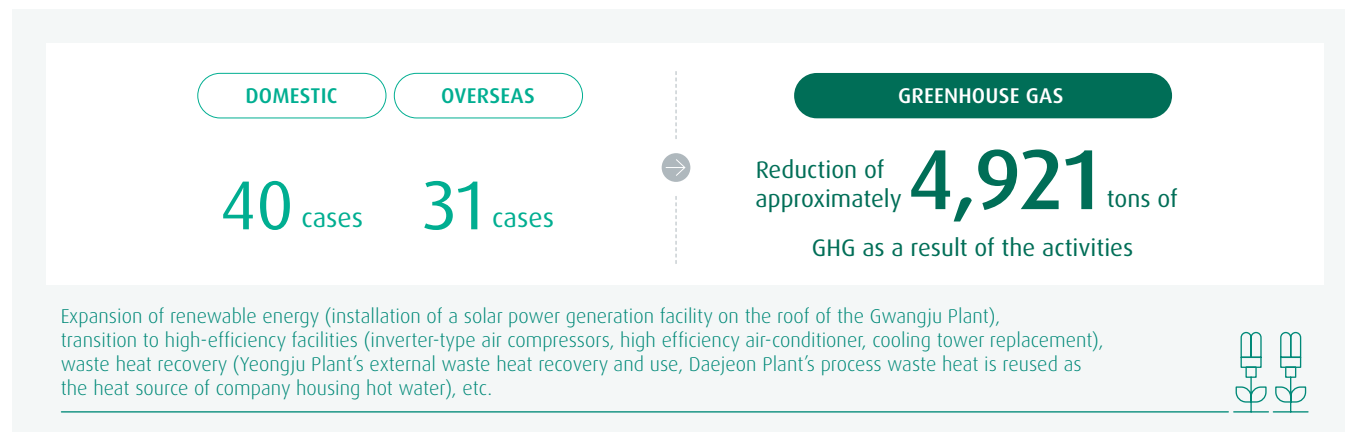
II. ③ Change in process and facilities

In 2021, KT&G established a mid-to long-term environmental management vision, and actively manages manufacturing factory ESG tasks to reduce Scope 1 and 2 GHG emissions by 42%, reduce water withdrawal by 20%, and achieve a recycling rate of 90% compared to 2020 by 2030. To identify key tasks for achieving mid-to long-term environmental targets, the Energy Environment Department has been using internal experts every year since 2022 to conduct on-site assessments for nine plants in Korea and abroad (six in Korea, three overseas), and derives and implements improvement tasks based on assessment results.

For domestic plants, we seek to further rationalize energy use in business sites, going beyond execution of direct energy-saving tasks, such as a transition to high-efficiency facilities and waste heat recovery. To efficiently manage and optimize energy use, we adopted the Factory Energy Management System (FEMS) at the Daejeon Plant in 2023, and plan to actively expand FEMS application at domestic and overseas plants in 2024 based on Daejeon Factory operations. In addition, we will maximize use of renewable energy by building solar power generation facilities by using unused sites, such as factory roofs. As a result of these efforts, Yeongju Plant received the Minister of Trade, Industry and Energy Commendation at the Climate Change Response and Greenhouse Gas Reduction Excellence Awards that was held in November 2023, in recognition of reducing GHG emissions by making continued facility investments and manufacturing process improvements since 2020. The Cheonan Plant received the Minister of Trade, Industry and Energy Commendation at the 10th Korea Energy Engineer Award that was held in March 2024, gaining recognition for its efforts to enhance energy usage efficiency and prevent safety accidents.

The results of an assessment of overseas plants showed that the management levels varied depending on the country's environmental regulations, utility status, and operational methods at each plant. In addition, environmental issues such as water resource management and ease of renewable energy supply differed based on the location of the plants. To enhance the ESG management level of overseas plants, we are prioritizing the establishment of measurement infrastructure by installing meters on major energy and water-consuming equipment and/or locations, such as air conditioners and dryers, based on which we strive to strengthen our analysis-based reduction activities. Moreover, we are implementing a total of 87 key tasks related to GHG, water, and waste for each plant (39 tasks in 2023 and 48 tasks in 2024). To reinforce management capabilities for overseas plants, the company plans to continue implementing ESG KPI goal management, sharing case studies of greenhouse gas/water usage reduction at domestic plants, and promoting energy environment guideline revisions.

Performance of Key Improvement Tasks in 2023



Strengthening management of overseas plants

To advance ESG management of overseas plants, KT&G establishes 3 major KPI (GHG emissions intensity, water withdrawal intensity, and waste recycling rate) targets per factory every year and holds a monthly ESG video conference to review performance and discuss issues. In addition, non-metric targets are assigned, such as increase in renewable energy ratio and acquisition of global ESG certifications, to reflect ESG performance-based incentives.

We created the Energy Environment Guideline, a work manual for overseas plants, in the first half of 2024 and provided it to the Indonesia and Türkiye Plants, and established support facility operation standards and the water leak/air leak inspection system. As a result of strengthening overseas plants' ESG management, we made the achievement of reducing GHG emissions (29.5%¹⁾) despite increased production in 2023 compared to the previous year.

Transition of business fleets to electric vehicles

KT&G participates in the K-EV100 initiative organized by the Ministry of Environment in 2021, actively promoting the transition of its business fleets to electric vehicles (EVs). We aim to achieve our mid- to long-term GHG reduction target by converting 100% of our business fleets to EVs by 2030. (GHG emissions from business fleets are included in Scope 1 and 2 emissions.)

Starting with the introduction of six EVs at the Yeongdeungpo Integrated Logistics Center in 2021, we converted approximately 5.8% of KT&G's vehicles to EVs as of the end of 2023. Once the release of various EV models is in full swing, we plan to accelerate the transition to EVs and implement it more vigorously.

Status of Electric Vehicle Adoption

| Category | Unit | 2022 | 2023 |
|---------------------------------|---------|------|------|
| Electric Vehicles | Vehicle | 19 | 63 |
| Proportion of Electric Vehicles | % | 1.7 | 5.8 |

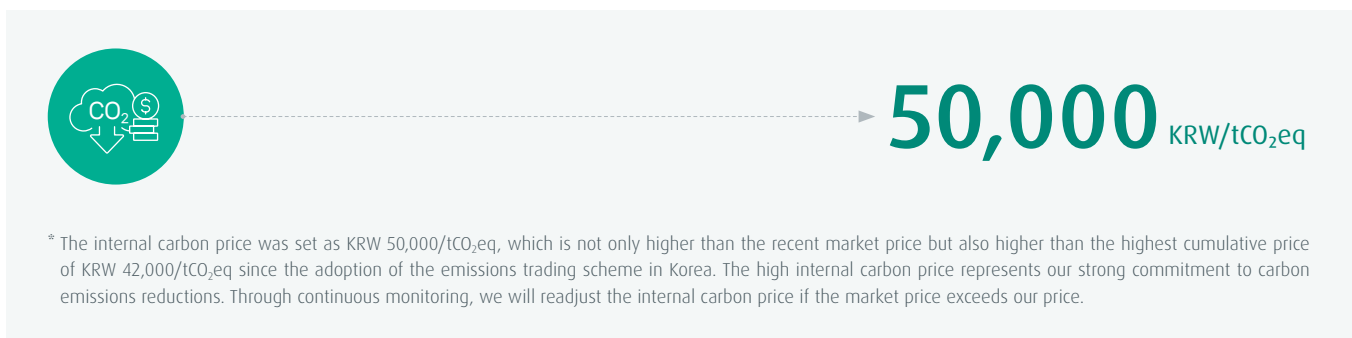
¹⁾ Based on Scope 1 and 2 emissions of KT&G's overseas manufacturing sites

I. KT&G SUSTAINABILITY DISCLOSURE – [CLIMATE]

II. ④ Internal policy (Operation of internal carbon pricing)

In order to respond to climate change proactively, KT&G introduced guidelines for economic analysis of new investments in 2022 and implemented an internal carbon pricing system as a way to encourage decision-making that considers potential carbon costs. Currently, the internal carbon pricing system is used to assess the payback period in manufacturing facilities where greenhouse gas emissions are high and most reduction activities take place. As a result, the GHG reduction from energy saving improvements increased in 2022 compared to 2021. In 2023, we are accelerating GHG emissions reduction by expanding the scope of the internal carbon pricing system to include overseas factories where securing economic feasibility for investments has been relatively challenging due to lower energy costs.

KT&G's internal carbon pricing in 2023



(C) Indirect mitigation and adaptation efforts

| Category | Content | Mitigation | Adaptation | Current | Anticipated |
|----------------------------------------|-----------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|------------|------------|---------|-------------|
| Cooperation with outside organizations | • Participates in the Sustainable Tobacco Program (STP), an evaluation platform to assess and survey the social/environmental impact of the leaf tobacco supply chain jointly with major global tobacco manufacturers | ● | ● | ● | ● |
| | • Supplying fuel reduction devices for driers to farms to improve energy efficiency during leaf tobacco drying – Supplied 84 devices in 2022 and 100 devices in 2023 | ● | | ● | |
| Supply chain support | • Build Green Impact Alliance with significant materials partner companies – Establish joint GHG targets with significant materials partner companies – Provide training support in relation to responding to climate change by holding a regular ESG workshop and consulting to build a GHG reduction foundation * 2023 target: 16 partner companies (approximately 85-90% of the annual purchase volume) – Other training and consulting on ISO certification, etc. | ● | | ● | ● |
| | • Provide programs that facilitate carbon emissions reduction among logistics partner companies – Provide our company's products to drivers who have eco-friendly driving habits (ECO mileage: participated in by a total 64 vehicles of five partner companies) – Provide support to replace old vehicles (ECO Change: Partner companies with which we have a trade history of 7 years or more, supported replacement of 4 vehicles in 2022) | ● | | ● | ● |
| | • Diagnosis of large energy-consuming utility-specializing companies and establishment of improvement plans | ● | ● | ● | ● |

(D) Climate-related transition plan

KT&G set targets that are connected to the Paris Agreement, which aims to limit the global temperature rise to below 2°C compared to pre-industrial levels, and established mid- to long-term reduction targets in accordance with the Science Based Targets Initiative (SBTi) guidelines to strengthen responsibility over GHG emissions that is in line with global standards. We aim to receive SBTi certification. In 2022, we raised our reduction targets for 2023 from SBTi's well-below 2°C (Scope 1+2) and 2°C (Scope 3) scenarios to 1.5°C (Scope 1+2) and well-below 2°C (Scope 3) scenarios. In May 2024, we advanced our 2050 net-zero target to 2045 to take a leading role in global climate change and achieve sustainable growth. Ultimately, KT&G seeks to realize net zero across the entire business value chain by 2045.

In particular, we support the global campaign RE100 (Renewable Electricity 100%), which aims to cover 100% of electricity usage with renewable energy. To systematically implement RE100, we have set a target to achieve over 80% renewable energy usage of our total electricity consumption by 2030."

I. KT&G SUSTAINABILITY DISCLOSURE – [CLIMATE]

In addition, we are continuously advancing Scope 3 emissions measurements in accordance with SBTi recommendations for objective verification of the mid-to long-term GHG reduction targets. We identified that Scope 3 emissions from KT&G’s upstream and downstream account for more than around 73% of the overall value chain as of the end of 2023. In collaboration with leaf tobacco farms, we are striving to improve energy efficiency in the leaf tobacco drying process. By helping materials partner companies reduce GHG emissions, we aim to reduce Scope 3 emissions by 25%¹⁾ compared to 2022 by 2030.

MAJOR TRANSITION PLAN

1. Establish SBTi-based GHG reduction targets

- 2030 emissions target
 - Scope 1+2 emissions: 42% reduction compared to 2020
 - Scope 3 emissions: 25%¹⁾ reduction compared to 2020
- Aiming to achieve net zero of Scope 1+2+3 emissions by 2045

2. Setting renewable energy procurement targets that exceed RE100 guidelines

- 2030 renewable energy procurement target: 80%
- Diversify renewable energy procurement
 - Expand internal photovoltaic power generation facilities
 - Long-term, stable renewable energy procurement by using PPA
 - Strategic adoption of i-REC in connection with overseas business site management plans

3 Raise energy consumption efficiency and improve energy efficiency of internal processes

- Diagnose efficiency of considerable energy-consuming facilities and processes and make improvements
- Improving steam boiler operation, applying an inverter control to air compressors, replacing with high-efficiency utility facilities, introducing FEMS, etc.

4. Refinement of value chain GHG emissions inventory and support for reduction

- Establish reduction partnerships with partner companies in the value chain
- Reduce energy consumption by restoring and reusing the heat generated from drying leaf tobacco

5. Convert business fleet to electric vehicles

- Convert all business fleets to EVs by participating in the K-EV100 (the project of supporting Korean Zero Emission Vehicle) project and expand the charging infrastructure

MAJOR ASSUMPTIONS

1. Assumed conditions for calculating estimated GHG emissions: Product manufacturing and business site operations are expected to be based on the mid- to long-term production plans of KT&G and the Group subsidiaries
2. Outlook on carbon credit price: Price based on IEA 2022 GECC Model STEPS
3. Inflation rate by country and annual electricity price increase rate
4. Execution of external renewable energy procurement, including PPA and i-REC

DEPENDENT FACTORS

1. Availability of material and human resources to implement the transition plan
2. Domestic and overseas economic conditions that can impact the financial validity of the assumed conditions, including the inflation rate and electricity price increase rate
3. Regulations on emissions trading that may impact a rise in carbon credits
4. Installation of photovoltaic facilities at the Group subsidiaries and PPA contract conditions

¹⁾ Targets: Category 1, 3, 11

(E) Plan on achieving climate-related targets (including GHG emissions target)

1. GHG emissions target

KT&G Group set a goal of reducing Scope 1+2 emissions by 42% (compared to 2020) and reducing Scope 3 emissions by 25%¹⁾ (compared to 2022) by 2030. We plan to realize net zero across the entire business value chain by 2045.

2. Major reduction measures and implementation plan

| Category | Achievement plan |
|---------------------------------------------------|-----------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|
| Expand internal solar power generation facilities | • Operate photovoltaic facilities at major business sites starting in 2023 and achieve 21% of the reduction portfolio by 2030 |
| Switch to high-efficiency facilities | • Diagnose and improve efficiency of considerable energy-consuming facilities and processes and achieve cumulative reduction of 145,000 tCO ₂ eq by 2030 |
| PPA and i-REC purchasing | • Adopt PPA: Aiming at cumulative emissions reduction of around 157.3 thousand tCO ₂ eq by 2030 by expanding renewable energy procurement by actively using PPA starting in 2023 • i-REC purchasing: Target overseas business sites since it is easy to procure external renewable energy credits |
| Reduction activities in the supply chain | • Cooperation with farms: Collaborate with leaf tobacco farms to improve energy efficiency in the leaf tobacco drying process • Support partner companies: Establish support measures and build a cooperation system to help materials partner companies reduce GHG emissions |

(2) Resource Procurement Plan

KT&G issued green bonds worth KRW 100 billion in April 2024 and the funds that were raised will be invested in such projects as renewable energy (photovoltaic facility) and eco-friendly building construction projects. In addition, we adopted internal carbon pricing to promote decision-making that considers potential carbon costs when making investment decisions and to use it as guidelines for facilitating investment activities for climate change response, leading to the effect of reducing the payback period of climate change response activities that is internally estimated when conducting economic analysis of investments. In addition, we analyzed economic feasibility of each reduction measure and considered the timing of adoption to establish a reduction plan per year. By analyzing the marginal abatement cost curve (MACC) we first adopt cost-effective reduction measures and consecutively apply measures with high reduction potential over the mid- to long term. Furthermore, we additionally hired relevant personnel (4 people) after 2023 to operate a professional climate change organization, and plan to assign them to relevant departments to handle such tasks as establishing GHG reduction plans and reducing and monitoring GHG emissions.

(3) Quantitative and Qualitative Information on the Progress of Plans Disclosed in Past Reporting Periods

Please refer to the “Metrics and Targets: [\(3\) Analysis of Performance Against Target](#)”

I. KT&G SUSTAINABILITY DISCLOSURE – [CLIMATE]

II. 4. Financial Position and Financial Performance Impact

- KT&G internally defined as follows climate-related activities that can have an important impact on financial position and financial performance, and analyzed financial impact pathways for each activity.
- As of the reporting date, KT&G is advancing the Group-level climate-related financial impact calculation system, including detailed establishment of climate change response activities and appropriateness of the classification system of each strategic task (definition of “high-efficiency facilities,” etc.). We will further enhance data integrity and accuracy and disclose quantitative information.

(1) Carbon Pricing System’s Impact on Financial Statements

(A) Purchase and Use of RECs and Carbon Credits

KT&G is a company subject to the Korea Emissions Trading Scheme (K-ETS), a GHG emissions trading system in Korea. As a participant in this scheme, KT&G is required to annually calculate its greenhouse gas emissions. Companies operating within the emissions trading scheme receive a portion of emission allowances without charge. Should they surpass their assigned emission quotas, they must purchase extra emission allowances in the trade market. KT&G purchases Renewable Energy Certificates (RECs) and emission allowances to fulfill its obligations toward emissions that surpass the allowances allocated for the corresponding year. Relevant expenditures are reflected in cost of sales and sales, general and administrative expenses as utilities expenses in the income statement. In addition, we recognize GHG liabilities provisions by reasonably estimating purchase costs for the estimated amount of allowances purchase that surpasses the free allocated amount for the year in relation to GHG emissions. In the event of an increase in allowances-related costs as a result of a rise in allowance prices and charged allowance allocation rate, this may be reflected as an increase in liabilities in future statement of financial position, a rise in the cost of sales and costs in the income statement, and cash outflow from operating activities in the statement of cash flow.

(B) Investment in Low-carbon, High-efficiency Facilities

KT&G is increasing investments in GHG emission reduction facilities as a strategy to respond to transition risks that result from climate change. To transition to a low-carbon system, we are making process improvements, such as replacing facilities and adopting new facilities to raise energy efficiency including air conditioning equipment and ventilation systems. Relevant expenditures are reflected as acquisition of tangible assets or repair and maintenance expenses, etc. depending on the expenditure characteristic. In case of acquisition of tangible assets, it is reflected in financial information as an increase in tangible assets and a decrease in assets, such as cash and cash equivalents, or an increase in liabilities, such as accounts payable, in the statement of financial position. The acquired tangible assets are reflected in the cost of sales and sales, general and administrative expenses as depreciation costs until depreciation is complete according to durable years. Repair and maintenance expenses, etc. are reflected as a decrease in assets, such as cash and cash equivalents, or a rise in liabilities, such as accounts payable, in the statement of financial position, and a rise in cost of sales and sales, general and administrative expenses in the income statement. Reduced energy costs from energy efficiency improvements, etc. may impact cost of sales reduction and operating profit improvements, etc. in the income statement.

(C) Investment in Renewable Energy Facilities

KT&G is increasing investments in renewable energy facilities as a strategy to respond to transition risks stemming from climate change. KT&G is expanding photovoltaic facilities to transition to a low-carbon system, and relevant expenditures are reflected as acquisition of tangible assets, etc. KT&G installed photovoltaic facilities at the KT&G Gwangju Plant, KGC Buyeo Plant, etc. in the current term, and recognized this as tangible assets in the statement of financial position. In case of acquisition of tangible assets, it is reflected as an increase in tangible assets and a decrease in assets, such as cash and cash equivalents, or an increase in liabilities, such as accounts payable, in the statement of financial position. The acquired tangible assets are reflected in the cost of sales and sales, general and administrative expenses as depreciation costs in the income statement until depreciation is complete. Reduced energy costs from increased adoption of renewable energy may impact cost of sales reduction and operating profit improvements, etc. in the income statement.

(D) Introduction of low-carbon transportation and infrastructure

KT&G is transitioning its business fleets to EVs and expanding EV charging facilities as a strategy to respond to transition risks stemming from climate change. Acquisition of charging facilities may be reflected as an increase in tangible assets and a decrease in assets, such as cash and cash equivalents, or an increase in liabilities, such as accounts payable, in the statement of financial position. The acquired tangible assets are reflected in the cost of sales and sales, general and administrative expenses as depreciation costs in the income statement until depreciation is complete. EV lease is reflected as an increase in right-of-use assets and an increase in lease liabilities in the statement of financial position, and reflected as the cost of sales and depreciation costs in the income statement across the usage period of the relevant right-of-use assets. There is also cash outflow and a decrease in lease liabilities according to the contract. There are also costs that are generated such as insurance premium. EV lease replaces the previous internal combustion engine vehicle lease. Depending on the difference in lease costs, this may be reflected as an increase or decrease in assets and costs in the financial statements.

(2) Impact of Consumer Preference for Eco-friendly Low-carbon Products on Financial Statements

(A) R&D of new materials capable of reducing carbon emissions

KT&G views changes in consumer preference toward eco-friendly, low-carbon products as an opportunity and carries out R&D for development of eco-friendly materials, such as non-plastic and biodegradable materials. We acquired tangible assets, such as eco-friendly material R&D facilities, in the R&D process, and relevant R&D costs are reflected as costs of the current term. Eco-friendliness certification and legal costs, etc. also arose, which are reflected in sales, general and administrative expenses as general fees in the income statement.

In case of reflection as acquisition of tangible assets, it can result in an increase in tangible assets and a decrease in assets, such as cash and cash equivalents, or an increase in liabilities, such as accounts payable, in the statement of financial position. The acquired tangible assets lead to cost of sales and sales, general and administrative expenses as depreciation costs in the income statement every term until depreciation is complete.

KT&G SUSTAINABILITY DISCLOSURE - [CLIMATE]

5. Climate Resilience

(1) Implications of Company Assessment on Strategy and Business Model

KT&G performed a scenario analysis by reflecting valid scenario context, including physical climate environment change, policy change, socio-economic change, and market and technology change, based on open, usable climate change scenarios presented by the Intergovernmental Panel on Climate Change (IPCC) and International Energy Agency (IEA).

(A) Implications of company assessment on strategy and business model

| Category | Transition risk | Physical risk | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | |
|-------------------------------------------------------------------------------|---------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|----------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|----------------------|--|--|-------------|---------------|----------------|-----|----------------------|----------------------|----------------------|-----|----------------------|----------------------|----------------------|-------|----------------------|----------------------|----------------------|-------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|----------|--------------|--|--|-------|-------|-------|----------|-----|-----|-----|----------|-----|-----|-----|----------|-----|-----|-----|
| Impact evaluation based on scenario analysis | <ul style="list-style-type: none"> In the 1.5°C scenario, where low-carbon transition policies are considerably implemented, there is a higher possibility of increase in the price of carbon, new regulations related to greenhouse gas emissions, and risks associated with market and reputation. In particular, under the 2.0°C scenario, risk related to increased raw material costs is observed to be high in some areas. While technology and litigation-related risks are relatively low in terms of likelihood, they have the potential to have a certain level of impact if they occur. | <ul style="list-style-type: none"> KT&G assessed the physical risks of climate change by evaluating acute risks such as cyclones, hurricanes, heavy rainfall, and wildfires, as well as chronic risks such as change in precipitation patterns, temperature variations, and rising sea levels. Unlike transition risks, the physical risks were found to be more significant in the 2.0°C or higher scenarios, and the timing of these impacts was observed to be earlier compared to the 1.5°C scenario. Under the more extreme 4.0°C scenario, the physical risks increased dramatically, posing higher probabilities and larger impacts on operations, supply chains, and business continuity. Although the physical risks decreased in the 1.5°C scenario compared to the more severe warming scenarios, they were still observed to have notable effects. | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | |
| Scope of analysis | <ul style="list-style-type: none"> KT&G and Group subsidiaries (KGC, Yungjin Pharm, Tae-A Industrial, COSMOCOS, KGCYebon) | <ul style="list-style-type: none"> 19 major business sites in Korea and abroad of KT&G and the Group subsidiaries | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | |
| Financial impact | <ul style="list-style-type: none"> Financial impact of the carbon pricing system in consideration of climate-related targets and capabilities <p style="text-align: right;">(Cumulative per period, Unit: KRW billion)*</p> <table border="1"> <thead> <tr> <th rowspan="2">Scenario</th> <th colspan="3">Time horizon</th> </tr> <tr> <th>Short ('25)</th> <th>Mid ('26-'28)</th> <th>Long ('29-'30)</th> </tr> </thead> <tbody> <tr> <td>NZE</td> <td>Less than 20 billion</td> <td>Less than 30 billion</td> <td>Less than 40 billion</td> </tr> <tr> <td>APS</td> <td>Less than 10 billion</td> <td>Less than 20 billion</td> <td>Less than 30 billion</td> </tr> <tr> <td>STEPS</td> <td>Less than 10 billion</td> <td>Less than 20 billion</td> <td>Less than 30 billion</td> </tr> </tbody> </table> | Scenario | Time horizon | | | Short ('25) | Mid ('26-'28) | Long ('29-'30) | NZE | Less than 20 billion | Less than 30 billion | Less than 40 billion | APS | Less than 10 billion | Less than 20 billion | Less than 30 billion | STEPS | Less than 10 billion | Less than 20 billion | Less than 30 billion | <ul style="list-style-type: none"> Financial impact of physical risk <p style="text-align: right;">(Modelled Average Annual Loss (%))**</p> <table border="1"> <thead> <tr> <th rowspan="2">Scenario</th> <th colspan="3">Time horizon</th> </tr> <tr> <th>2020s</th> <th>2030s</th> <th>2040s</th> </tr> </thead> <tbody> <tr> <td>SSP1-2.6</td> <td>1.3</td> <td>1.8</td> <td>2.2</td> </tr> <tr> <td>SSP2-4.5</td> <td>1.2</td> <td>1.8</td> <td>2.1</td> </tr> <tr> <td>SSP5-8.5</td> <td>1.3</td> <td>2.0</td> <td>2.7</td> </tr> </tbody> </table> | Scenario | Time horizon | | | 2020s | 2030s | 2040s | SSP1-2.6 | 1.3 | 1.8 | 2.2 | SSP2-4.5 | 1.2 | 1.8 | 2.1 | SSP5-8.5 | 1.3 | 2.0 | 2.7 |
| Scenario | Time horizon | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | |
| | Short ('25) | Mid ('26-'28) | Long ('29-'30) | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | |
| NZE | Less than 20 billion | Less than 30 billion | Less than 40 billion | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | |
| APS | Less than 10 billion | Less than 20 billion | Less than 30 billion | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | |
| STEPS | Less than 10 billion | Less than 20 billion | Less than 30 billion | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | |
| Scenario | Time horizon | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | |
| | 2020s | 2030s | 2040s | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | |
| SSP1-2.6 | 1.3 | 1.8 | 2.2 | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | |
| SSP2-4.5 | 1.2 | 1.8 | 2.1 | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | |
| SSP5-8.5 | 1.3 | 2.0 | 2.7 | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | |
| Implications of company assessment for its strategy and business model | <ol style="list-style-type: none"> 1. Responding to carbon costs and regulations <ul style="list-style-type: none"> Carbon cost management: As policies become stronger for the transition to low carbon, there is a need for a strategy that prepares for increased costs, resulting from carbon price increases and strengthening of relevant regulations. The company should curtail costs through efficient carbon management strategy and achieve carbon emission reduction targets. Respond to regulation change: There is a need to establish a system that enables prompt responses to new regulations related to GHG emissions. To this end, there is a need for continued monitoring of policy changes and the establishment of a response plan. 2. Market and reputation management <ul style="list-style-type: none"> Reputation risk: Insufficient responses to climate change may lead to loss of market and consumer trust. As such, the company must transparently disclose sustainability-related activities and carry out active climate change response activities to maintain a positive corporate image. Respond to market change: There is a high possibility that the market environment will change as the transition to a low-carbon economy gains speed. The company must establish a business model that can flexibly respond to this change. 3. Raw material cost management <ul style="list-style-type: none"> Raw material cost fluctuation: There is a need to strengthen supply chain management strategy in preparation for raw material cost increases with the transition to low carbon. There is a need to establish strategies that can respond to cost increases by diversifying raw materials and establishing efficient usage measures. | <ol style="list-style-type: none"> 1. Disaster response and recovery plan: <ul style="list-style-type: none"> Disaster response: There is a need for a prompt response and recovery plan in preparation for acute disasters such as cyclone and flood caused by climate change. There is a need to secure employee and business site safety through alternative production plans, emergency response training, etc. Emergency response system: There is a need to establish an emergency response system that enables prompt responses in the event of a disaster and to strengthen preparedness through regular training and simulations. 2. Facility and infrastructure investment: <ul style="list-style-type: none"> Flood prevention facilities: To protect production facilities from heavy rain and floods, there is a need to invest in infrastructure, such as the installation of flood prevention facilities and berms and enhancement of drainage systems. Physical risk must be minimized through these investments. Reinforce facilities: There is a need to strengthen the infrastructure of major business sites to reduce physical risk and reinforce facilities that can minimize damage in the event of a disaster. 3. Continuous monitoring and prevention: <ul style="list-style-type: none"> Climate change monitoring: There is a need to identify and respond to potential risks in advance through continued, periodic monitoring of progressive physical risks such as temperature change and water resource stress. Preventive measures: There is a need to establish preemptive measures to prevent physical risks and continually develop measures that can minimize impact from climate change. | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | |

* KT&G understands the uncertainties caused by various variables that impact carbon prices and measured the carbon pricing system's financial impact by applying the global carbon price per scenario that is provided by the IEA to control broad assumptions. This is an estimated value that is based on scenario analysis and may be different from the actual price.

** KT&G estimated financial impact of climate change by using S&P's Climanimics® analysis tool. S&P's Climanimics® calculates the sum of estimated financial loss that may arise from climate change through Modelled Average Annual Loss (MAAL) which is indicated in a relative percentage of asset value.

KT&G SUSTAINABILITY DISCLOSURE – [CLIMATE]

(A) Implications of corporate evaluation on strategy and business model

| Category | Transition risk | Physical risk |
|------------------------------------|-----------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|-----------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|
| Company's response | Policy and regulation <ul style="list-style-type: none"> • KT&G is designated as a company subject to the emissions trading scheme and is obligated to implement policy responses in connection to the national carbon neutrality roadmap policy. Investments are being made in such areas as improving energy efficiency and increasing renewable energy use in preparation for potential financial risk increases as a result of a rise in allowance prices stemming from reduced allowances. • Discussions are being held on GHG reduction through cooperation with partner companies in the supply chain. | Heavy rain <ul style="list-style-type: none"> • Invest in the installation of flood prevention facilities and berms and enhancement of drainage systems to protect production facilities in the event of heavy rain and flooding near business sites. • Secure employee safety and business sites' operational continuity through an emergency measure plan that includes a prompt evacuation plan in the event of a disaster, alternative production plan, and emergency response training. |
| | Markets <ul style="list-style-type: none"> • Expand sustainable management practices, such as improving facility efficiency during procurement, reducing carbon footprint, and improving water efficiency, through close cooperation with farms and suppliers • Establish a cooperation system with significant materials partner companies and participate in and use the Sustainable Tobacco Program (STP), which is a tobacco industry initiative | Temperature change <ul style="list-style-type: none"> • Perform continued, periodic monitoring of business sites' energy usage patterns, etc. resulting from temperature changes and changes in water resource stress levels of major business sites. |
| | Energy source <ul style="list-style-type: none"> • Expand renewable energy procurement through various methods, including expanding photovoltaic power generation facilities in business sites, signing PPAs, and purchasing REC. | Water shortage <ul style="list-style-type: none"> • To preemptively respond to water shortage issues, secure sustainability from a mid- to long-term perspective by participating in major initiatives that promote a virtuous cycle of sustainable practices, continued monitoring, and improvement activities. |
| Evaluate climate resilience | If KT&G and its consolidated entities implement mitigation measures according to SBTi guidelines and achieve net zero by 2045, financial impact related to the carbon pricing system, which is a transition risk, is expected to significantly alleviate. In particular, KT&G and consolidated companies are judged to have flexible climate resilience, such as reduced electricity costs and decreased allowance purchase costs, through economic feasibility analysis per renewable energy procurement option to adapt to climate-related changes, developments, or uncertainties and execution of transition to renewable energy using diverse means of implementation. | |

1) Financial impact of the carbon pricing system (details)

KT&G chose risks caused by the carbon pricing system in consideration of calculability of financial impact and materiality of climate change risks from among various transition risks stemming from climate change, and estimated relevant financial impact. Results of evaluating risks through a climate change scenario analysis indicate that risk levels from the carbon pricing system are the highest in 2030 in the 1.5°C scenario (IEA NZE 2050) and that they alleviate by a certain level according to emissions reduction from long-term perspective by 2050. In addition, risks from the carbon pricing system are shown to have the highest risk level from among the chosen 13 transition risks.

Emissions trading prices indicate a high fluctuation rate in Korea, signifying high price uncertainty. Due to the national carbon neutrality roadmap and carbon neutrality policy stance, the total emissions allowances are being reduced, which in turn will increase carbon credits, thereby expanding potential financial risks. In particular, in the IEA NZE 2050 scenario that assumes significant transition risks, carbon prices are forecast to be set at around USD 140 in 2030, reflecting the possibility of further expansion of financial impact from carbon prices.

The tobacco industry uses energy in the manufacturing and distribution process. In particular, carbon prices from considerable energy consumption in the logistics and shipping processes owing to a global supply chain may transfer to the unit cost of shipping. The carbon pricing system may increase such potential and indirect operational costs, thus bringing about financial risks.

With an understanding of uncertainties caused by various variables that impact carbon prices and to control extensive assumptions, KT&G conducted calculations based on global carbon prices presented by scenarios as well as its GHG reduction target emissions.

2) Financial impact of physical risk (details)

For a more accurate and detailed evaluation of physical risk's financial impact, KT&G used S&P's Climonomics® analysis tool. For this analysis, we evaluated the potential impact of physical risk for each facility based on KT&G's major production facilities' and supply chain's location information, according to diverse climate change scenarios. In case of physical risk, we performed a 10-year unit scenario analysis through the 2040s in consideration of the characteristics of long-term climate data that is forecast based on a 10-year unit, which is the basis of climate modeling.

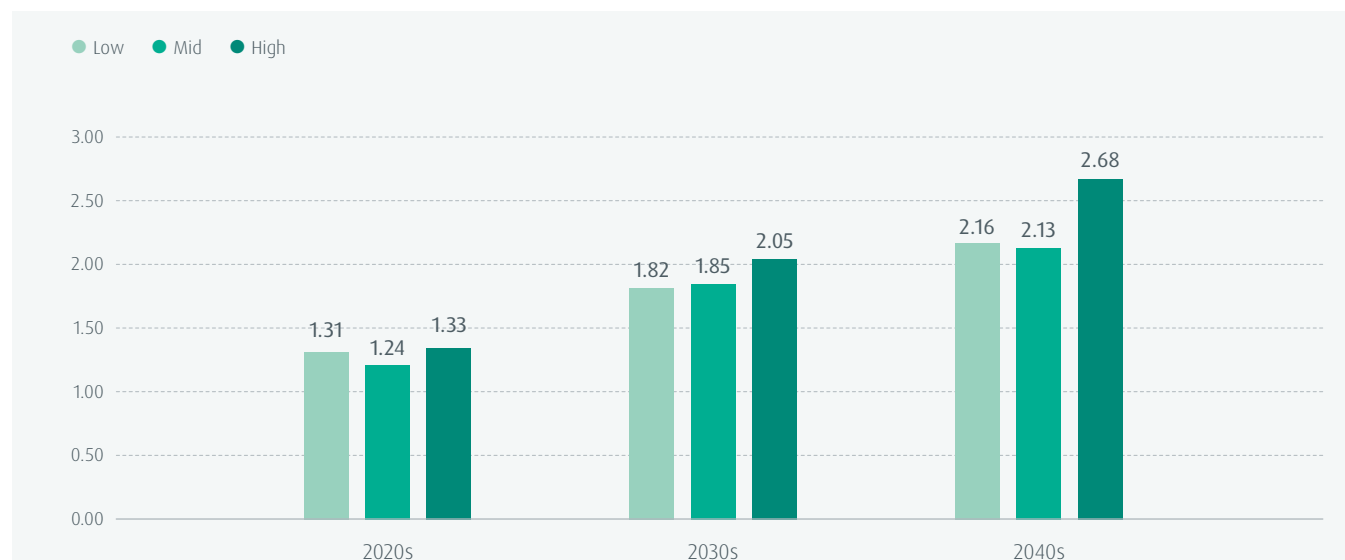
S&P's Climonomics® estimates financial losses from climate change through MAAL. MAAL is an index that covers diverse financial losses, such as an increase in operation costs, expansion of capital expenditures, and reduction in profits, that are expected to arise during a designated period. The physical risk that was subject to analysis consisted of 8 items, including cyclone, flood, temperature change, and wildfire.

We analyzed physical risk's financial impact for three climate change scenarios (SSP1-2.6, SSP2-4.5, SSP5-8.5) from the 2020s to 2040s (2020-2049). Analysis results show that KT&G's ratio of annual average loss against asset value will increase from 1.3% in the 2020s to 2.2% in the 2040s in the SSP1-2.6 scenario. In contrast, in the most negative climate change scenario, which is SSP5-8.5, the loss ratio is shown to increase from 1.3% in the 2020s to 2.7% in the 2040s. This implies that as the severity of climate change grows, the level of physical risks that KT&G faces may also increase.

I. KT&G SUSTAINABILITY DISCLOSURE – [CLIMATE]

From among physical risks, the extreme temperature risk was confirmed as a major risk factor that can have the greatest impact on KT&G’s financial loss across all scenarios and periods. In addition, flood that is caused by heavy rainfall and water resource shortage risks were confirmed as risk factors that have a mid-level impact.

Modelled Average Annual Loss due to Physical Risks by Scenario (%)



- The MAAL ratio indicates an upward trend in all scenarios as time passes.
- The low GHG emissions scenario and the mid GHG emissions scenario do not show a big difference in the time horizon of the analysis. At some points in time, the low emission scenario is observed to be slightly larger but this is interpreted as an impact from the reflection of general climate scenario characteristics and uncertainty.
- This relative book value-based asset loss was calculated using the S&P Climanomics® analysis tool and may be different from the actual impact on asset value.

(B) Areas of Significant Uncertainty Considered in the Assessment of Climate Resilience

| Category | Definition | Uncertainty |
|--------------------------|-----------------------------------------------------------------|------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|
| Carbon cost | • Future carbon price announced by the IEA scenario | • Each country’s carbon-related price volatility |
| Electric charge | • Industrial electric charge | • Possibility of an increase in electric charge |
| Charged allocation ratio | • National allowance allocation plan for plan period | • Possibility of a decrease in the free allocation ratio |
| Price of energy sources | • Price of electricity for industrial use, LPG, LNG, etc. | • Price volatility of major energy sources attributable to increased practicality of electric charges and emergence of disputes and wars caused by global geopolitical risks |
| Climate model | • IPCC’s climate change forecast model | • Climate system complexity and limitations in forecasts result in inherent uncertainty with regard to climate change’s pathway and impact |
| Financial loss model | • Relationship model between financial losses of physical risks | • There is a possibility of a gap with the actual financial impact owing to simplification and assumptions in the financial modeling application process |

(C) Company’s Ability to Adjust or Adapt Strategies and Business Models over the Short, Mid, and Long Term for Climate Change

| Category | Definition |
|------------------------------------------------------------------------|---------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|
| Establish net-zero strategies of Group subsidiaries | • We established and are implementing GHG emissions reduction plans for the overall company to achieve net-zero goals. To this end, we are executing comprehensive strategies that include increased use of renewable energy, development and adoption of low-carbon technologies, and reduction of carbon emissions of the supply chain. These efforts are expected to contribute to enhancing the company’s sustainability and minimizing climate change risks over the long term. |
| Identify and evaluate climate risks by climate change scenario | • We are evaluating each scenario’s impact on the company’s operational and financial performance by analyzing diverse climate change scenarios. By doing so, we are identifying climate risks and opportunities that we estimate in the short, mid, and long term, and establishing relevant strategies, thereby strengthening the company’s climate change response capabilities. This analysis provides important information for the company’s strategic decision-making and helps to raise adaptability to climate change and secure resilience. |
| Availability and flexibility of financial resources | • We issued green bonds worth KRW 100 billion in April 2024 and plan to distribute the funds for such projects as renewable energy and eco-friendly building projects. KT&G’s fund support areas for the green sector include diverse areas such as renewable energy, energy efficiency, clean shipping, adaptation to climate change, and preservation of land and aquatic creature diversity. Funds that are raised through green bonds will be used in diverse areas and are expected to contribute to responding to climate change. |
| Availability and flexibility of human resources and material resources | <ul style="list-style-type: none"> • Strengthen expertise to forecast changes in the carbon credit market and to carry out efficient trading • Closely monitor domestic and overseas policies/regulations related to climate change, and establish a response system in preparation • Raise the energy efficiency of production facilities and maintain indoor temperatures at appropriate levels • Install some uninterruptible power supplies to prepare for electric power risks, and adopt a central monitoring system to identify electric power consumption in real time • Operate an energy-saving taskforce to continually carry out energy-saving activities and measure performance • Analyze the economic feasibility of each renewable energy procurement option with the goal of 80% renewable energy by 2030 and use diverse means of implementation to execute the transition to renewable energy • Develop new high-efficiency technologies through R&D innovation and contribute to GHG reduction |

KT&G SUSTAINABILITY DISCLOSURE – [CLIMATE]

(2) Climate-related Scenario Analysis Method

(A) Information on the inputs used by the company

| Scenario | Definition | Reason for decision | Time frame | Source | Business scope |
|------------|------------|---------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|------------|--------------------------|----------------------------------------------------------------------------------------|
| Transition | NZE | • Scenario for the global energy sector to achieve zero net CO ₂ emissions by 2050 | -2050 | IEA World Energy Outlook | KT&G and Group subsidiaries (KGC, Yungjin Pharm, Tae-A Industrial, COSMOCOS, KGCYebon) |
| | APS | • Scenario that assumes that all climate promises made by governments across the globe, including the Nationally Determined Contribution (NDC) and long-term net-zero goals, will be met completely and in a timely manner | | | |
| | STEPS | • Scenario that reflects current policy setting based on an evaluation by area of specific policies that are currently being implemented and policies that were announced by governments | | | |
| Physical | SSP1-2.6 | • Assumes GHG reduction through strong climate policies and extensive adoption of renewable energy. Scenario in which the global community cooperates to actively respond to climate change and the temperature increase is restrained to 2°C or less by 2100 | -2050 | IPCC | 19 major business sites and 11 major supply chain sites in Korea and abroad |
| | SSP2-4.5 | • The current policy direction is maintained and mid-level GHG reduction efforts are reflected. Some renewable energy is used, but fossil fuels are also continually used. Accordingly, in this scenario, the rise in the earth's temperature exceeds 2°C. | | | |
| | SSP5-8.5 | • Scenario in which GHG emissions sharply increase, and continued use of fossil fuels and low-level climate change responses lead to a more than 4°C rise in the earth's temperature | | | |

(B) Major assumptions used for analysis

Major assumptions that were used in the climate change scenario analysis process were applied to various areas, including policy, energy, legal issues, technology, market, and reputation, and carbon price, energy intensity per GDP, the level of technological development of CCUS and ESS, unit price of renewable energy sources, and EV and hydrogen economy technology costs, etc. were used as major parameters.

Detailed assumptions of each scenario are as follows:

1) 1.5°C scenario

This scenario assumes an immediate global transition to a carbon-neutral economy and limits global warming to 1.5°C in accordance with the Paris Agreement. Cooperative efforts and action take place to reduce emissions, and global cooperation for net zero leads to execution of key measures. The carbon price was set as USD 50 for 2025, USD 140 for 2030, and USD 250 for 2050.

2) 2.0°C scenario

In this scenario, policies are executed to achieve the emissions reduction target of each country that was declared. However, more advanced policies are not implemented and therefore a temperature increase of more than 2.0°C is applied. Although relatively gradual and continued policy execution takes place, physical risk's occurrence frequency and impact are shown somewhat clearly. The carbon price was set as USD 45 for 2025, USD 135 for 2030, and USD 200 for 2050.

3) 4.0°C scenario

This scenario's premise is a temperature increase of more than 4.0°C by considering only the effects of current policies and action. Policy measures that can trigger transition risk are not implemented, resulting in a relatively low transition risk. However, physical risk stemming from climate change frequently occurs and becomes more extreme. The carbon price was set as USD 31 for 2025, USD 42 for 2030, and USD 89 for 2050.

(C) Analysis period

KT&G performed a climate-related scenario analysis within the reporting period.

I. KT&G SUSTAINABILITY DISCLOSURE – [CLIMATE]

II. Risk Management

1. Climate-related Risk and Opportunity Management Process (identify, assess, prioritize, and monitor)

(1) Inputs and Parameters

| Inputs and parameters | Data source |
|---------------------------|--------------------------------------------------------------------------------------------------------------|
| Policy execution level | Ministry of Environment and Ministry of Trade, Industry and Energy |
| GHG emissions trend | Company data |
| Emissions allowance price | Guidance for reporting and verification of GHG emissions trading scheme, provided by Ministry of Environment |

(2) Identification of Climate-related Risks and Opportunities

KT&G identifies the impact of potential risks and opportunities that climate change can cause to the company through climate scenario analysis, and uses this to strengthen climate change response activities and the risk/opportunity management system.

(3) Climate-related Risk and Opportunity Assessment Method

KT&G identifies and assesses climate-related risks and opportunities by using climate change scenario analysis. Climate change scenario analysis is conducted through a comprehensive analysis, including identifying and defining climate change risks, assessing relevance, and selecting appropriate scenarios. In addition, the analysis is enhanced by incorporating the insights of external expert panels comprising investment analysts, professors, and consultants, and internal evaluations from company members. Additionally, to identify more precise and detailed physical risk impact, we used S&P’s Climonomics® tool to advance climate change physical risk evaluation. By following this process, we measure the likelihood of climate change risks and their potential impacts under each scenario. We also identify key climate change risks and assess response strategies to mitigate impact and enhance resilience.

| Assessment method | Details |
|-------------------------|--------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|
| Qualitative assessment | <ul style="list-style-type: none"> Evaluate climate change risks’ sensitivity and exposure regarding KT&G’s business and management activities based on the climate change scenarios presented by IEA and IPCC |
| Quantitative assessment | <ul style="list-style-type: none"> Establish quantitative judgment criteria that can categorize low/mid/high for climate change risk’s likelihood and impact criteria <ul style="list-style-type: none"> Likelihood: Calculate the likelihood of risk occurrence based on climate change scenario as a percentage and categorize it into low (less than 30%), mid (30-70%) and high (more than 70%) Level of impact: Categorize into low, mid, or high by comprehensively considering financial impact (sales decrease, cost increase, etc.) and operational impact (decrease in production, supply chain setback, etc.) Measure the financial impact of climate-related physical risk by using the S&P Climonomics® analysis technique |

(4) Level of Priority of Climate-related Risks and Opportunities When Compared to Other Sustainability Risks

KT&G recognizes the significance of climate change’s impact on business, and integrates climate-related risks into the company-wide risk management system for management. In particular, when we evaluate identified risks of various types, we mainly categorize them into financial impact and non-financial impact, and apply risk evaluation criteria that comprehensively consider each risk’s likelihood and impact level. In addition, we recognize that climate risk has distinctive characteristics from other risks, such as long-term impact, possibility of regulation change, and impact on reputation, and we conduct an additional analysis during the double materiality assessment to identify and evaluate non-financial material issues. Internally, we evaluate climate risk’s financial impact and likelihood through climate scenario analysis. Externally, we identify climate issues’ social/environmental impact and level of stakeholder interest through stakeholder surveys. We combine these to calculate the materiality score of each sustainability issue, including climate risk, and determine priority.

As a result of a double materiality assessment, climate risk was identified as KT&G’s priority sustainability management issue. We accordingly established and are executing detailed risk reduction strategies. Leading mitigation measures that are being implemented are investments in preparation for natural disasters for major facilities and business continuity plan (BCP) as well as disaster recovery (DR) system inspections for short-term physical risks, and GHG reduction and energy transition investments for long-term transition risks. Climate risk index response activities are periodically reported to top management and the Sustainability Committee. We are transparently disclosing relevant information by participating in external initiatives, such as CDP.

(5) Monitoring of Climate-related Risks and Opportunities

KT&G monitors major parameters, including policy implementation level, GHG emissions trend, and carbon price, and updates climate change scenario analysis in the event of a major change or deviation to these metrics. There is a higher possibility of greater intensity of physical risks owing to high uncertainty over the level of GHG emissions reduction across the globe. Accordingly, we updated the climate change scenario analysis in 2023 including an analysis on the 4.0°C scenario with a high physical risk. The Sustainability Committee is supervising ESG/climate-related issues and risks while reviewing the company’s response strategies and policies and monitoring the operational performance and progress. In 2022, the audit planning team, which is an independent organization under the Audit Committee, inspected the ESG management execution status, including climate change issues, and reported the results to the Audit Committee.

(6) Changes in the Risk Management Process

Changes in the risk management process in KT&G’s reporting period are as follows:

| Change | Content |
|------------------------------------------------|---------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|
| Complemented the identification process | During the 2023 climate change risk and opportunity evaluation, we additionally formed and operated an internal working-level team of the ESG Working Group and outside advisory team |
| Change in identification and evaluation method | Made an update from physical risk scenario RCP to SSP |

I. KT&G SUSTAINABILITY DISCLOSURE – [CLIMATE]

II. 2. Integration with the Company-wide Risk Management System

KT&G established a climate change risk management process to preemptively respond to climate change and integrated it to the company-wide risk management system to advance the risk management process. For climate-related risks, the ESG Management Office in the Strategy Division performs control tower roles to oversee the identification of risks and opportunities and reports relevant content to the Sustainability Committee under the BOD. In addition, we inspect ESG issues including climate change response and environment-related risks through the Audit Committee, which is the final company-wide risk-supervising organization, and the audit planning team under the Committee and make a report to the Audit Committee. We review risk factors at least twice a year to identify and prevent risk factors that may arise in overall management, and integrate climate-related risks and opportunities as sub items of the non-financial risk area for management. We categorize and identify physical/transition risks stemming from climate change into short, mid, and long term according to materiality of the impact on business, and quantitatively analyze likelihood and financial impact through scenario analysis.

Metrics and Targets

1. Climate-related Metrics

(1) Greenhouse Gas

(A) Absolute total emissions (Market-based)

(Unit: tCO₂eq)

| Category | 2022 | 2023 |
|-----------------------------------------------|------------------|----------------|
| Scope 1 ¹⁾ | 74,258 | 72,087 |
| Scope 2 ¹⁾ | 117,160 | 113,585 |
| Scope 3 ²⁾ | 857,279 | 516,237 |
| C1 Purchased goods and services | 240,323 | 224,444 |
| C2 Capital goods | 45,281 | 103,537 |
| C3 Fuel- and energy-related activities | 23,508 | 23,423 |
| C4 Upstream transportation and distribution | 31,571 | 19,190 |
| C5 Waste generated in operations | 4,596 | 4,602 |
| C6 Business travel | 2,548 | 3,453 |
| C7 Employee commuting | 11,883 | 11,822 |
| C8 Upstream leased assets | 654 | 696 |
| C9 Downstream transportation and distribution | 14,744 | 10,903 |
| C10 Processing of sold products | 703 | 1,069 |
| C11 Use of sold products | 398,866 | 57,830 |
| C12 End-of-life treatment of sold products | 66,399 | 40,275 |
| C13 Downstream leased assets | 2,457 | 1,347 |
| C14 Franchises | 3,670 | 3,687 |
| C15 Investments | 10,077 | 9,961 |
| Total | 1,048,697 | 701,909 |

* Verification status: Third-party verification completed within the scope (based on GHG data management and collection, emissions calculation, and reporting processes)

** Verification principle: ISO 14064-1:2018(WRI/WBCSD GHG Protocol:2004, Corporate Value Chain (Scope3) Accounting and Reporting Standard

¹⁾ Scope of aggregation: All domestic business sites (138 buildings including manufacturing sites (Daejeon Plant 1 and 2, Yeongju Plant, Gwangju Plant, etc.), leased buildings, branches, offices, etc.) and overseas manufacturing sites of KT&G; and domestic and overseas manufacturing sites of subsidiaries.

²⁾ Scope of aggregation: KT&G and its subsidiaries (KGC, Yungjin Pharm, Tae-A Industrial, COSMOCOS, KGCYebon)

I. KT&G SUSTAINABILITY DISCLOSURE – [CLIMATE]

II. (B) Approach for emissions measurement

Guidelines that KT&G applied for measurement of GHG emissions are as follows.

Guidelines for Emissions Calculation

| Category | Guidelines |
|------------|------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|
| Scope 1, 2 | <ul style="list-style-type: none"> Guidelines on the operation of the target management of greenhouse gases in Korea Greenhouse Gas Protocol(GHG): A Corporate Accounting and Reporting Standard (Revised Edition) IPCC Guidelines for National Greenhouse Gas Protocol and Accounting Tool |
| Scope 3 | <ul style="list-style-type: none"> ISO 14064-1:2018 Greenhouse Gas Protocol: Scope 3 Guidance Corporate Value Chain(Scope 3) Accounting and Reporting Standard Methodology for External Projects by the Ministry of Environment |

KT&G is a company subject to K-ETS to which applies the Act on the Allocation and Trading of Greenhouse-Gas Emission Permits. In case of Korea, we applied the “Guidance for reporting and verification of GHG emissions trading scheme” and “ISO 14064-1 (2018)” when measuring Scope 1 and 2 emissions pursuant to the aforementioned law. We applied the GHG protocol for Scopes 1 and 2 and Scope 3 when measuring emissions for overseas business sites.

We applied [Appendix 4] Method for determining organizational boundary of the “Guidance for reporting and verification of GHG emissions trading scheme” and used the business site-level operational control method as our measurement approach. Accordingly, we did not disclose emissions of associates and joint ventures excluding subsidiaries.

In the reporting year, we recalculated Scope 3 emissions based on the year 2020. We adjusted the Scope 3 emissions category through discussions in the SBTi verification process. For more accurate calculation, we readjusted IPCC emissions factors as well and reflected additional emissions from overseas sales. In addition, we recalculated emissions in consideration of expansion of asset equipment scope and updated emissions factors to reflect the environmental impact of various kinds of tobaccos. Based on these changes, we recalculated base year data of 2020 and 2021. There are no other changes in the measurement approach, inputs, and assumptions in the reporting period.

Inputs and Major Assumptions

| Category | Inputs | | | | Major assumptions |
|----------------------------------------|---------------------------------------------------|-----------------|-------------------------------------------------------------------------------------------|-----------------------------------------------------------------------------------------|-----------------------------------------------------------------------------------------------------------------------------------------------------|
| | Activity data | | Emission factor | | |
| | Content | Type* | Content | Source | |
| Scope 1 | Fuel usage | 1 st | Emission factor by GHG type | (Electric power) IEA (Other than electric power) IPCC | - |
| Scope 2 | Electric power or heat (steam) usage | 1 st | Article 15 of the Guidance for reporting and verification of GHG emissions trading scheme | (Electric power) IEA (Other than electric power) IPCC | - |
| Scope 3 | | | | | |
| | Service | 2 nd | Emission factor by industry | WRI and Korea Energy Agency | Estimate emissions based on details of execution as intangible assets in CAPEX |
| | Partner companies' fuel usage and KT&G proportion | 1 st | Emission factor by fuel | Guidelines on the operation of the target management of greenhouse gases in Korea | Estimate emissions by reflecting proportion of delivery to our company from among major partner companies' GHG emissions |
| C1 Purchased goods and services (KT&G) | (Domestic) Leaf tobacco farm land area | 1 st | Emission factor when cultivating leaf tobacco | Common guidelines on measuring agricultural product GHG | Calculate emissions based on domestic leaf tobacco farms' fertilizer, crop protection material, and energy usage |
| | (Domestic) Leaf tobacco farm land area | 1 st | Emission factor when drying leaf tobacco | Directly measure emission coefficient when cultivating and drying leaf tobacco in Korea | Calculate emissions based on energy usage for drying leaf tobacco in Korea |
| | (Overseas) Leaf tobacco purchase amount | 1 st | Emission factor of imported leaf tobacco | Directly measure emission coefficient when cultivating and drying overseas leaf tobacco | Estimate emissions based on cultivation and drying LCA per overseas leaf tobacco purchase amount |
| | 6-year fresh ginseng purchase amount | 1 st | Emission factor of 6-year fresh ginseng | Ecoinvent and Ministry of Environment LCI DB | Estimate emissions by performing LCA for cultivating 6-year fresh ginseng |
| | Herbal medicine purchase amount | 2 nd | Emission factor by industry | WRI | Estimate emissions by applying the emission coefficient per industry based on herbal medicine purchase amount |
| C1 Purchased goods and services (K&G) | Materials and additives purchase amount | 2 nd | Emission factor by industry | Korea Energy Agency | Estimate emissions by applying the emission coefficient per industry based on each partner company's materials and additives purchase amount |
| | OEM company fuel usage | 1 st | Emission factor by fuel | Guidelines on the operation of the target management of greenhouse gases in Korea | Estimate our company's allocation from among OEM companies' emissions based on major OEM companies' fuel usage and ratio of delivery to our company |

*  Completed external verification by a third party for Scope 1, 2, and 3 data

KT&G SUSTAINABILITY DISCLOSURE – [CLIMATE]

Inputs and Major Assumptions

| Category | Inputs | | | | Major assumptions |
|----------------------------------------------------------------------------|-----------------------------------------------------------------------------------------|-----------------|----------------------------------------------------|------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|-------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|
| | Activity data | | Emission factor | | |
| | Content | Type* | Content | Source | |
| C1 Purchased goods and services (Subsidiaries other than KGC) | Product and service purchase amount | 2 nd | Emission factor by industry | WRI and Korea Energy Agency | Estimate emissions by applying the emission coefficient per industry based on the purchased product and service amount |
| C2 Capital goods (KT&G and its subsidiaries) | (KT&G) Capital budget investment performance (Subsidiary) Capital goods purchase amount | 2 nd | Emission factor by industry | WRI and Korea Energy Agency | Estimate emissions by applying the emission coefficient per industry based on the executed capital budget |
| C3 Fuel- and energy-related activities (KT&G and its subsidiaries) | Fuel usage | 1 st | Emission factor by fuel | (Domestic) Ministry of Environment LCI DB (Overseas) UK GOV conversion factor | Complement the electric power upstream emission coefficient by considering the emission coefficient of domestic electric power upstream and power generation step and power transmission and distribution loss rate |
| C4 Upstream transportation and distribution (KT&G and its subsidiaries) | Transportation method, distance, no. of times of transportation | 1 st | Emission factor by means of transportation | Ministry of Environment LCI DB and WRI Emission Factor | If it is difficult to secure data on the shipping method, shipping distance, and no. of times of shipping, calculate emissions based on shipping cost |
| | Transportation costs | 2 nd | | | |
| C5 Waste generated in operations (KT&G and its subsidiaries) | Waste treatment method and amount | 1 st | Emission factor by waste type and treatment method | Ministry of Environment LCI DB | Calculate emissions through the emission coefficient per waste type and treatment method |
| C6 Business travel (KT&G and its subsidiaries) | Types and distance of means of transportation | 1 st | Emission factor by means of transportation | Ministry of Environment's Guidelines for Low-Carbon Green Events | Calculate emissions by considering travel distance for business trip, means of transportation, and no. of people |
| C7 Employee commuting (KT&G and its subsidiaries) | No. of employees | 1 st | Emission factor by means of transportation | (Domestic) National transportation database, Korea Energy Agency's report on GHG emissions in the transportation sector, Ministry of Environment's Guidelines for Low-Carbon Green Events (Overseas) UNESCAP, Statista, Ministry of Environment's Guidelines for Low-Carbon Green Events | Estimate the distance per means of transportation in consideration of KT&G's no. of employees and annual no. of work days based on statistical data on the average commute distance and ratio of each means of transportation |
| | Average travel distance for daily commute | 2 nd | | | |
| | Ratio per means of transportation used by employees | 2 nd | | | |
| | Annual no. of days of work | 1 st | | | |

| Category | Inputs | | | | Major assumptions |
|------------------------------------------------------------------------------|--------------------------------------------------------------------------------------------------------------------------------------------------------|-----------------|-----------------------------------------------------------|-----------------------------------------------------------------------------------------------------------------------------------------------------------|-----------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|
| | Activity data | | Emission factor | | |
| | Content | Type* | Content | Source | |
| C8 Upstream leased assets (Subsidiaries) | Usage amount by fuel from leased assets | 1 st | Emission factor by fuel | Guidelines on the operation of the target management of greenhouse gases in Korea | Calculate emissions based on usage amount per fuel source of leased assets |
| C9 Downstream transportation and distribution (KT&G and its subsidiaries) | Transportation method, distance, no. of times of transportation | 1 st | Emission factor by means of transportation | Ministry of Environment's LCI DB and WRI Emission Factor | If it is difficult to secure data on the shipping method, shipping distance, and no. of times of shipping, calculate emissions based on shipping cost |
| | Transportation costs | 2 nd | | | |
| C10 Processing of sold products (Subsidiaries) | Customer sales and cost of sales | 2 nd | Emission factor by industry | Korea Energy Agency | Apply the industry's average sales if it is difficult to identify sales. Calculate the average ratio of cost of sales through the cost of sales in the same industry in case it is difficult to identify the cost of sales. |
| C11 Use of sold products (KT&G) | (Device charging) Average use when a device product is charged once | 1 st | Emission factor of domestic electric power | Guidelines on the operation of the target management of greenhouse gases in Korea | Estimate the total no. of times of charging by dividing the NGP stick sales volume by average use when the device is charged once |
| | (Device charging) NGP stick sales volume | 1 st | | | |
| | (Lighter combustion) Average no. of times of use per one lighter and volume of Butane | 2 nd | | | |
| C11 Use of sold products (KT&G) | (Cigarette combustion) Cigarette sales volume | 1 st | Emission factor by fuel | Guidelines on the operation of the target management of greenhouse gases in Korea | Estimate the total amount of Butane used by dividing total cigarette sales by average no. of times of use per lighter |
| | (Cigarette combustion) Data on cigarette sales volume and use of cigarette rod part raw material | 1 st | | | |
| | (Real estate) Year and total floor area of new real estate assets' completion of construction and sales in lots based on completed sales in lots/sales | 1 st | | | |
| | | | Emission factor during combustion by ingredient | Guidelines on the operation of the target management of greenhouse gases in Korea and Ministry of Environment's LCI DB | Calculate emissions by assuming combustion of the entire cigarette except the cigarette butt |
| | | | Emission factor based on total floor area by building use | Forecasting and characteristics of GHG emissions in the construction area based on the national energy statistics of the Architectural Institute of Korea | Estimate emissions that are generated during the period of life of the real estate that completed sales in lots |

KT&G SUSTAINABILITY DISCLOSURE – [CLIMATE]

Inputs and Major Assumptions

| Category | Inputs | | | | Major assumptions |
|--------------------------------------------------------------|----------------------------------------------------------------------------------------------------------|-----------------|--------------------------------------------------------------------------------------------------|--------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|---------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|
| | Activity data | | Emission factor | | |
| | Content | Type* | Content | Source | |
| C12 End-of-life treatment of sold products (KT&G) | (Cigarette) Annual sales volume, average length of cigarette butts | 2 nd | Emission factor by waste type and treatment method | Ministry of Environment's LCI DB | (Cigarette) Estimate the weight of cigarette wastes using sold tobacco weight * cigarette butts' average length ratio |
| | (Cigarette) Weight of filters and tobacco parts | 1 st | | | |
| | (NGP) Annual sales volume | 1 st | | | |
| | (NGP) Products' standard weight | 1 st | | | |
| | (Real estate) Amount of input per construction material of sold (sales in lots/sales) real estate | 2 nd | | | |
| C12 End-of-life treatment of sold products (Subsidiaries) | Materials and weight of sold products | 1 st | Emission factor by waste type and treatment method | Ministry of Environment's LCI DB | Apply the average ratio of each material and treatment method based on the national waste generation and treatment status |
| C13 Downstream leased assets (KT&G and its subsidiaries) | Usage amount by fuel from leased assets | 1 st | Emission factor by fuel | Guidelines on the operation of the target management of greenhouse gases in Korea | Calculate emissions based on the amount of fuel used by leased assets |
| C13 Downstream leased assets (KGC) | Costs of using fuel that was used by leased assets | 2 nd | | | |
| C14 Franchise (KT&G and its subsidiaries) | Total floor area per distribution channel | 2 nd | Emission factor based on total floor area per building use | Construction Technology Digital Library system | Comprehensive application of guideline areas because it is difficult to identify individual store's area information |
| C15 Investments (KT&G) | (Subsidiaries) Owned share and total floor area (Associates and joint ventures) Owned share and sales | 2 nd | Emission factor based on total floor area per building use and emission coefficient per industry | Forecasting and characteristics of GHG emissions in the construction area based on the national energy statistics of the Architectural Institute of Korea, WRI Emission factor | Estimate emissions by identifying annual emissions per area of subsidiaries and associates and reflecting the share ratio. In other cases, emissions were estimated by applying the emission coefficient per industry based on sales. |

* 1st data is data that was provided by suppliers or other companies that are related to specific activities in the value chain (data from meter checks, utility bills, or other methods that represent specific activities in the value chain) while 2nd data refers to industry average data provided by a third-party data supplier (disclosed database, government statistics, literature research, and industrial association data)

(C) Information on Contractual Instruments Related to Scope 2 Greenhouse Gas Emissions

The contractual instruments related to Scope 2 are as follows, and KT&G's market-based emissions for 2023 are 113,585 tCO₂eq.

| Means of contract | Energy source | Consumption (Mwh) | Contract period |
|------------------------------------------------------------|---------------|-------------------|-------------------------------|
| REC purchase (Gyeongcheon Energy and 23 other companies) | Solar Power | 3,204 | Jan. 1, 2022 - Dec. 31, 2022 |
| REC purchase (Jeju Energy Corporation and 1 other company) | Wind Power | 2,649 | Jan. 1, 2022 ~ Dec. 31, 2022 |
| REC purchase (Korea South-East Power) | Bioenergy | 8,393 | Jan. 1, 2022 ~ Dec. 31, 2022 |
| i-REC purchase (Indonesia) | Hydropower | 12,300 | Jan. 1, 2022 ~ Dec. 31, 2022 |
| i-REC purchase (Türkiye) | Geothermal | 2,518 | Jan. 1, 2022 ~ Dec. 31, 2022 |
| REC purchase (Dawon Energy and 26 other companies) | Solar Power | 7,974 | Jan. 1, 2023 ~ Dec. 31, 2023 |
| REC purchase (Korea South-East Power) | Bioenergy | 3,628 | Jan. 1, 2023 ~ Dec. 31, 2023 |
| i-REC purchase (Indonesia) | Hydropower | 14,948 | Jan. 1, 2023 ~ Dec. 31, 2023 |
| i-REC purchase (Türkiye) | Geothermal | 3,019 | Jan. 1, 2023 ~ Dec. 31, 2023 |
| Green energy (Russia) | Hydropower | 5,350 | Jan. 1, 2023 ~ Dec. 31, 2023 |
| Direct PPA (SK E&S) | Hydropower | 6 ¹⁾ | Dec. 31, 2023 ~ Dec. 30, 2024 |

¹⁾ Amount of consumed during the contract period in 2023

I. KT&G SUSTAINABILITY DISCLOSURE – [CLIMATE]

II. (2) Assets or Business Activities Vulnerable to Climate-related Transition Risks

KT&G's carbon emission intensity is not high compared to other industries owing to business characteristics, but the domestic tobacco business area's business sites are subject to K-ETS. As such, there is a possibility of exposure to risks stemming from changes in policies and regulations related to K-ETS. Considering the government's policy direction of strengthening regulations, such as its raising of the 2030 national GHG reduction target, we expect potential cost increase risks stemming from allowance price increases in the mid- to long-term future.

Accordingly, we are making diverse efforts to enhance energy efficiency and reduce GHG of overall business sites. We are increasing investments in energy-saving facilities and reducing GHG emissions intensity by raising process efficiency. Our mid- to long-term plan is to raise the proportion of electric power use in production processes and increase the ratio of renewable energy power generation. These efforts will respond to potential regulation changes and contribute to establishing a foundation for sustainability management.

| Assets or business activities | 2023 sales (KRW million) |
|------------------------------------------|--------------------------|
| Sales of business sites subject to K-ETS | 3,586,696 |

(3) Assets or Business Activities Vulnerable to Climate-related Physical Risks

KT&G used S&P's Climonomics[®] analysis tool to analyze the level of physical risk from climate change, targeting major business sites. Analysis results indicate that Türkiye, from among overseas business sites, has a relatively high physical risk compared to other business sites of KT&G. In detail, the respective region is analyzed to experience a rise in physical risk levels after the 2030s due to extreme temperatures caused by climate change and increased water stress from water resource shortage. Until now, there is no history of direct damage caused to the Türkiye business site by abnormal climate.

| Assets or business activities | 2023 sales (KRW million) |
|-----------------------------------|--------------------------|
| Sales of KT&G Türkiye Corporation | 36,238 |

(4) Assets or Business Activities Aligned with Climate-related Opportunities

KT&G categorized business activities classified as appropriate economic activities and suitable economic activities according to EU Taxonomy as assets and business activities aligned with climate-related opportunities.

| Assets or business activities | 2023 (KRW million) | |
|----------------------------------------------------------------------|--------------------|---------------------|
| | Sales | Capital expenditure |
| Power generation using photovoltaic technology | 369 | - |
| Installation, maintenance, and repair of renewable energy technology | - | 5,295 |

(5) Capital Deployment

| Category | 2023 (KRW million) | Details |
|----------------------------------------------------------------------|--------------------|-----------------------------------------------------------------------------------------------------------------------|
| Installation, maintenance, and repair of renewable energy technology | 5,295 | Transition to renewable energy by installing a photovoltaic power generation facility at the KT&G Gwangju Plant, etc. |
| Installation, maintenance, and repair of energy efficiency devices | 13,978 | Replace and adopt new facilities to raise energy efficiency, such as air conditioners and ventilation facilities |
| R&D of new biodegradable, low-carbon materials | 1,413 | Adopt new material R&D facilities and experiment equipment |
| Total | 20,686 | - |

(6) Internal Carbon Price

KT&G's internal carbon price was set as KRW 50,000/tCO₂e. The calculation method and methods applied to major assumptions and decision-making are as follows:

| Category | KT&G status |
|----------------------------------------------------------------|----------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|
| Whether applied to decision-making and method | <ul style="list-style-type: none"> Investment decision-making: When a GHG reduction investment is needed, the internal carbon price-based payback period is calculated and used to determine the investment's appropriateness and timing of adoption Other: Identify the investment's potential vulnerability (stress test) |
| Detailed application scope | <ul style="list-style-type: none"> All business sites (including overseas) |
| Major assumptions and calculation methodology | <ul style="list-style-type: none"> We estimated a reduction in free allocated allowances and the resulting rise in allowance prices and set KRW 50,000 per CO₂ ton for consideration of potential carbon cost in investment decision (Indonesia: 5,726,800 rupiah, Russia: 2,508 rouble, Türkiye: 693 lira) |
| Way of encouraging climate-related policy and target execution | <ul style="list-style-type: none"> The internal carbon price is used as a guideline for economic analysis and improves and promotes validity of investment activities that respond to climate change while considering potential carbon costs during investment decision. The internal carbon price is included in the calculation of the payback period of estimated cost reduction and emission reduction activities in climate-related investment activities. When we developed a plan to install a photovoltaic power generation facility on the rooftop of manufacturing facilities in Korea in 2022, internal carbon price was applied to calculate profit and alternative effects to encourage the investment of reduced costs in renewable energy facilities. In detail, we assumed an annual reduction of around 1,690 tons of emissions as a result of photovoltaic facility installation and applied internal carbon price, resulting in an estimation of around KRW 85 million in annual economic profit. In addition, since the internal carbon price is in operation, we changed the investment payback period calculation method from the previous "investment cost/energy-saving cost" to "investment cost/(energy-saving cost + internal carbon price)" to result in a shortened payback period for investments in climate change response activities. As reflected above, internal carbon price helps to make positive decisions in the internal investment policy and decision-making process of various emission reduction activities. It also performs roles as a major guideline for deciding the priority of reduction activities by comparing the financial impact of potential reduction effects. |

I. KT&G SUSTAINABILITY DISCLOSURE – [CLIMATE]

II. (7) Compensation (Management)

KT&G operates performance evaluation indexes by reflecting the performance of implementing ESG tasks, including climate change, in the remuneration of C-level management of each sector/HQ, including top management. In April 2024, we raised the ESG index weight from 5% to 10% when setting the CEO's short-term management goals. In particular, we more directly incorporated the performance of implementing GHG reduction goals to execute the Group's low-carbon transition strategy in the long-term management goals, thus reorganizing the compensation system to generate practical climate change response outcomes. Major climate-related KPIs that were reflected in the performance evaluation of the CEO and relevant headquarters' top management and organization in 2023 are as follows.

| Category | Major KPI | Percentage of compensation connected to climate-related matters in top management's compensation in 2023 |
|---------------------------------------------------|-----------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|----------------------------------------------------------------------------------------------------------|
| CEO | <ul style="list-style-type: none"> Development of distinctive competitiveness in business-specialized areas and ratio of ESG target execution Results of evaluated grade of three organizations - CDP climate/water, MSCI, KCGS | 5% |
| Top management, managers in charge, and employees | <ul style="list-style-type: none"> Total Scope 1+2 GHG emissions Renewable energy adoption ratio Cumulative EV transition rate Execution of improvement tasks connected to energy diagnosis results Leased buildings' purchase and use of renewable electric power | 5% |

(8) Industry-based Metrics

KT&G referred to the processed food and tobacco sectors from among Sustainable Industry Classification System (SICS) areas and industry classifications in the Industry-based Guidance on Implementing IFRS S2 to reflect the characteristics of the industry that KT&G belongs to.

2. Climate-related Targets

(1) Information Related to Metrics Used to Set the Targets (Target Metric, Objective, Application Scope, etc.)

KT&G established targets of 42% Scope 1+2 reduction by 2030 and net zero by 2045 in accordance with SBTi guidelines. This surpasses the reduction target of the 2030 NDC industry area of Korea, which is the region with jurisdiction of KT&G.

| Climate Targets | | | | | | (Unit: tCO ₂ eq) |
|-----------------------------|-----------------------------------------|--------------|--------------------------|-------------------|-------------------------------------------|-------------------------------------|
| Target metric | Objective | Scope | Target type | Base year | Mid-year | Final year |
| | | | | | 2030 | 2045 |
| Total Scope 1, 2 emissions | Climate mitigation | Company-wide | Absolute quantity target | (2020) 197,028 | 114,240 (42% reduction) | 0 ²⁾ (100% reduction) |
| Scope 3 emissions | Climate mitigation | Company-wide | Absolute quantity target | (2022) 857,279 | 691,605 (25% reduction ¹⁾) | |
| Renewable energy usage rate | Establish an eco-friendly energy system | Company-wide | Absolute quantity target | 0.1% | 80% | 100% |

¹⁾ Scope 3 mid-term reduction targets: Category 1, 3, 11

²⁾ In accordance with the SBTi guidelines, achieve net zero through 90% absolute reduction of GHG emissions and 10% offset

(2) Method of Monitoring Progress towards the Target

(A) Whether the set target was validated by a third party

To reduce GHG emissions, KT&G established mid- to long-term reduction targets according to the guidelines of SBTi, which is a global science-based reduction target initiative. We aim to complete SBTi validation in the future.

(B) Target review process

KT&G introduced and is implementing company-wide energy costs settlement system starting in 2022 to monitor energy emissions and water usage across all business sites. Under this system, each unit business site enters energy and water consumption in a computational system based on documentary evidence (utility bills). This has enabled us to check the implementation status of reduction targets for each business site and to forecast annual emissions by taking seasonal fluctuations into consideration. In January 2023, KT&G has expanded the implementation scope of the company-wide energy settlement system to include overseas manufacturing facilities (Indonesia, Türkiye, and Russia). In addition, the headquarters and domestic and overseas manufacturing sites are taking part in regular monthly video conferences (ESG Monthly).

KT&G SUSTAINABILITY DISCLOSURE – [CLIMATE]

(C) Monitoring metric for progress in achieving the target

KT&G monitors the following metrics in relation to the progress in achieving climate-related targets.

| Target metric | Progress monitoring metric | Mid-to long-term target | Year of achievement | Target | Target year |
|------------------------------|-------------------------------------|-------------------------|---------------------|--------|-------------|
| Scope 1, 2 emissions | Scope 1, 2 emissions reduction rate | 42% | 2030 | 100% | 2045 |
| Scope 3 emissions | Scope 3 emissions reduction rate | 25% | 2030 | 100% | 2045 |
| Renewable energy consumption | Renewable energy conversion rate | 80% | 2030 | 100% | 2045 |

(D) Target revision and explanation

To prepare for future risks stemming from GHG emission-related regulations and carbon price increases that may arise in the future through our internal carbon pricing system and active investments in renewable energy facilities, we raised our mid- to long-term GHG reduction target for 2030 from the SBTi's well-below 2°C (Scope 1+2) and 2°C (Scope 3) scenarios to 1.5°C (Scope 1+2) and well-below 2°C(Scope 3) scenarios in 2022.

| Target metric | Progress monitoring metric | Year of achievement | Before change | After change |
|---------------------|------------------------------------|---------------------|---------------|-------------------------------------|
| Scope 1&2 emissions | Scope 1&2 emissions reduction rate | 2030 | 42% | 42% |
| Scope 3 emissions | Scope 3 emissions reduction rate | 2030 | 25% | 25% (Targeting categories 1, 3, 11) |

(3) Analysis of Performance against Target

KT&G's performance against its mid- to long-term climate-related targets is as follows. KT&G aims to reduce Scope 1 and 2 emissions by 42% from 2020 levels and reduce Scope 3 emissions by 25% by 2030, and achieve net zero by 2045.

[Reduce direct emissions (Scope 1)]

GHG directly emitted by KT&G arises from process gas and LNG fuel, etc. that are used mainly in manufacturing processes. To reduce direct emissions, we are switching utility facilities to high-efficiency facilities and recovering waste heat that is generated during processes to reduce fuel consumption. In addition, sales organizations with considerable gasoline and diesel mobile combustion emissions changed 6% of business fleets to EVs as of 2023 and plan to complete 100% transition to EVs by 2030.

[Reduce indirect emissions (Scope 2)]

KT&G supports the global initiative RE100 and seeks to achieve a business site renewable electricity usage rate of 80% by 2030. To this end, we built a 3.1 MWp-level photovoltaic power generation facility on the rooftop of the Gwangju Plant in 2023 and plan to build 26.2 MWp-level photovoltaic power generation facilities on the rooftop of manufacturing plants and unused sites by 2026. In 2023, we signed 12 MWp-level PPAs at 17 business sites in Korea and are being supplied with renewable energy which we plan to expand further. Starting in 2022, we have been purchasing domestic and overseas RECs, thus increasing Scope 2 reduction and renewable energy ratio.

| Indicators for monitoring goals and progress | 2022 Performance | 2023 Performance | Mid-to long-term target (2030) | | Final target (2045) | |
|----------------------------------------------|----------------------------------------|------------------|--------------------------------|-----------------------------------------|----------------------|-----------------------------------------|
| | | | Target | Achievement rate for the reporting year | Target | Achievement rate for the reporting year |
| Scope 1, 2 (market-based) | Emissions | 191,418 | 185,672 | 114,276 | | 0 |
| | Reductio rate compare to the base year | 7.52% | 9.0% | 42% | 13.7% | 100% |
| Scope 3 | Emissions | 857,279 | 516,237 | 691,605 | | 0 |
| | Reductio rate compare to the base year | -% | 39.8% | 25% | 205.9% ¹⁾ | 100% |
| Renewable energy conversion rate | 10.8% | 13.5% | 80% | 16.9% | 100% | 13.5% |

¹⁾ Due to the significant reduction in emissions from the real estate division, which has high volatility in greenhouse gas emissions, Scope 3 emissions for 2023 have changed significantly.

(4) Information on GHG Emissions Reduction Target

(A) Type of greenhouse gases included in the GHG emissions reduction target, scope, and whether it is total emissions

KT&G set a reduction target for Scope 1 and 2 emissions. The Scope 1 emissions that we consider include six GHGs (CO₂, CH₄, N₂O, HFCs, PFCs, SF₆), and Scope 1 emissions include three GHGs (CO₂, CH₄, N₂O). On a separate basis of KT&G, a total of three GHGs (CO₂, CH₄, N₂O) were identified for Scope 1 and 2 emissions.

| Category | GHG type | | | | | |
|----------|-----------------|-----------------|------------------|------|------|-----------------|
| | CO ₂ | CH ₄ | N ₂ O | HFCs | PFCs | SF ₆ |
| Scope 1 | ○ | ○ | ○ | X | X | X |
| Scope 2 | ○ | ○ | ○ | X | X | X |

(B) Whether the sectoral decarbonization approach was used

KT&G does not use the sectoral decarbonization approach for the GHG emissions reduction target as of the end of the reporting period but is considering its use for effective emissions reduction.

- I.
- II.
- III.
- IV.

FROM PRINCIPLES TO PRACTICE.

For sustainable management to go beyond principles or beliefs and produce true value, a strategic approach and practical execution are necessary. KT&G has set “Strengthen business growth momentum” and “Manage global major ESG agenda” as its mid-to long-term sustainability management direction. Guided by the sustainability management direction, we are realizing our sustainability management vision of “2025 Empowering Sustainability for Growth” by strengthening the competitiveness of ESG-aligned businesses based on the 2027 New Vision and enhancing the group-wide strategies for sustainable growth.

FOCUSING ON NEW FUTURE GROWTH ENGINE OF TOBACCO BUSINESS



MANAGEMENT APPROACH

KT&G is fully committed to platform innovation, leveraging its unique business know-how and R&D capabilities. We are focused on boosting the competitiveness of our NGP (Next Generation Products) business, which serves as both a core business and a vital driver of future growth. Furthermore, KT&G strives to establish a foundation for sustainable growth by endeavoring to provide consumers with better choices in product development and production. We also seek to build trust with various stakeholders through responsible marketing activities that strictly adhere to regulations.

KEY PERFORMANCE INDICATORS

Unit sales of sticks¹⁾

13.95 billion



NGP patent application performance

2,025 cases



KOLAS²⁾-certified items

306 cases



¹⁾ Domestic sales volume + Overseas export volume + Overseas PMI shipment

²⁾ Korea Laboratory Accreditation Scheme (under the Korean Agency for Technology and Standards)

I. NGP (NEXT GENERATION PRODUCTS)

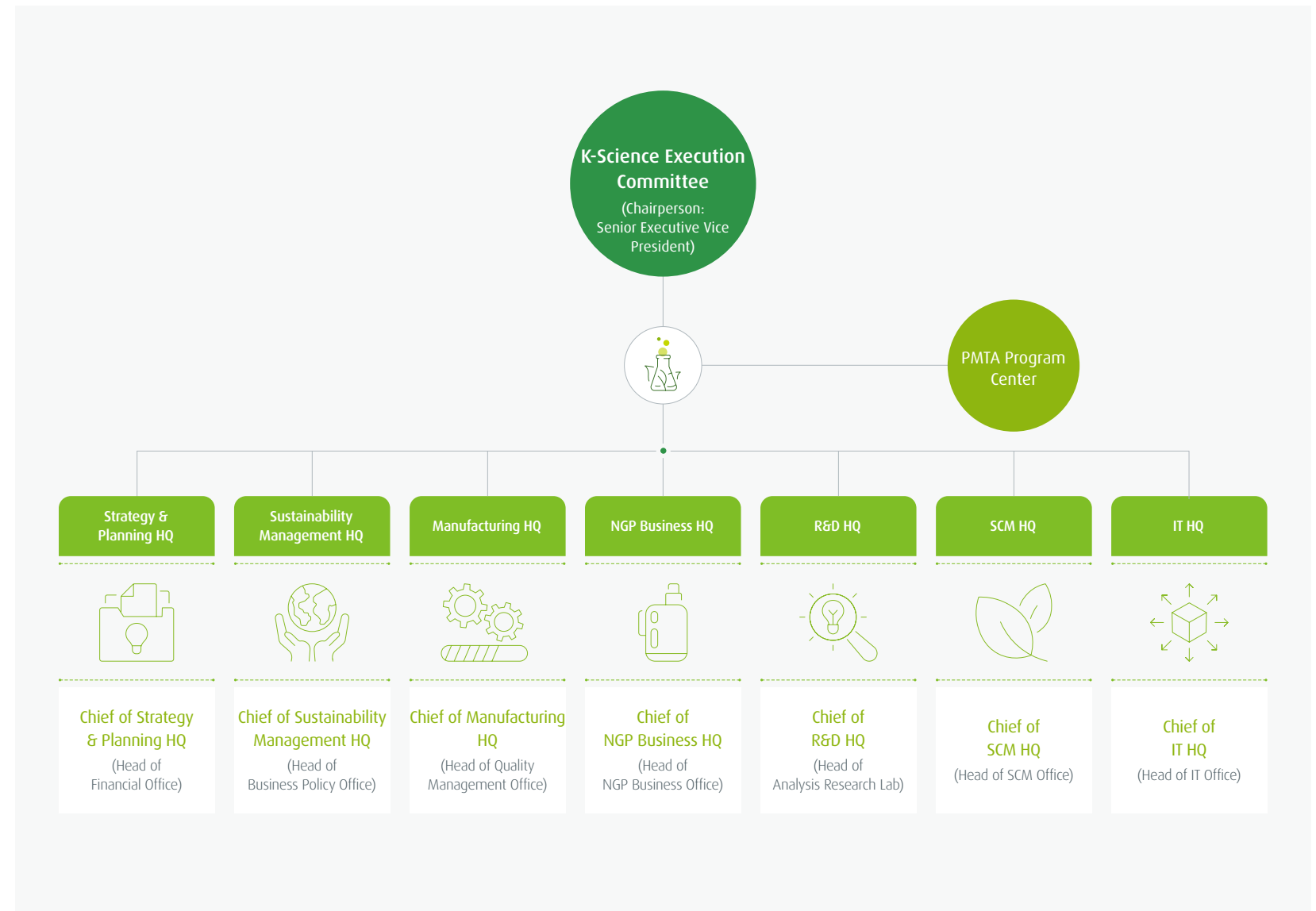
II. Governance to Strengthen Scientific Capabilities

III. Decision-Making Body

The NGP (Next Generation Products) business is a core segment and future growth driver of KT&G. We are therefore dedicated to strengthening our unique competitive edge, based on scientific capabilities and innovation platforms, in order to maintain global growth momentum in the NGP sector and create new opportunities.

In particular, based on scientific capabilities, we are enhancing the product evaluation system and operating the K-Science Execution Committee to provide better choices for consumers. Composed of executives from the related business divisions, the Committee reviews and manages the entire program, including investments in research and development (R&D), and also operates a body in charge of making major decisions. KT&G aims to obtain approval from the U.S. FDA's Pre-Market Tobacco Application (PMTA) for our products – a goal which requires advanced research expertise and partnerships with various global institutions. To reinforce our driving force, we have recruited a foreign expert with extensive experience in this field as the head of a related organization. We aim to continuously enhance the operational system for the development of innovative products and response to global regulations through the establishment of organizational and human infrastructure, and collaboration among the related divisions, including NGP Business HQ, R&D HQ, and Sustainability Management HQ.

K-Science Execution Committee



I. NGP (NEXT GENERATION PRODUCTS)

Roles by Division

| Category | Roles |
|---------------------|-------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|
| Execution Committee | <ul style="list-style-type: none"> Review detailed execution tasks and milestones by field Review, manage, and approve the overall PMTA program and related investments |

| | |
|-----------------|----------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|
| NGP Business HQ | <ul style="list-style-type: none"> Execute product planning (platform portfolio, development of product concepts), product development (expanding consumables, implementing and commercializing unreleased innovative platform technologies), and quality enhancement (discovery and application of new materials and components) Manage intellectual properties (analysis of patents related to NGP, management of IP risks, acquisition of intellectual property rights) |
|-----------------|----------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|

Roles & Responsibilities of NGP Business HQ

| Product Planning | Product Development | Quality Enhancement |
|---------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|-------------------------------------------------------------------------------------------------------------------------------------------------|
| <ul style="list-style-type: none"> Planning the platform portfolio Securing prior technology and basic realization Developing product concepts | <ul style="list-style-type: none"> Implementing and commercializing unreleased innovative platform technologies Expanding consumables (sticks, etc.) | <ul style="list-style-type: none"> Discovering and applying new materials and components Upgrading the release platform |
| Intellectual Property (IP) Rights Management | | |
| Analyzing patents related to NGP | Managing IP-related risks | Securing IP rights |

| | |
|--------|----------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|
| R&D HQ | <ul style="list-style-type: none"> Operate a control tower organization (PMTA Program Center) for PMTA approval application, establish research strategies, and optimize research designs for scientific validation Monitor phase-specific goals, schedules, and issues related to PMTA promotion; and secure and manage the infrastructure needed to achieve such goals Establish non-clinical methods of evaluation and conduct research on bioinformatics and toxicological statistics Establish aerosol/product evaluation methods and conduct characterization research; and evaluate and manage the physical and chemical properties of aerosol and the safety of additives and materials Conduct research on smoking behavior and consumer perceptions, and build a comprehensive consumer information big data system |
|--------|----------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|

| | |
|-------------------------|------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|
| NGP Business Legal Team | <ul style="list-style-type: none"> Review the regulations in different countries to ensure that expansion of the NGP business into overseas markets complies with the regulations from product launch to sales, and manage the associated risks Analyze the relevant laws and regulatory requirements necessary for PMTA approval and provide this information to the relevant departments <ul style="list-style-type: none"> Provide support to ensure a smooth approval process based on a legal review of the submission documents, and ensure compliance with the regulatory standards Coordinate legal issues with the approval authorities through internal and external expert groups, and continuously monitor regulatory compliance after approval |
|-------------------------|------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|

Matters Related to Top Management Remuneration

KT&G's remuneration for executive directors (including short-term and long-term incentives) is determined according to the results of annual short-term management evaluations and a triennial long-term management evaluation. In particular, for strategic core businesses like the NGP (Next Generation Products) business, these evaluations take into account not only the directors' financial performance but also their achievements in enhancing product risk reduction capabilities, expanding global portfolios, and strengthening the competitiveness of platforms such as the launching of new platforms. On the basis of these evaluations, KT&G aims to clearly define the management's responsibilities in consolidating the growth foundation of the NGP business and to enhance operational effectiveness across the entire organization.

| Category | Content |
|---------------------|-------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|
| Remuneration Policy | <ul style="list-style-type: none"> Salary: According to the Remuneration Policy for Executive Directors, the base salary is determined by a board resolution, taking into account their positions, delegated responsibilities, and roles. Adjustments may be made by a board resolution as deemed necessary due to changes in management conditions. Performance Bonuses: According to the Remuneration Policy for Executive Directors, annual short-term incentives and triennial long-term incentives are paid based on evaluations of management performance. <ul style="list-style-type: none"> Short-term Incentives: These are paid annually following a board resolution that reflects the evaluation results against the annual objectives by integrating quantitative and qualitative indicators of major matters for the year. The payment ranges from 0% to 280% of the base salary for the CEO and from 0% to 165% for other executive directors. Long-term Incentives: These are paid every three years based on comprehensive evaluations of long-term management performance. Following a board resolution, payments range from 0% to 600% of the base salary for the CEO and from 0% to 300% for other executive directors, consolidating quantitative indicators of key management issues. To promote responsible leadership and maximize shareholder value, the company operates a stock compensation system linked with performance. For executive directors, including the CEO, stock-based compensation is provided in the form of restricted stock units (RSUs) subject to transfer restrictions. Employee Benefits: Under the Remuneration Policy for Executive Directors, benefits include health diagnosis expenses, accident insurance, and other forms of support. |

| Corresponding Personnel | Executive director | | | |
|-------------------------|--------------------|----------------------------------------------------------------------|------------------------|-------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|
| | Name | Position | Type of Compensation | Calculation Standards and Methods |
| | Bang, Kyung-man | CEO (BOD, Sustainability Management Committee, Management Committee) | Labor Income (Bonuses) | <ul style="list-style-type: none"> Short-term Incentives: A comprehensive evaluation consisting of quantitative indicators, such as revenues, operating profit, and ESG performance, and qualitative indicators such as enhancement of ESG management, strengthening of core growth businesses, enhancement of business infrastructure, and expansion of business portfolios. Notably, the NGP (Next Generation Products) business, one of three core businesses, is evaluated not only with revenue and operating profit performance, but also with qualitative indicators such as the ability to reduce product risks, expansion of global portfolios, and enhancement of quality management. Long-term Incentives: An objective evaluation based on quantitative indicators including revenues, operating profit, ROE, ESG task outcomes, and TSR (Total Shareholder Return). Specifically, the number of NGP platform launches is selected as a specialized ESG core initiative task to help evaluate the company's progress in implementing NGP growth strategies. Assigning responsibility to management for implementing strategic initiatives to consolidate the foundation of the NGP business. |

I. NGP (NEXT GENERATION PRODUCTS)

II. Strategy

2025 NGP Business Vision & Strategy

Accelerating NGP Global Business

KT&G is focusing on strengthening its unique competitive edge to maintain growth momentum for global expansion and create new opportunities in the NGP business, which is the company's core business and growth driver. We are continuously investing in the development of new models and products to actively respond to diverse consumer needs. In particular, we strive to offer better choices for adult smokers by diversifying our NGP platform and strengthening our product portfolio competitiveness based on scientific capabilities. Moving forward, KT&G aims to emerge as a "Global Top-tier" player in the NGP market by proactively addressing both domestic and international regulations to minimize related risks and advancing the product evaluation system to meet global standards.

NGP Growth Strategy

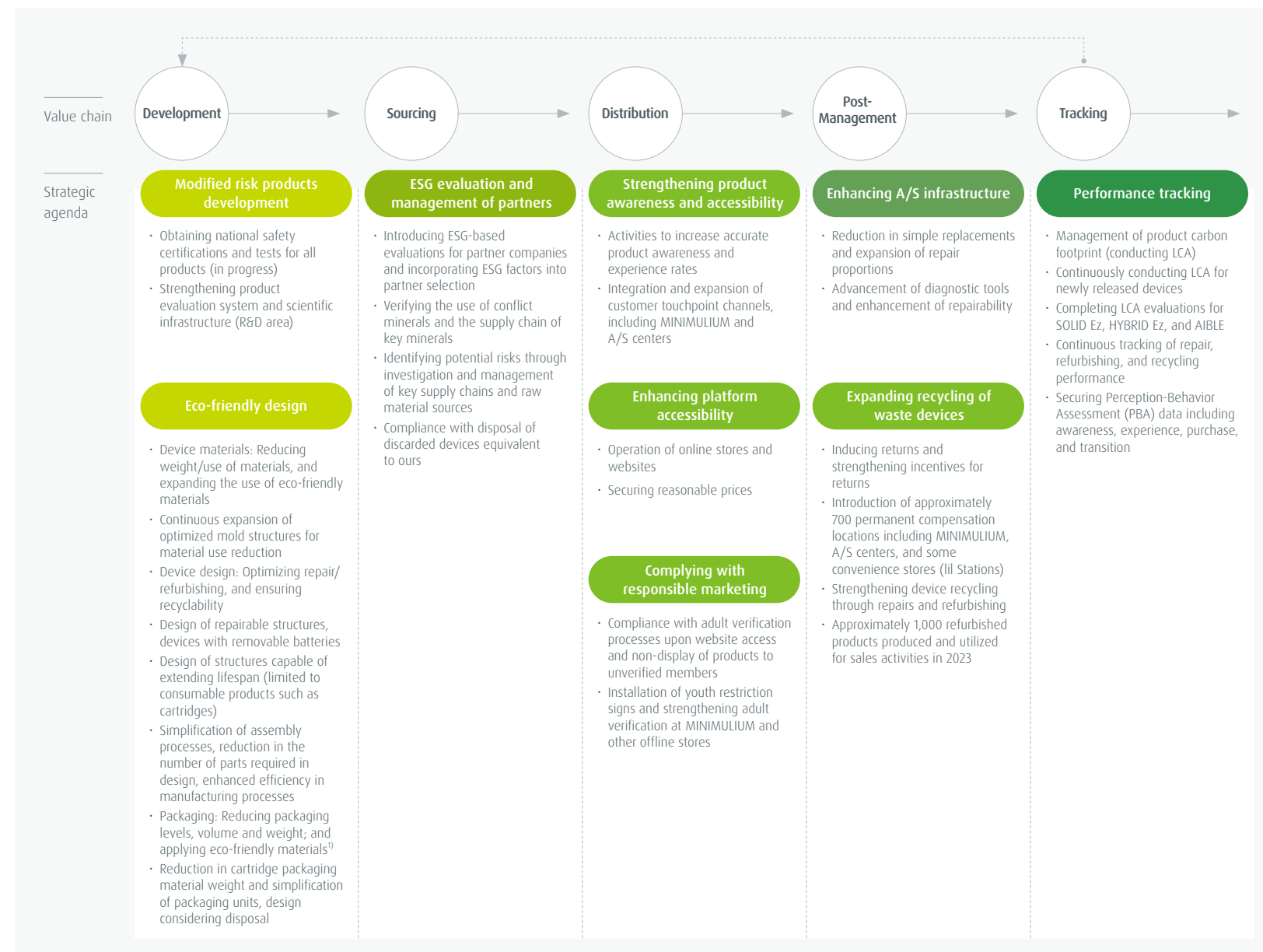


NGP (NEXT GENERATION PRODUCTS)

Strategy 1. Reinforce Strategic Tasks for Sustainable Growth

In pursuit of its NGP business vision, KT&G is committed to sustainable growth, focusing its efforts on fulfilling social and environmental responsibilities throughout the entire value chain –from product development to production, sales, as well as post-sale management and performance measurement. To achieve these goals, we have identified and implement 24 strategic initiatives, taking into account the perspectives of various stakeholders within its value chain, including supply chains, consumers, local communities, and the natural environment, all aimed at fostering long-term growth. We plan to establish a management system where sustainability is integrated into product competitiveness. This will be achieved through the systematic implementation and continuous enhancement of strategic initiatives, such as developing modified risk products, evaluating and managing supply chain ESG, adhering to responsible marketing, expanding material recycling for waste devices, and tracking performance.

NGP Strategic Tasks by Value Chain



¹⁾ Externally certified eco-friendly materials, recycled materials, recyclable materials, renewable materials, biomass materials, and biodegradable materials including compostable materials

I. NGP (NEXT GENERATION PRODUCTS)

II. Risks and Opportunities Related to the NGP Business and Their Impacts

In identifying risks and opportunities associated with the NGP business that could reasonably affect the company's outlook, KT&G referenced the SASB (Sustainability Accounting Standards Board) standards for the Food & Beverage sector, focusing specifically on disclosure topics related to tobacco and processed foods.

Current and Anticipated Impact on the Business Model and Value Chain

KT&G's tobacco business model includes: ① research and development for products and technology, ② production, and ③ sales and marketing. The value chain activities encompass: ① sourcing raw materials and supplies, ② distributing and transporting both inputs and outputs, and ③ use and disposal of sold products at the downstream.

Rapid Changes in Consumer Needs and Scientific Validation As the need for less smell & modified risk products among smokers expands and major companies in the global market continue to develop new products that can replace conventional cigarettes (CC), it is essential to adopt strategies to secure a favorable position in the tobacco market competition. Additionally, failing to diversify the portfolio centered on future innovation platforms that meet market demand and consumer needs in a timely manner poses a risk of losing potential consumers or experiencing poor sales. Therefore, efforts to enhance next-generation platforms based on scientific R&D capabilities, offering more diverse choices to consumers, primarily impact the product and technology research and development aspect of the business model and value chain.

In response, KT&G has established global institutional partnerships and recruited overseas experts (Head of the K-Science Execution Office (PMTA Program Center)) to secure research expertise. The company is also continually investing in product and technology R&D to diversify its portfolio.

Policy and Regulatory Uncertainty The e-cigarette industry is rapidly growing, and consequently, the policy and regulatory landscape in various countries is also rapidly changing. Despite these uncertainties, KT&G adheres to ESG principles for sustainable management and meticulously analyzes and prepares for changes in policies and regulations in various countries. In 2022, KT&G established the NGP Business Legal Team under the Sustainability Management HQ to proactively review varying regulations in different countries as NGP business enters foreign markets, ensuring that product launches and sales occur within regulatory frameworks and addressing related risks proactively. KT&G will continue to flexibly respond to changes in policies and regulations, ensuring ongoing legal compliance.

Expansion of Sales Markets As consumer demand for less smell & modified risk products increases, there is an anticipated rise in the need for diversification of next-generation products. Particularly, the global demand for Heat Not Burn (HNB) category products is expected to grow by more than 9% annually. In the domestic market, HNB products have rapidly increased their market share, reaching about 21%¹⁾ in the first quarter of 2024. This signifies that KT&G needs to expand its market share through strategic market preemption and innovative product development, and expects to generate added value and improve earnings through the expansion of NGP sales. KT&G launched the first generation of lil SOLID in 2017, starting the NGP business, and recorded a domestic market stick share of 45.7%¹⁾ in the first quarter of 2024.

Intensified Market Competition The global tobacco market size is continuously shrinking due to ongoing inflation leading to price increases, changes in regulations resulting in increased consumer goods, and decreasing social acceptance of smoking. Conversely, as consumer needs for NGP expand, competition among tobacco manufacturers for the development of new products that can replace CC based on strategic brand portfolio, product quality improvement, and innovation, and brand recognition, is likely to intensify. Particularly, as global tobacco companies actively push for market entry and expansion of smoke-free products, failure to secure market preemption could lead to risks such as market share decline and profit reductions due to aggressive marketing.

Risks and Opportunities Related to the NGP Business

| Risk and Opportunity | Definition |
|----------------------|---------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|
| Risk | <p>Rapid changes in consumer needs and scientific validation</p> <ul style="list-style-type: none"> Failure to timely diversify the portfolio centered on future innovation platforms that meet market demand and consumer needs may result in losing the opportunity to be chosen by consumers and poor sales. |
| Risk | <p>Policy and regulatory uncertainty</p> <ul style="list-style-type: none"> There is uncertainty regarding the regulatory authorities' approval and marketing approval of scientifically proven information and claims related to modified risk products. |
| Opportunity | <p>Expansion of sales markets</p> <ul style="list-style-type: none"> While the consumption of conventional cigarettes is declining due to decreasing social acceptability of smoking and regulatory changes, the demand for less smell & modified risk products is expanding. This trend is expected to lead to an increase in the market size of this sector within the tobacco industry. |
| Risk | <p>Intensified market competition</p> <ul style="list-style-type: none"> As market needs for NGP products expand, active development of new products that can replace conventional cigarettes is underway. Global tobacco companies are intensifying competition among manufacturers by actively expanding and entering the market with smoke-free products. |

¹⁾ Based on CVS POS data

I. NGP (NEXT GENERATION PRODUCTS)

II. Strategy and Decision-Making

III. Promotion of Tasks and Performance for Risk and Opportunity Response

| NGP Business Implementation Strategy | Key Focus Areas | Content | Related Risks and Opportunities |
|----------------------------------------------------------------------|----------------------------------------------------------------------------------|------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|-------------------------------------------------------------------------------------------------------------------------------------------------------------|
| Reinforce portfolio competitiveness based on the innovative platform | Enhance device development capabilities | <p>[Product Portfolio Diversification]</p> <ul style="list-style-type: none"> • lil HYBRID Platform: KT&G’s first proprietary platform launched in 2018. It combines a liquid cartridge with traditional electronic cigarette devices to increase vapor production. • lil HYBRID 2.0 Platform: Combines sticks and liquid cartridges, holding a rich vapor volume. • lil HYBRID 3.0 Platform: Offers three smoking modes, pause during use, and other consumer-friendly features to meet demand. • lil SOLID 2.0 Platform: A second-generation model launched in 2021 that greatly improves consumer convenience. It directly heats the medium inside the stick, creating a smoking experience similar to CC. • lil SOLID Ez (entry-level) Model: Launched in 23 countries, expanding stick SKUs to achieve visible success globally. • lil AIBLE Platform: KT&G’s second proprietary platform launched in 2022. It allows the use of three dedicated stick types – Real, Granular, Vapor Stick – with one device, expanding consumer choices through national launch. <p>2024 Plan: Expand the countries launching lil SOLID Ez and transition to the third generation of lil HYBRID to accelerate growth in the global market</p> | <ul style="list-style-type: none"> • Rapid changes in consumer needs and scientific validation • Intensified market competition |
| | Expand into business areas “Beyond Nicotine” | <p>[Enhancing NGP Technological Competitiveness]</p> <ul style="list-style-type: none"> • Patent status in the NGP field over the past three years: A total of 4,374 cases (2023 Performance: 2,025 patent applications, 683 registrations) • 2024: Establish a device quality reliability lab to ensure device quality safety <ul style="list-style-type: none"> • Exploring alternative materials for use as HNB stick mediums • Ongoing research and development of new functional delivery substances and methods, and device development • Reviewing the development of an inhalation science-based functional substance delivery system capable of providing new experiences and values, such as nicotine-free mediums, in response to the growth of various alternative product markets | <ul style="list-style-type: none"> • Rapid changes in consumer needs and scientific validation • Expansion of sales markets |
| Promote global NGP business | Establish supply infrastructure through global stick production sites | <ul style="list-style-type: none"> • Designing a new factory in Kazakhstan as a hybrid factory capable of producing NGPs in addition to conventional cigarettes, to flexibly respond to global stick demand • Securing mid- to long-term key global production hubs to contribute to the Group’s mid-to long-term vision | <ul style="list-style-type: none"> • Expansion of sales markets • Intensified market competition |
| | Secure successful business models by advancing PMI partnerships | <ul style="list-style-type: none"> • Established a foundation to expand KT&G’s innovative platforms into the global distribution network by signing a 15-year distribution agreement with PMI in January 2023 • Securing a revenue generation structure that ensures long-term stable profitability in the face of intensified competition among global competitors in the NGP business area | <ul style="list-style-type: none"> • Expansion of sales markets • Intensified market competition |
| Secure world-class scientific R&D capabilities | Develop modified risk technology and strengthen safety verification capabilities | <ul style="list-style-type: none"> • Strengthening modified risk scientific capabilities to enhance research capabilities for approval of Pre-Market Tobacco Application (PMTA) governed by the U.S. FDA • Targeting evidence acquisition comparable to PMTA standards, adopting “K-Science” as the R&D direction to dedicate efforts towards securing scientific capabilities <hr/> <ul style="list-style-type: none"> • Obtaining international certifications (including domestic KC) such as CE, CB, EAC, and PSE to meet the specific requirements of expanding export markets <hr/> <ul style="list-style-type: none"> • Conformity assessment of component materials for production and sale of products compliant with the EU Tobacco Products Directive • Manufacturing NGP sticks with raw materials managed through international safety standards and a long-established internal quality system • Introduction of an IT system for integrated management of additives (2023) to efficiently manage additive information and ensure material safety • Establishment of vitro toxicological assessment methods for modified risk and exposure reduction in NGPs, to verify biological safety and evaluate compliance with company standards <hr/> <ul style="list-style-type: none"> • Establishing regulatory component assessment methods for proving aerosol generation reduction/safety | <ul style="list-style-type: none"> • Rapid changes in consumer needs and scientific validation. • Policy and regulatory uncertainty |
| | Facilitate internal and external networks for advanced research infrastructure | <ul style="list-style-type: none"> • Enhancing external scientific communication through publishing papers in domestic and international journals and conducting presentations at global conferences (related to aerosol/toxicity/clinical research methods and results) • Conducting international joint research and participating in academic activities with global institutions such as CORESTA (Cooperation Centre for Scientific Research Relative to Tobacco) and ACS (Asian Collaborative Study on Tobacco) – hosted ACS in May 2024 and organized CORESTA board meeting in June 2024 | |

I. NGP (NEXT GENERATION PRODUCTS)

II. Reinforce Portfolio Competitiveness based on the Innovative Platform

The NGP (Next Generation Products) business maintains a robust growth trajectory based on innovative platforms and differentiated brand strategies. As of the end of 2023, KT&G has maintained its position as the market leader in the domestic NGP market with a 46.6%¹⁾ market share. The key to achieving the top market share position, despite being a relative newcomer, primarily lies in broadening consumer choice through product differentiation based on thorough analysis of consumer preferences.

As our market share expands, we are fully committed to developing systems that collect diverse consumer feedback and meet their needs. We are particularly focused on enhancing our communication channels through our online website, customer service centers, and after-sales service operations.

III. 1-1. ENHANCE DEVICE DEVELOPMENT CAPABILITIES

Diversifying Product Portfolio

KT&G's proprietary devices and platform-specific sticks are not only competitive advantages for KT&G but also offer expanded choices for consumers. Therefore, KT&G is proactively identifying customer needs and actively using its scientific capabilities to continue innovating devices, while expanding its platform-specific stick portfolio. In 2022, KT&G introduced a new paradigm in the NGP market with the launch of "lil AIBLE," an innovative platform equipped with AI technology. In 2023, KT&G introduced the third-generation model "lil HYBRID 3.0," which combines KT&G's innovative technology and consumer convenience considerations.

lil SOLID (P1) 2.0 Platform

The P1 platform is an original heating type that captures the unique flavor of tobacco by directly heating the tobacco medium (the main material comprising the stick), offering satisfaction similar to CC and dramatically reducing odor because it does not burn. The Fiit exclusive sticks apply high-quality leaf tobacco manufactured into a tobacco sheet, designed with an optimal stick structure that combines various filters to deliver rich flavor and vapor volume. Particularly, the induction heating system applied to lil SOLID 2.0, launched in Korea in 2020, uniformly heats the entire heating rod through induction heating technology. It also features benefits like three consecutive uses, up to 30 sticks per use, and customizable stylar deco. As of June 2024, the P1 platform has entered 31 countries (excluding Korea) through a strategic alliance with PMI.



¹⁾ Based on CVS POS data

I. NGP (NEXT GENERATION PRODUCTS)

II. lil HYBRID (P2) 3.0 Platform

The P2 platform is KT&G’s proprietary NGP platform combining sticks and liquid cartridges. When a dedicated stick is inserted and operated after attaching the liquid cartridge to the device, the liquid is heated, and the resulting vapor passes through the heated stick. It is also designed with an optimal cartridge structure that allows liquid composition, producing a consistent and rich vapor volume. The medium designed exclusively for the P2 platform provides a clean taste and excellent odor reduction, accommodating various smoking behaviors of consumers. Moreover, the tip of the exclusive stick is designed with a “Y” shaped structure that allows vapor to pass through while preventing tobacco residue from escaping, improving device cleaning convenience.

In particular, the third-generation model is characterized by significant enhancements in usability, featuring three smoking modes, a color display, the ability to pause during use, and a real-time cartridge remaining measurement function. Besides the standard mode, which performs identically to the existing lil HYBRID 2.0, it offers a classic mode with strong impact and a casual mode that reduces preheating time to 10 seconds. The pause feature allows the device to be temporarily stopped without limitation during smoking a single stick within a total of 2 minutes. Additionally, KT&G presented a limited “lil HYBRID 3.0 x DE:PROJECT” edition in collaboration with the design brand DE:PROJECT, providing a differentiated customer experience.

III. lil AIBLE (P4) Platform

Under the concept of “All Mighty – All electronic cigarettes in one device,” the P4 platform allows the use of three types of sticks with one device. The lil AIBLE device and dedicated sticks heat the stick through external heating technology and generate aerosol. Previously, different devices were required for varying stick mediums, but lil AIBLE enables this functionality with a single device. It comes equipped with innovative technologies, including smart on/off and different modes for each type of stick. AI technology is also integrated to optimize smoking conditions, monitor remaining smoking amounts, and recommend charging times, ensuring an optimal environment from preheating to charging.

The sticks for the P4 platform are categorized into three types – Real, Granular, and Vapor Stick. The Real type is composed of shredded tobacco in the stick medium, the Granular type is made of granulated tobacco. The Vapor Stick. type is a liquid type made from liquid nicotine extracted from tobacco leaves. Each type satisfies various consumer preferences according to its characteristics. The Real type provides a smoking satisfaction level of conventional cigarettes, the Granular type is developed focusing on a smooth taste, and the Vapor Stick is developed for consumers who prefer low-irritant products without the tobacco smell. KT&G will continue its relentless technological innovation to lead the NGP market.

Strengthening NGP Technological Competitiveness

KT&G is intensively investing in R&D for NGP to establish a leading position in the NGP market and expand into the global market, and these efforts are leading to an increase in intellectual property, including patents. KT&G has filed a total of 4,374 domestic and international patents in the NGP field over the past three years. The number of overseas patents filed, including in Europe, has sharply risen from nine in 2017 to 1,621 in 2023, securing patents for research results in the global market, thus building KT&G’s unique platforms and enhancing its differentiated competitiveness.

KT&G is solidifying and internalizing core competencies across the entire value chain to secure sustainable competitiveness and technological independence in the NGP business. Notably, given the nature of the business where stick consumption takes place within the device platform, KT&G is keenly aware that innovative platforms are crucial for core competitiveness. Accordingly, the company is focusing on enhancing its device development capabilities. For this purpose, KT&G has established a roadmap to internalize core technologies and progressively strengthen development capabilities, with plans for aggressive investments in the future to enhance infrastructure such as human resources and facility systems.

NGP Patent Application and Grant

| Category | | 2021 | | | 2022 | | | 2023 | | |
|-----------|---------|----------|----------|----------|----------|----------|----------|----------|----------|----------|
| | | Domestic | Overseas | Subtotal | Domestic | Overseas | Subtotal | Domestic | Overseas | Subtotal |
| Patent | Applied | 361 | 649 | 1,010 | 397 | 942 | 1,339 | 404 | 1,621 | 2,025 |
| | Granted | 163 | 67 | 230 | 226 | 170 | 396 | 260 | 423 | 683 |
| Trademark | Applied | 17 | 337 | 354 | 23 | 369 | 392 | 32 | 283 | 315 |
| | Granted | 39 | 715 | 754 | 18 | 318 | 336 | 23 | 276 | 299 |
| Design | Applied | 28 | 59 | 87 | 19 | 12 | 31 | 35 | 0 | 35 |
| | Granted | 14 | 49 | 63 | 32 | 33 | 65 | 10 | 19 | 29 |

1-2. EXPAND INTO BUSINESS AREAS “BEYOND NICOTINE”

KT&G is exploring new growth opportunities within the tobacco industry. Key activities include discovering alternative materials which can be used as HNB stick mediums and researching new functional delivery substances and methods, along with developing related devices. In response to the continuous growth of the global alternative product market and the increase in nicotine-free inhalants, KT&G is pursuing research on functional inhalants. To provide consumers with new experiences and values, various approaches such as nicotine-free mediums and functional mediums are being tried, starting with the discovery and development of functional materials, and developing an inhalation science-based functional substance delivery system through formulation research suitable for nebulizers and HNB devices and dosage verification.



lil HYBRID 3.0 x DE:PROJECT



lil AIBLE PREMIUM x BAPE

NGP (NEXT GENERATION PRODUCTS)

Strategy 2. Promote Global NGP Business

KT&G is prioritizing the global expansion of its NGP business to boost competitiveness in the international market and drive long-term growth. To this end, we are expanding global partnerships and enhancing localization strategies, especially by strengthening our presence on the back of a strategic alliance with Philip Morris International (PMI).

2-1. SECURE SUCCESSFUL BUSINESS MODELS BY ADVANCING PMI PARTNERSHIPS

In 2020, KT&G entered into a strategic alliance with PMI to pioneer the global market. Following expansion into Russia, Ukraine, and Japan via PMI's distribution network, the number of our export countries increased to 31 by 2023. These include 24 countries in Europe, four in the Middle East and the CIC, and three in Asia-Pacific/Latin America. Sales volumes also grew rapidly from 560 million units in 2020 to 8.2 billion units in 2023, and in January 2023, KT&G renewed a 15-year partnership with PMI, laying a solid foundation for long-term global NGP market penetration. As a result, KT&G expects to enhance the global recognition of the lil brand and secure top-level NGP manufacturing capabilities.

Strategy 3. Secure world-class scientific R&D capabilities

KT&G is committed to securing scientific R&D capabilities with a direction towards "K-Science," aiming to obtain evidence comparable to PMTA levels. Considering the long-term efforts required to establish K-Science, the steering committee, a decision-making consultation body, is regularly convened to review sector-specific detailed implementation tasks and milestones, and gradually expand expertise in research areas considering priorities such as the urgency of acquiring capabilities and data. To ensure the reliability of research and experimental data performed to prove product excellence and safety, KT&G is focusing on securing global-level product analysis and evaluation capabilities and enhancing self-reliance, including operating internationally accredited testing organizations (KOLAS) and expanding new accreditation items in the NGP field.

3-1. DEVELOP MODIFIED RISK TECHNOLOGY AND STRENGTHEN SAFETY VERIFICATION CAPABILITIES

Analysis of NGP Aerosol Components and Safety Evaluation

KT&G is undertaking comprehensive efforts to ensure consumer safety by adhering to stringent internal standards, advanced global systems, and market regulations. A notable activity includes conducting in-house aerosol analysis on ingredients listed by the World Health Organization (WHO), the U.S. Food and Drug Administration (FDA), and Health Canada (HC) for NGP. Particularly, all raw materials used in NGP undergo preliminary safety verifications, and the moisturizers used in the cartridges are of pharmaceutical grade, while the flavorings meet food grade standards for safety.

Device Quality Safety

Given that characteristics of NGP devices which operate at high temperatures and are everyday carry items, quality management is crucial. Without strict quality control, consumers could be harmed, significantly damaging the company's competitive business edge. KT&G therefore strives to quality management of NGP devices, part of which includes establishing a device quality reliability laboratory and adopting world-class solutions to build a new product development project operating system. By 2025, the construction of an information management system will be completed, thereby securing a world-class quality capability.

R&D Infrastructure Enhancement

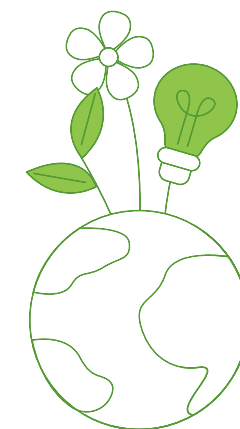
KT&G has laid the foundation for research design to prove product safety by recruiting experts in the non-clinical and clinical fields. At the same time, we have strengthened our laboratory infrastructure and systems in 2023 to ensure rapid and efficient operations. In the same year, as part of the K-Science initiative aimed at enhancing scientific capabilities, new laboratories were expanded and CC and NGP were segregated. For NGP research, systems were implemented and strengthened to ensure the integrity of research equipment, laboratory environments, and data. Additionally, high-sensitivity research equipment has been introduced to detect even trace amounts in aerosols and expand research assessing the toxicological risks of these components. In 2024, we are working on implementing a new system that meets global standards to strictly manage the integrity of research data.

3-2. FACILITATE INTERNAL AND EXTERNAL NETWORKS FOR ADVANCED RESEARCH INFRASTRUCTURE

KT&G, based on partnerships with global institutions like CORESTA (Cooperative Centre for Scientific Research Relative to Tobacco) and ACS (Asian Cooperative Study on Tobacco Analysis), is conducting international joint research and participating in academic activities to interact and collaborate with international experts, pursuing global standardization. In May 2024, KT&G hosted the ACS and conducted joint research with five Asian countries (Korea, Japan, China, Thailand, and Indonesia) to standardize analysis methods by country and institution, thereby enhancing the reliability of analytical capabilities. Additionally, by organizing the CORESTA board meeting in June, we acquired the latest information on global regulatory trends in the tobacco industry and plan to propose new joint research initiatives in the future.

List of Joint Research with CORESTA/ACS

| Host Institution | Content of Joint Research | Research Area |
|--------------------------------------------------------------------------|-----------------------------------------------------------------------------------------------------------------------------------------------|----------------------------------------------------------------------------------------------------------------------------------------------------------------|
| CORESTA (Cooperation Centre for Scientific Research Relative to Tobacco) | <ul style="list-style-type: none"> Comparative verification of analysis results to establish CORESTA standard analysis method | <ul style="list-style-type: none"> Smoke analysis Agrochemical analysis Physical test method Heated tobacco products |
| ACS (Asia Collaborative Study) | <ul style="list-style-type: none"> Verify the global-level analysis capabilities of the KOLAS system to maintain its operation | <ul style="list-style-type: none"> Analysis of major smoke compositions |
| University of Kentucky | <ul style="list-style-type: none"> Secure credibility of analysis through comparative skills testing of standard cigarettes | <ul style="list-style-type: none"> Analysis of smoke and leaf cigarettes compositions |



Please refer to "Product Safety and Quality: Analysis of Aerosol Component in NGP and Safety Evaluation" of this Report to find more information.

I. NGP (NEXT GENERATION PRODUCTS)

II. Metrics

III. NGP Performance Monitoring Metrics

KT&G is monitoring metrics related to business expansion, consumer accessibility, capabilities, and infrastructure to manage the progress of NGP business goals.

| Category | Management Metric | Unit | 2021 | 2022 | 2023 |
|-------------------------------|-------------------------------------------------|--------------------|-------|-------|-------|
| Business expansion | Unit sales of sticks ¹⁾ | 100 million sticks | 71.8 | 107.5 | 139.4 |
| Consumer accessibility | Consumer purchase market share (Based on Korea) | % | 40.4 | 47.5 | 46.6 |
| | Markets where NGP entered | Countries | 24 | 32 | 32 |
| Capability and infrastructure | NGP platforms launched | Device platforms | 2 | 3 | 3 |
| | NGP patent applications | Cases | 1,010 | 1,339 | 2,025 |
| | KOLAS ²⁾ -certified items | Cases | 156 | 156 | 306 |
| | NGP-related investment amount ³⁾ | KRW billion | 228.0 | 337.8 | 530.6 |

¹⁾ Domestic sales volume + Overseas export volume + Overseas PMI shipment
²⁾ Korea Laboratory Accreditation Scheme (under the Korean Agency for Technology and Standards)
³⁾ CAPEX is the cumulative amount, the corresponding year's NGP-related SG&A expense, etc. were reflected.



I. RESPONSIBLE MARKETING

II. Responsible Marketing Policy

KT&G strictly adheres to domestic regulations on tobacco marketing and sales as stipulated by the Tobacco Business Act and the National Health Promotion Act, which reflect the recommendations of the WHO's Framework Convention on Tobacco Control (FCTC). This compliance extends to exports, where KT&G also adheres to the tobacco regulations of the importing countries to carry out responsible marketing activities, actively working to build trust with consumers and other stakeholders.

All tobacco product marketing at KT&G is targeted exclusively at adult consumers, and efforts are made to prevent minors from accessing tobacco products. In addition, KT&G supports campaigns to prevent youth smoking and actively cooperates with external agencies to combat illegal tobacco trading, contributing to healthy distribution and marketing practices. Furthermore, KT&G listens to feedback through various channels to ensure consumers' rights to make informed choices and provides thorough and responsible product information.

The tobacco industry's value chain includes leaf tobacco farmers and partners for product production and distribution, as well as customers, employees, communities, and governments. KT&G recognizes the need to establish balanced and reasonable marketing regulations through extensive discussions and social consensus with various stakeholders within our value chain, and has implemented the KT&G Responsible Marketing Policy accordingly. KT&G discloses this policy and applies it to all products to comply with marketing laws in the countries and markets where our products are sold, and strives to practice social responsibility in the tobacco industry.

Responsible Marketing Activities

Marketing Compliance System KT&G has established a standard for responsible marketing activities through the KT&G Group Ethics Charter, which reflects global ethical values, and emphasizes the importance of responsible marketing throughout the group. KT&G prohibits illegal business and marketing activities targeting minors and continuously conducts reviews with the compliance department to prevent violations of laws and marketing policies, running internal compliance programs including employee training. Moreover, we adhere to the principle of transparent disclosure of product information without false or defamatory advertising and complies with the related legal requirements in each country concerning product sales and marketing.

Additionally, KT&G does its utmost to maintaining marketing principles through the establishment of a specific marketing compliance system. In 2022, the "Committee for Deliberation on Advertisement, etc." was established to comprehensively review the risks associated with product packaging and advertising, including policy, legal, and media aspects. In addition to the departments that develop advertising materials, members from departments such as legal, public relations, and policy also participate as reviewers, ensuring evaluations are informed by a broad range of perspectives. In 2023, the Committee met 40 times to discuss 73 topics, including product design, in-store top-of-display advertisements, and electronic cigarette device packaging. The Committee adheres to the principle of full attendance and unanimity in decision-making to enhance the integrity of responsible marketing, and will continue to guide responsible marketing activities through strict interpretation of relevant laws and provision of lawful alternatives.

Major Activities for Responsible Marketing

| Compliance with Domestic and Foreign laws | Youth Protection | Environment for Sound Business Regulation | Protection of consumer rights | Responsible Provision of Product Information |
|---------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|---------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|---------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|-----------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|
| <ul style="list-style-type: none"> Marketing activities that comply with domestic and foreign laws including the Tobacco Business Act Preliminary and regular inspection by internal control department  | <ul style="list-style-type: none"> Youth smoking prevention campaign Establish a system that limits youths' access to the products such as age verification on the lil website  | <ul style="list-style-type: none"> Support for reasonable marketing regulation policies through social consensus Cooperation with external institutions to build a sound distribution order including illegal tobacco control  | <ul style="list-style-type: none"> Guarantee consumers' rights to reasonable choice Listening to consumer opinions through diverse channels  | <ul style="list-style-type: none"> Marking of information, warning text, and warning pictures on all products Exclusion of emphasis on specific values such as sports, sexuality, and social success during marketing activities  |

 [Responsible Marketing Policy](#)



The thumbnail shows the cover of the 'KT&G Responsible Marketing Policy' document. It features the KT&G logo and the title 'KT&G Responsible Marketing Policy' in a blue and green color scheme. Below the title, it says 'KT&G RESPONSIBLE MARKETING POLICY' in smaller text.

I. RESPONSIBLE MARKETING

Responsible Marketing Compliance Management KT&G proactively manages legal risks associated with marketing activities by continuously monitoring changes and trends in relevant laws and policies. Regular compliance checks are carried out to manage risks associated with potential violations of laws and regulations, while special audits are conducted on critical issues to assess the current situation and implement necessary corrective measures. In 2023, a compliance check focused on “responsible marketing” was conducted for members of relevant departments, checking awareness and compliance with laws such as the Tobacco Business Act, the National Health Promotion Act, and the Act on Fair Labeling and Advertising, and reporting the results to management and the board of directors.

KT&G also writes compliance guidelines and distributes them to relevant departments to support marketing activities, operating a legal information system to continuously check legal information and prevent related risks. After providing compliance guidelines, marketing risk-related training is conducted to raise awareness among employees about the importance of complying with marketing regulations, and a compliance check process is in place for employees to self-assess policy implementation. For overseas subsidiaries, a Compliance Officer is appointed at each business site to ensure the legality of product sales and marketing processes.

Compliance Inspection Related to Responsible Marketing KT&G performs regular compliance checks in line with the Commercial Act and its own compliance standards, which also include assessments of responsible marketing practices. Through these checks, KT&G ensures that personnel responsible for developing product packaging and advertising comply with the legal restrictions imposed by business-related laws. In 2023, the results of the compliance checks for responsible marketing revealed that the personnel involved demonstrated excellent legal awareness and compliance. Moving forward, KT&G will expand the scope of compliance checks related to responsible marketing to include overseas subsidiaries, ensuring that each subsidiary complies with the laws of the countries they are based in and the Framework Convention on Tobacco Control (FCTC), aiming to establish a global top-tier marketing compliance system.

Responsible Marketing Training KT&G conducts continuous education to ensure compliance with responsible marketing policies and regulations by employees. In 2023, all new and experienced hires were trained on business-related laws (Tobacco Business Act, Act on Fair Labeling and Advertising, National Health Promotion Act, etc.), and as responsible marketing becomes increasingly important in the global market, training on compliance with marketing processes was also conducted for local marketing staff of KT&G’s overseas subsidiaries. KT&G will continue to conduct education for relevant departments and institutions to ensure compliance with responsible marketing.

2023 Domestic and Overseas Marketing Related Education Performance

| Category | Course name | Target | Content | No. of trainees |
|----------|-------------------------------------------|---------------------------------------------------------------------------------------------------------|-----------------------------------------------------------------------------------------------------------------------------------------------------|-----------------|
| Domestic | Understanding of the Tobacco Business Act | New employees (Grades 6 and 9) and experienced hires of 2023 | Main contents and restrictions/ obligations of the Tobacco Business Act, National Health Promotion Act, and Youth Protection Act (2 hours in total) | 137 |
| Overseas | Go-to Marketing Process and Protocol | Local marketing staff of overseas subsidiaries and branches (Indonesia, Russia, Türkiye, China, Taiwan) | Market analysis (including regulations and legislation), 4P strategy, new product launches, and performance reviews (2 hours in total) | 88 |

Key Items of Responsible Marketing Compliance Checklist






28 items in total

- ✓ Whether children and adolescents prefer or use familiar concepts when establishing brand and design development plans
- ✓ Whether specific values such as sports, sex, etc. are linked and emphasized to tobacco products when establishing a brand and design development plan
- ✓ Whether a female or adolescent person is depicted in a product advertisement
- ✓ Whether to recommend or induce smoking directly or indirectly to non-smokers in product advertisements, etc.

Key Training and Check-in Cycles for Responsible Marketing



-  Education and training for laws and policy trends
 → Frequently
-  Responsible marketing compliance checks
 → Once a year
-  Responsible marketing training
 → Once a year

I. PRODUCT SAFETY AND QUALITY

II. Chemical Substance Management System

Advancement of Integrated Chemical Management System KT&G manages chemicals legally and safely in accordance with relevant laws such as the Consumer Chemical Products And Biocides Safety Control Act (K-REACH), Chemical Substances Control Act, and Occupational Safety and Health Act. Additionally, we operate a chemical management policy based on our internal Safety, health, and environment (SHE) management guidelines, and strictly manages the receipt and introduction of new chemicals through the SHE qualification process within our integrated chemical management system.

All chemicals brought into and used within KT&G facilities are managed through our self-developed SHE IT system. When introducing new chemicals, a preliminary review of SHE regulations is conducted, and a chemical safety assessment is performed to evaluate the suitability of introducing hazardous substances. Factory receipt proceeds only when SHE qualification is met, and a regulatory review of all newly introduced chemical components is conducted. In 2023, approximately 1,200 chemicals were reviewed, among which eight licensable chemicals were detected. These substances were introduced after obtaining the necessary licensing in advance. The management of received chemicals involves keeping Material Safety Data Sheets (MSDS), conducting training, complying with handling and facility standards, inventory control, licensing, and inspecting storage facilities to ensure compliance with relevant regulations and standards.

KT&G is continuously upgrading its SHE IT system to respond more systematically and efficiently to various mandatory chemical-related obligations, reflecting regulatory amendments and the needs of internal and external stakeholders. The first phase of the SHE IT enhancement project, started in 2022 and completed in 2023, has strengthened pre-regulatory compliance and monitoring across all sites by managing handling information of each chemical raw material as essential information. Post-enhancement, approximately 200 SHE qualifications have been conducted using MSDS-based handling information for uses such as pre-health screenings, workplace environmental measurements, statistical data production, and chemical-related licensing. Additionally, in the event of MSDS revisions, we have enabled suppliers to update changes through the SHE IT system. An alert feature has also been added to ensure that managers and handlers are aware and can implement necessary procedures, such as posting exchanges and training. We expect that these data-driven enhancements in chemical management will significantly contribute to ensuring safety.

Chemical Substance Manager and Training KT&G appoints chemical substance managers to ensure the safe and systematic management of chemicals throughout the entire process, from pre-assessment through purchase, receipt, use, and disposal. Furthermore, employees using hazardous chemicals undergo onsite safety training on related regulations, safety management, emergency response actions, evacuation procedures, and hazardous chemical handling guidelines, supporting compliance with hazardous chemical safety and health guidelines and regulations. Recently, as part of chemical safety management activities, special training and work safety evaluations have been conducted, and improvements to hazardous material handling facilities have been promoted. Future activities will include mindset education on chemical safety and advanced risk assessment to continue enhancing chemical safety with everyone's participation.

Inspection and Support for Partners' Chemical Substance Management To enhance the accuracy of the chemical review process and promote a culture of safety, KT&G has shared its review system with partners to facilitate the horizontal expansion of its social value creation activities, requiring more precise basic chemical information. SHE officers review sector-specific licensing and legal compliance based on information provided by chemical partners, and chemicals are accepted only if the regulatory reviews are satisfactory. If the data is insufficient or incomplete, receipt is restricted, and suppliers may revise and resubmit the data for reevaluation. Additionally, for chemicals that do not meet the regulations and company standards, guidance is provided to meet management standards before receipt or to find alternative substances. Furthermore, by visiting raw and secondary material manufacturers and suppliers to gather onsite feedback, KT&G provides guidelines to ensure clear compliance with regulations when creating safety and health information.

KT&G provides support related to chemical regulations to chemical suppliers. We monitor compliance with K-REACH among all chemical suppliers and provide regulatory guides for MSDS creation and compliance with the Chemical Substances Control Act. Particularly for key materials such as fragrances and filters, systematic support for chemical regulation compliance is provided by establishing response committees, holding regular meetings, and maintaining continuous communication channels. For suppliers of key materials, detailed regulatory compliance support is further enhanced through both documentation and onsite monitoring. In the future, various onsite activities will be supported to improve licensing and handling facilities for key material suppliers, along with a focus on more specific collaborative initiatives. KT&G will continue to manage all chemicals used by the company and its suppliers thoroughly based on a systematic chemical management process to mitigate risks related to chemical regulation compliance, and ultimately ensure a safe workplace for people and the environment.



I. PRODUCT SAFETY AND QUALITY

II. Product Safety Management

III. Additive and Material Safety Management System

Preliminary Material Management Committee I In response to the Ministry of Food and Drug Safety's implementation of safety management measures for liquid e-cigarettes in 2019, KT&G has established and operates a "Preliminary Material Management Committee," composed of R&D experts from various fields, to strengthen the safety management of materials. This Committee shares the latest regulatory and safety information and seeks improvement measures for major issues to establish scientific responses. In 2022, the Committee consulted experts about new materials and additives for cartridges and devices, establishing scientific evaluation standards and securing results. In 2023, a risk assessment committee for new cartridge materials was held to discuss issues such as leaching and safety of derivative materials, ensuring the application of materials that meet safety standards, with plans to continue operating the committee.

Additives and Materials Safety Assessment Management System I Adhering to the principle of product stewardship, KT&G verifies safety from the early stages of product development review. Safety is ensured by using only substances that have been verified based on scientific evidence such as toxicity evaluations and literature reviews, and by thoroughly checking whether all used chemicals comply with domestic and international regulations for food, tobacco, and chemicals.

In response to the expansion of export countries and the trend of increased regulatory requirements for the submission and reporting of additive information, KT&G introduced an IT system for integrated additive management in 2023. This system consolidates additive-related data, which was previously managed separately as needed within existing specifications, contracts, and production information management programs, allowing for unified access through a single program. Additionally, the system integrates various regulatory information and safety data for additives from different importing countries, automating the screening and verification of compliance with regulations. The system also performs a preliminary suitability review when changes in materials occur and automatically manages the change history of materials for each product, enhancing product quality management and compliance, thus supporting compliance with additive regulations in various countries.

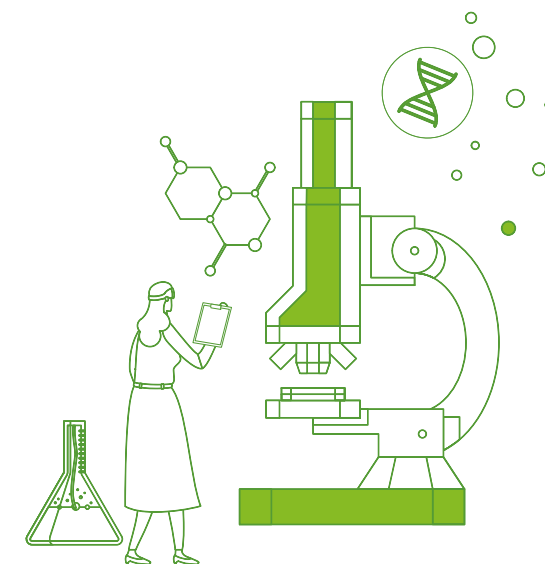
Analysis of Aerosol Component in NGP and Safety Evaluation All raw materials used in KT&G's NGP undergo preliminary safety verification, and the moisturizers and flavorings used in the products must meet pharmaceutical and food-grade standards, respectively. All additives in NGP sticks comply with EU REACH (Regulation (EC) 1907/2006), and substances of concern listed in the EU SVHC (Substances of Very High Concern) and SIN List (Substitute It Now!) are excluded. Only materials verified according to the EU standards for food contact materials (Regulation (EC) 1935/2004 on Food Contact Materials) are used in the liquid contact areas of the cartridge.

All materials for KT&G's NGP sticks undergo additional safety verifications for aerosol transferability before final application. We conduct in-house aerosol analyses on ingredients reportable to the World Health Organization (WHO), the U.S. Food and Drug Administration (FDA), and Health Canada (HC) for NGPs, managing 58 targeted ingredients in NGP to ensure that harmful substances contained in the aerosols are maintained at levels at least 90% lower than those in the smoke from standard tobacco (Kentucky University Standard Tobacco, 1R6F)¹⁾. Furthermore, biological safety is verified through in vitro toxicity tests, such as genotoxicity and cytotoxicity, and quality is assured through physicochemical testing and batch release inspections. Additionally, findings from the aerosol component analysis and safety evaluations of KT&G's NGPs, conducted by internationally accredited institutions, have been consistently presented at international academic conferences, gaining recognition for their research achievements in safety evaluations.

KT&G, based on strict internal standards and compliance with advanced global systems and market regulations, makes comprehensive efforts to supply safe products that meet consumer expectations. In 2022, a new in vitro standard toxicity evaluation method was established for more accurate toxicity evaluations of NGPs, as the reduced emission of harmful components compared to conventional cigarettes made it difficult to distinguish product differences with traditional toxicity evaluation methods. The new evaluation method was used to perform cytotoxicity, mutagenicity, and micronucleus formation tests using aerosol condensates, demonstrating significant toxicity reduction compared to conventional cigarettes, and further improving the evaluation method to be applicable across various NGP platforms.

Animal Testing Policy KT&G aims to minimize unnecessary animal testing by determining the smallest number of animals needed through thorough preliminary reviews, in line with the ethical use of experimental animals and the 3Rs (Reduction, Replacement, Refinement) principles. The company complies with the Animal Protection Act and the Laboratory Animal Act, forming the Animal Experimentation Ethics Committee and the Experimental Animal Operation Committee for experimental animals to deliberate on the ethical and scientific validity of animal experiments and continuously guide and supervise their proper conduct. Additionally, regular biannual meetings are held to inspect facility operations and perform required actions for the protection and ethical handling of experimental animals. KT&G also ensures the reliability of animal experiments by operating facilities accredited by the Association for Assessment and Accreditation of Laboratory Animal Care (AAALAC). The KT&G Bio-Efficacy Evaluation Center (Ministry of Food and Drug Safety registration number: 711) oversees the animal room's operation in accordance with Standard Operating Procedures (SOPs). It controls temperature, humidity, lighting, ventilation, and equipment sterilization, while also preventing external contamination by requiring that animals and experimental equipment pass through a designated anteroom upon entry and exit. The center also conducts status surveys required by the Ministry of Food and Drug Safety and the Animal and Plant Quarantine Agency, and reports operational results, operating legally under the supervision of government agencies.

¹⁾ An international standard tobacco manufactured by the University of Kentucky Standard Tobacco Product Center for tobacco product research



I. PRODUCT SAFETY AND QUALITY

II. Enhancing Consumer Safety

Leaf Tobacco Materials The tobacco leaves purchased by KT&G are managed in accordance with the standards set by CORESTA (Cooperation Centre for Scientific Research Relative to Tobacco), which includes major manufacturers and related organizations globally as members. Before purchasing tobacco leaves, we ensure they are pre-analyzed by laboratories accredited by the International Laboratory Accreditation Cooperation (ILAC), and KT&G only purchases those confirmed to be safe.

Non-tobacco Materials Product safety for consumers is a critical issue that companies must manage. KT&G uses verified materials by conducting in-house pre-safety verification and quality conformity assessments for additives and materials, and also ensures proactive safety by complying with domestic and international regulations on food contact materials for packaging materials.

Tobacco Components Manufacturers and importers of tobacco are required to have the components listed on cigarette packs measured and verified annually by an institution certified by KOLAS (Korea Laboratory Accreditation Scheme). Every quarter, KT&G submits all products sold in Korea to a tobacco component measuring institution for analysis, ensuring that the labeled components on cigarette packs are certified for conformity.

Conventional Cigarette Products As mandated by the Tobacco Business Act, all cigarettes sold in Korea since July 2015 must incorporate “low ignition propensity” fire prevention technology. Additionally, products must be pre-certified every six months to ensure compliance with this requirement before they can be sold. KT&G maintains international testing capabilities and periodically analyzes its products to ensure compliance with legal standards. In both the first and second halves of 2023, we received certification for the fire prevention performance of some 80 product varieties sold in Korea from the Korea Fire Institute, an authorized agency for fire-prevention technology certification.

NGP (Next Generation Products) From sourcing raw materials to product production, KT&G aims to enhance product safety throughout the value chain for NGPs (Next Generation Products), continuously pursuing certification and quality management. NGP devices have obtained international certifications including domestic (KC), CE, CB, EAC, and PSE, and are acquiring certifications that meet the requirements of each country as export markets expand. Particularly, to produce and sell products that comply with European standards (EU Tobacco Products Directive), conformity assessments of component materials have been conducted, applying only materials that have secured safety to devices to enhance user safety. The raw and subsidiary materials used in NGP sticks are managed through an internal quality system, which is based on long-term accumulated expertise and international safety standards. Recently, KT&G has been working to establish a system to comply with international regulations and suppress the use of conflict minerals (gold, tin, tungsten, tantalum), which are being urged for usage restrictions by the international community.

Certifications for Reinforcing Customer Safety

| Category | Institution | Type | Details | Initial certification |
|-------------------------|--------------------------------------------------------------------------|------------------------|--------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|-----------------------|
| Leaf tobacco material | CORESTA (Cooperation Centre for Scientific Research Relative to Tobacco) | International standard | Leaf tobacco that meets 118 safety standards | - |
| Non-tobacco material | KT&G | International standard | Preliminary safety evaluation of additives and materials and quality system conformity evaluation | - |
| Tobacco ingredients | KOLAS (Korea Laboratory Accreditation Schemen) | Certification | Quarterly assessment of tobacco ingredients conformity | Mar. 2000 |
| Cigarette Products | KFI (Korea Fire Institute) | Certification | Semi-annual certification of low-flammability cigarette fire prevention performance | Jul. 2015 |
| | CB (IECEE, global standards for electronic equipment) | Certification | Safety certification system for product conformity testing for household electronic devices and similar devices | Jul. 2020 |
| | CE (EEA, principle of EU Council) | Certification | Integrated standard certification that satisfies all requirements of EU Council directives in relation to safety, health, environment and consumer protection | Jul. 2020 |
| | EAC (EAEU, Eurasian Economic Union) | Certification | Electronic device certification systems in 5 Eurasia countries (Russia, Kazakhstan, Belarus, Armenia, Kyrgyzstan) | Apr. 2021 |
| | PSE (METI, Japanese Ministry of Economy, Trade and Industry) | Certification | Mandatory certification according to the Japanese Electrical Appliances Safety Act | Jul. 2020 |
| Next Generation Product | KC (National integrated certification mark) | Certification | Safety device and temperature control device to prevent overvoltage, overcharge, and over discharge in accordance with the enforcement regulations of the Domestic Electrical Appliances and Household Appliances Safety Management Act | Oct. 2017 |
| | KT&G’s Distribution Tracking System | International standard | Distribution tracking system that records and manages the specific code of all products from the main material of the device (battery, etc.) to the final packaged stage (pallet). We completed the system for product shelf-life management, recall response process, and supply of optimal products. | Jun. 2020 |
| Business site | ISO (International Organization for Standardization) | Certification | Maintaining a systematic quality and environmental management system in the workplace based on ISO 9001 (quality management system) standards | Apr. 2020 |

I. RESEARCH AND DEVELOPMENT

II. R&D System

Mid-to Long-term Strategic Direction of R&D KT&G is conducting foundational research related to expanding its NGP portfolio that reflects consumer values, linking this effort with the company's overall ESG strategy and the long-term growth strategy for the NGP business. Utilizing its R&D capabilities and expertise, the company is also striving to create new added value in areas beyond tobacco. Noting the trend of expanding scopes within the tobacco industry based on accumulated expertise and advanced scientific technologies, KT&G's R&D HQ is joining this industry paradigm to focus on research and development of new growth areas to respond to future markets. Moreover, the company is actively pursuing the development of materials and research that fit the company-wide sustainable product policy through the development of practical technologies that can minimize negative social and environmental impacts, such as reducing non-environmental elements.

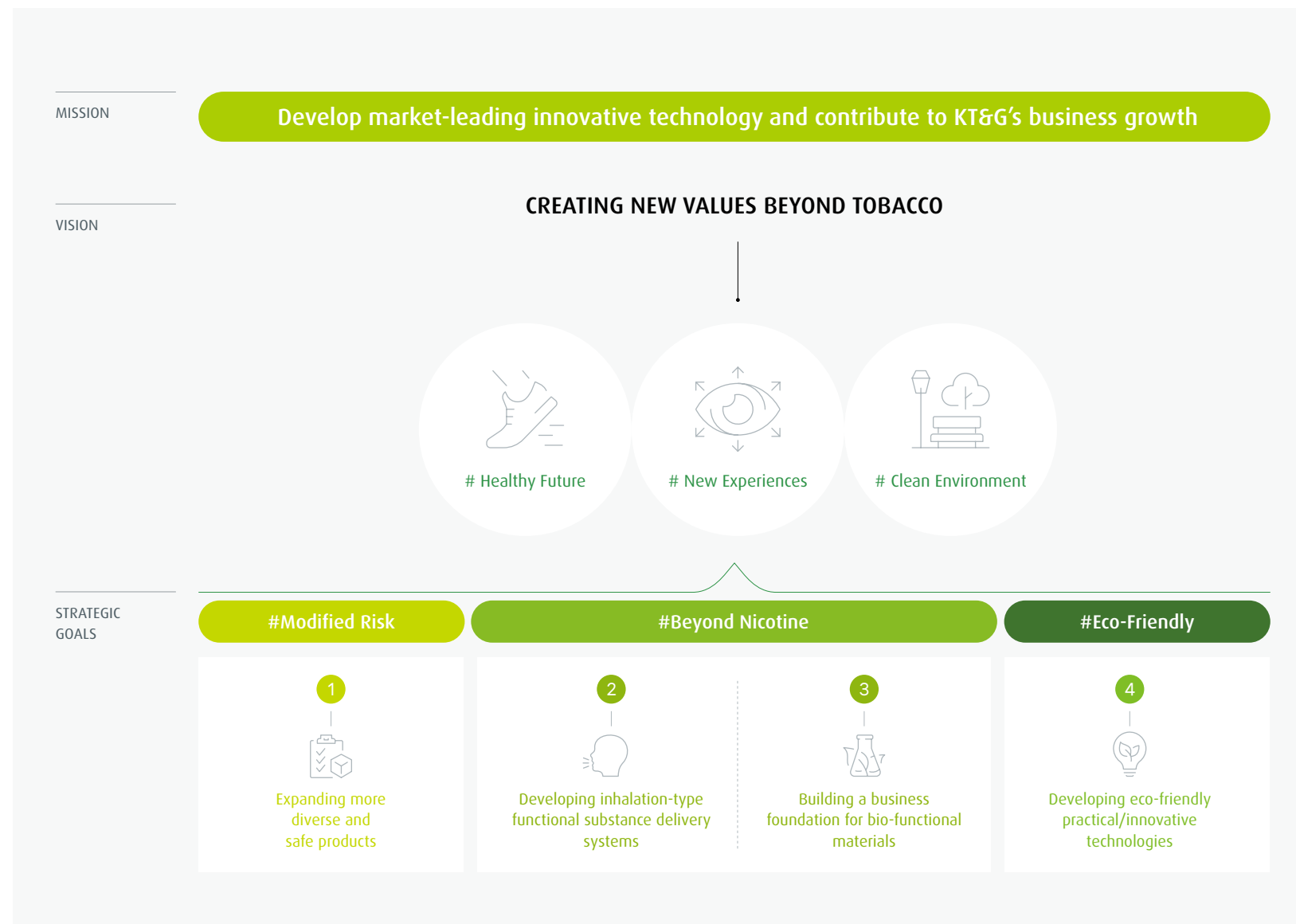
Sustainable Product Policy

R&D Organization The R&D HQ operates a dedicated system for each field to strengthen expertise. It is organized into four units: the Product Research Lab, Future Technology Research Lab, Analysis Research Lab, and R&D Planning Office, each performing its unique mission while being organically linked to strengthen technological leadership. In 2023, to advance K-Science integration, KT&G hired foreign experts and established a new organization to serve as a control tower, setting up a research strategy for scientifically proven fields.

R&D Organization

| Research institute | Research areas |
|--------------------------------|----------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|
| Product Research Lab | <ul style="list-style-type: none"> Develop traditional cigarette and NGP products tailored to both domestic and international market and improve existing products Satisfy consumer needs and develop differentiated items |
| Future Technology Research Lab | <ul style="list-style-type: none"> Research raw materials, materials, and flavor and preliminary research for NGP Research base technology for future new business areas technology |
| Analysis Research Lab | <ul style="list-style-type: none"> System operation for scientific verification of product quality and safety Operate an international accredited testing institutes (KOLAS) and conduct international joint research |
| R&D Planning Office | <ul style="list-style-type: none"> Establish mid-to-long-term R&D strategic goals and manage projects Create, protect and manage R&D intellectual properties |

Mid-to Long-term R&D Vision



I. RESEARCH AND DEVELOPMENT

II. Responsible R&D

Enhancement of R&D Capabilities KT&G is actively engaged in objective verification activities with the goal of enhancing R&D expertise and external credibility of research processes and outcomes. Thanks to its superior evaluation system and testing capabilities, KT&G has maintained its status as a KOLAS-accredited testing organization in the tobacco sector for 23 consecutive years. As a KOLAS (ISO 17025) institution, whose analysis results are internationally recognized, the R&D department supports the smooth exploration of new markets and exports by issuing internationally accredited certificates of conformity in a timely manner. As of 2023, we guarantee products for 141 products across 21 countries as required by the importing countries, and particularly, after being the first in Korea to be recognized by KOLAS in 2021 for measuring capabilities for 51 components of NGP products, we added 125 components in 2023, demonstrating an establishment of a global-level NGP product quality assurance system.

In 2024, KT&G plans to pursue international accreditation by KOLAS for toxicity evaluations (2 items) and consumer sensory evaluations (2 items), intending to expand the accreditation scope to a total of 153 items, an increase of 23 items in the traditional product field. Moving forward, KT&G will continue to expand analysis items in new fields to ensure product excellence and reliability, and plans to enhance its research fields to include not only the chemical components of products but also their biological impact on users.

Advancement of the R&D System KT&G is establishing a global-level product evaluation and analysis system, internalizing and capitalizing on related capabilities. A process for next-generation product development and evaluation has been established, and a change management system in the analysis area (including personnel, equipment, and analytical methods) has been introduced. This system ensures that equivalent reliability is maintained even when changes occur in the product evaluation system. KT&G has implemented a process for the development and evaluation of next-generation products, along with a change management system for analyzing various areas, including personnel, equipment, and analytical methods. This ensures that the integrity of its product evaluation system is maintained, even when changes occur. We are continuously upgrading our analysis system to secure objective data that demonstrates the excellence of our products. In 2024, KT&G is working to guarantee data integrity through system upgrades to GMP (Good Manufacturing Practices) and GLP (Good Laboratory Practices) levels, similar to pharmaceutical company management standards, within the currently operated KOLAS (ISO 17025) system.

Expansion of R&D Areas Leveraging its proprietary technologies and expertise, KT&G has initiated research to create new value in areas beyond tobacco. It has completed the establishment of a research base for new business areas such as bio-functional materials and inhalable substance delivery systems, aiming for technological expansion into the wellness sector, and has begun preliminary research for internalization of core technologies. To improve R&D efficiency, we are actively leveraging external resources and customizing collaboration methods by field to effectively acquire the necessary technologies. In the realm of new technology, we are rapidly developing technologies through commissioned and joint research with academia, industry, and national research institutions. In the field of new business, we are expanding our research areas for sustainable growth by forming strategic alliances with leading institutions to quickly acquire know-how and explore new value creation opportunities.

R&D Performance

Enhancement of Conventional Cigarette Competitiveness The R&D HQ continuously engages in research and development aimed at enhancing the market competitiveness of conventional cigarette products. This includes developing differentiated new technologies and incorporating them into product development. In Korea, we have driven market performance through the development of products differentiated by various tastes, appearances, and functions reflecting market trends, solidifying our market position through the expansion of the odor-reduction category in response to domestic consumer needs. Overseas, we have strengthened global market competitiveness by expanding the product portfolio centered around star brands in key regions. Moving forward, in conjunction with the expansion of overseas production, we plan to preemptively overhaul product development and quality assurance processes and disseminate R&D capabilities to overseas production bases, ensuring the production and sale of products of uniform quality worldwide.

Diversifying NGP Portfolio Centered around the R&D HQ, KT&G is actively pursuing the diversification of its product portfolio to enhance the competitiveness of its NGP business. By researching various materials and foundational technologies, the company has contributed to maintaining robust growth by supporting market-responsive actions for each platform and concurrently researching new platforms to lead future markets. Particular efforts have been focused on enhancing product competitiveness to secure leadership in the next-generation market, not only by expanding and improving existing product lines but also by advancing core technology research in new heating technologies, aerosol delivery technologies, and the diversification of mediums. In order to diversify our next-generation product portfolio, we are continuously striving to secure competitiveness by diversifying research categories, including heated, non-heated, non-electronic, tobacco-free, and nicotine-free products.

Facilitating the Creation of Intellectual Property Rights As technological leadership, driven by continuous R&D investment, gains traction, the acquisition of intellectual property rights is also rapidly growing. At the heart of technological leadership, the R&D HQ analyzes the latest patents disclosed by major global tobacco companies to identify the research areas and new items currently focused on by leading companies, using this information to set research directions through patent design and avoidance strategies. KT&G has also systematized its IP strategy by advancing and structuring its patent portfolio, based on which it strengthens the technological base of its products and aims to increase market share centered around its independent NGP platform.

KT&G holds the "R&D Patent WEEK" to foster and materialize fresh ideas from its employees. Started in 2021, R&D Patent WEEK is an internal event that encourages creative job inventions by employees and strengthens their capabilities regarding intellectual property, where employees voluntarily share their ideas, and exceptional inventions are recognized and rewarded. The further concretization process involves research space and cost support and consulting from patent experts to activate job invention programs. Selected excellent ideas undergo a period of idea concretization, and if necessary, a TFT is formed and preliminary technology investigations are conducted to implement the invention content and advance prototype production, thus creating impactful outcomes.

Major Tasks of R&D Patent

| Tasks | Content |
|-----------------------------------------------------|-----------------------------------------------------------------------------|
| Rightsization for technology protection | • Applying for and registering patents |
| | • Activating job invention |
| | - Establishment/management of patent MBO |
| | - Visiting patent consulting |
| R&D strategy connected patent analysis | - Patent consulting |
| | - Award for invention |
| | - Patent Week |
| Solving patent issue and seeking research materials | • Publishing patent analysis report |
| | • Building and running patent portfolio |
| | • Making a technology roadmap based on patent |
| | • Solving patent issue |
| | • Identifying research items and seeking patent materials to solve problems |



PERFORMING ENVIRONMENTAL RESPONSIBILITY ACROSS THE VALUE CHAIN



MANAGEMENT APPROACH

KT&G has established its environmental management vision and strategic framework, "KT&G Green Impact," and is diligently working to reduce environmental impacts and risks throughout its entire value chain. Furthermore, we are undertaking various projects aimed at fulfilling our environmental responsibilities in several areas, including reducing greenhouse gas emissions, minimizing water consumption, and enhancing waste recycling. Moving forward, we will make continuous efforts to minimize negative environmental impacts, not only at our business locations but across the entire value chain, aiming to create shared value with stakeholders.

KEY PERFORMANCE INDICATORS

GHG emissions

9.0% ↓¹⁾



Water withdrawal

8.7% ↓²⁾



Soil & Forest

Halting deforestation and land conversion in protected areas by 2030

Deforestation & Conversion Free³⁾



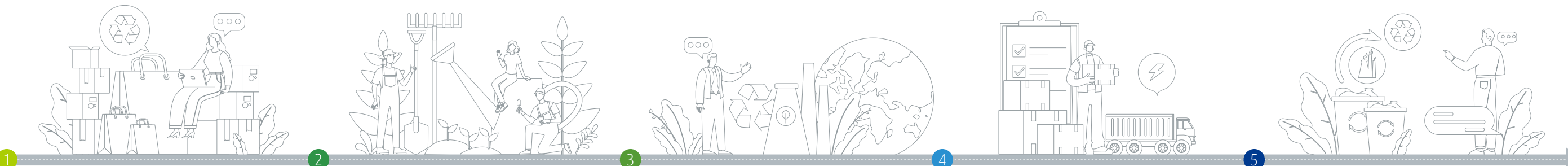
¹⁾ Based on all domestic business sites and overseas manufacturing sites of KT&G, Reduction rate compared to the 2020 baseline

²⁾ Based on domestic and overseas manufacturing sites of KT&G

³⁾ Targeting the Group subsidiaries and supply chain of KT&G and KGC

GREEN IMPACT PATHWAY

KT&G is setting concrete action goals and identifying various tasks to minimize environmental impacts across its entire value chain.



PRODUCT PLANNING & DEVELOPMENT

Research and apply eco-friendly materials

MID-TO LONT-TERM GOAL

- Apply recyclable materials to all packaging materials by 2025, Develop new materials and alternative technologies such as non-plastic cigarette filters

📄 2023 Activities

Review the design of minimizing carbon footprints throughout the life-cycle

MID-TO LONT-TERM GOAL

- Expand activities to reduce product environmental impact based on LCA

📄 2023 Activities

PURCHASING MATERIALS

Reduce environmental impact through sustainable agriculture

MID-TO LONT-TERM GOAL

- Achieve 100% participation rate in STP of tobacco farms by 2030, Continue expanding the installation of energy-saving tobacco leaf drying machine

📄 2023 Activities

Build the Green Impact Alliance with significant materials partner companies

MID-TO LONT-TERM GOAL

- Help significant partners set GHG reduction targets (25% reduction by 2030 based on SBTi) and implement them

📄 2023 Activities

MANUFACTURING & BUSINESS SITES

Reduce GHG emissions (internal emissions)

MID-TO LONT-TERM GOAL

- Reduce Scope 1+2 emissions by 42% compared to 2020 by 2030

📄 2023 Activities

Reduce and recycle water resources

MID-TO LONT-TERM GOAL

- Reduce water withdrawal by 20% compared to 2020 by 2030

📄 2023 Activities

Reduce and recycle waste

MID-TO LONT-TERM GOAL

- Achieve waste recycling rate to be more than 90% by 2030

📄 2023 Activities

LOGISTICS

Convert all business fleets to EVs 100%

MID-TO LONT-TERM GOAL

- Achieve 100% conversion to EVs by 2030

📄 2023 Activities

Cooperate with partners for eco-friendly SCM management

MID-TO LONT-TERM GOAL

- Expand the "ECO Change" program

📄 2023 Activities

CONSUMER USE & DISCARD

Expand recycling of discarded NGP¹⁾ devices

MID-TO LONT-TERM GOAL

- Increase the recycled amount by securing various platforms for collection and encouraging consumer participation

📄 2023 Activities

Expand value chain-linked CSR activities

MID-TO LONT-TERM GOAL

- Achieve KRW 10 billion for social contribution projects in value chain contributions by 2025 (cumulative from 2022 to 2025)

📄 2023 Activities

¹⁾ Next Generation Products

I. STRENGTHENING ENVIRONMENTAL MANAGEMENT

II. Establishing Environmental Management System

III. Environmental Management System



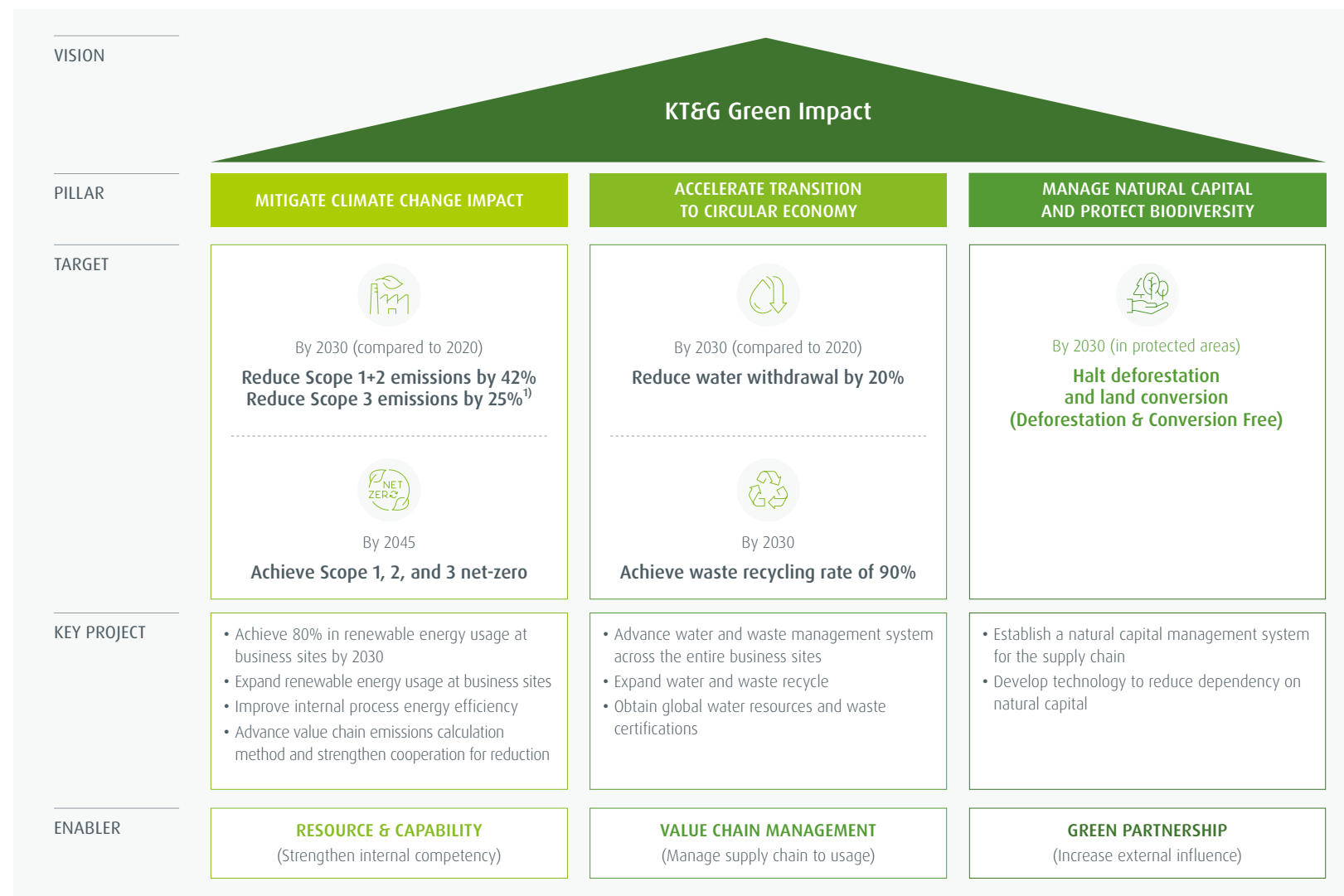
Environmental Management Policy | KT&G has established and is actively managing an Environmental Management Policy, engaging with both internal and external stakeholders to communicate the strategic direction for implementing its mid-to long-term environmental visions and tasks. Furthermore, we collaborate across all business value chains to ensure adherence to the environmental management policy at a level consistent with KT&G, and are making various efforts such as educational programs and sharing best practices to enhance awareness and involvement among our employees.

Since establishing the “Energy and Environmental Guidelines” as internal standards for energy and environmental management in 2021, KT&G has made nine revisions to continuously improve these guidelines up to June 2024. Additionally, we are enhancing our operational effectiveness by aligning with global standards such as ISO 14001 (Environmental Management System) and ISO 50001 (Energy Management System).

Mid-to Long-Term Environmental Management Goals | In 2021, KT&G established a vision and strategic framework for environmental management, including mid-to long-term goals, to practice “Green Impact,” strengthen the environmental responsibility demanded by the global community, and minimize negative environmental impacts in corporate operations and across the entire value chain.

To reduce greenhouse gas (GHG) emissions, KT&G has set mid-to long-term reduction targets in line with the Science Based Targets initiative (SBTi) guidelines. In 2022, the targets were enhanced based on more demanding scenarios: the 1.5°C scenario (Scope 1 and 2) and the Well-below 2°C scenario (Scope 3). Accordingly, by 2030, KT&G aims to reduce GHG emissions by 42% in its internal operations compared to 2020, and by 25% in Scope 3 emissions compared to 2022 (targeting categories 1, 3, and 11). Additionally, to accelerate the transition to a circular economy, we have established mid-to long-term goals of reducing water withdrawal by 20% at both domestic and overseas business sites and achieving a 90% recycling rate for waste generated internally by 2030.

Environmental Management Vision System



¹⁾ Targets: Category 1, 3, 11 with 2022 as baseline

I. STRENGTHENING ENVIRONMENTAL MANAGEMENT

Environmental Management Governance KT&G has established and operated an environmental management system centered on the Sustainability Committee under the BOD; the ESG Management Council, a decision-making council, the ESG Management Office, a control tower for the promotion of practical tasks; and the Energy Environment Department. Moreover, following the establishment of the Group-level mid-to long-term sustainable management goals in August 2023, KT&G formed a Group-wide Task Force, including ESG representatives from each subsidiary, to actively manage environmental issues, including those related to climate change, at the Group level.

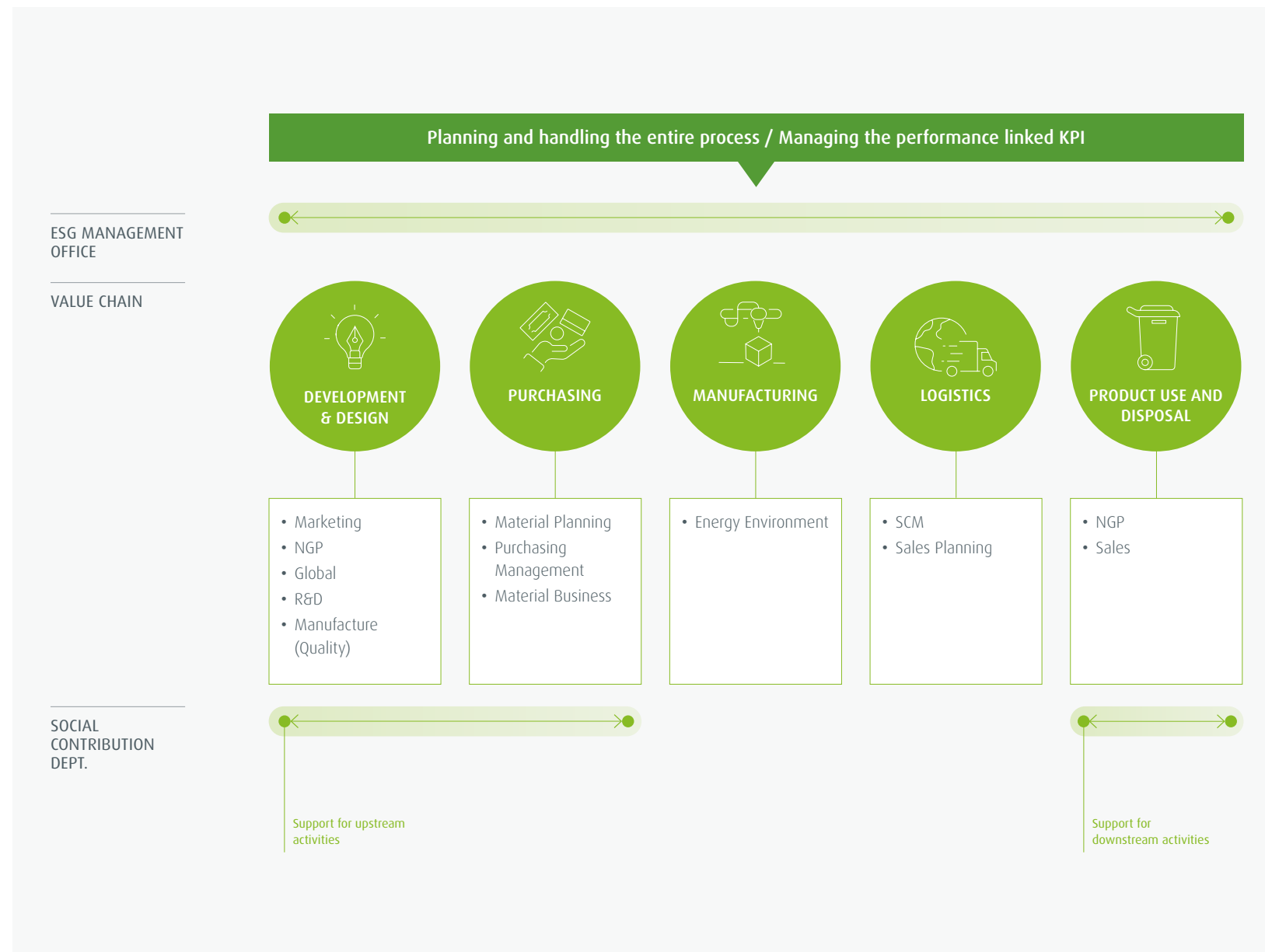
The ESG Management Office establishes mid-to long-term goals that are aligned with global standards to minimize environmental impacts and derives strategic tasks through gap analyses of the company. It also adapts and implements tasks in response to changes in the business environment, and a company-wide Task Force has been formed to manage these tasks.

The Energy Environment Department aggregates and manages the company's environmental performance in line with mid-to long-term environmental management goals, executing activities to minimize environmental impacts through strategies such as transitioning to renewable energy, improving energy efficiency, expanding water reuse, and minimizing waste landfilling. In conjunction, environmental performance officers designated at each institution (headquarters, plants, regional sales offices, etc.) collaborate organically with the Energy Environment Department to execute tasks. Especially in manufacturing facilities, specialized officers are assigned to each environmental sector to ensure that environmental management is consistently implemented on-site, maintaining a structured approach.

Environmental Management Certification Since obtaining its first ISO 14001 (Environmental Management System) certification in 2005, KT&G has operated an environmental management system that complies with global standards, continuously monitoring and mitigating the environmental impacts caused by its production activities. As of the first half of 2024, all domestic plants (Daejeon, Yeongju, Gwangju, Cheonan, Daejeon2, and Gimcheon) have maintained their ISO 14001 certification, with plans to expand the certification to plants in Türkiye and Indonesia by 2024, and to the Russian plant by 2025.

Additionally, to establish a foundation for ongoing energy conservation, the ISO 50001 (Energy Management System) certification, newly acquired in 2021, is maintained at five domestic plants (Daejeon, Yeongju, Gwangju, Cheonan, and Gimcheon) through post-certification audits. KT&G will continue to implement sustainable environmental management through systematic processes that adhere to international standards.

Role and Responsibility in Executing Detailed Environmental Management Tasks by Stage



I. STRENGTHENING ENVIRONMENTAL MANAGEMENT

II. Acceleration of Environmental Management Execution

Strengthening Environmental Management Capability KT&G is conducting outsourced training in various fields such as energy, environment, and safety to enhance the expertise of ESG representatives at each site. Since 2022, the Manufacturing HQ's Energy Environment Department has been identifying problems and providing solutions through annual energy audits of domestic and international plants and the Group subsidiaries. Furthermore, we have published a compilation titled "Greenhouse Gas Reduction and Water Conservation Best Practices," summarizing successful energy reduction cases proven at domestic plants, to promote voluntary benchmarking among domestic and overseas plants and the Group subsidiaries. KT&G aims to expand understanding and participation in environmental management among its employees by organizing an "Energy-Saving Ideas Contest" and supporting the purchase of ESG technical books to encourage self-study.

KT&G is also actively participating in the dissemination of energy conservation technologies by attending site tours and practical meetings within the industry, including participation in the Food Sector of the ESP Energy Conservation Cooperation Project, hosted by the Korea Energy Agency. Moreover, KT&G's Yeongju Plant received the Minister of Trade, Industry and Energy's commendation at the 2023 "Climate Change Response and Greenhouse Gas Reduction Meritorious Service Awards" ceremony, recognizing its contributions to reducing greenhouse gases through continuous investment in facilities and improvements to the manufacturing process since 2020.



Yeongju Plant received the Minister of Trade, Industry and Energy's commendation at the Climate Change Response and Greenhouse Gas Reduction Meritorious Service Awards

2023 Environmental Training Status

| Course name | Training institution | Target (Trainee) | Date | Training Purpose | Method |
|---------------------------------------------------------------------|-----------------------------------------|------------------|---------------------------|---------------------------------------------------------------------------|--------------|
| Practical Affairs for GHG Trading Scheme | Korean Foundation for Quality | 1 | Jan. 26 - Jan. 27 | Acquisition of basic knowledge on greenhouse gas emissions trading system | Face-to-face |
| Heat Exchanger On-Site Operations and Maintenance | Korea Industrial Technology Association | 2 | Jan. 30 - Jan. 01 | Understanding of heat exchanger equipment | Video |
| Air Conditioning Theory and On-Site HVAC Equipment Techniques | Korea Industrial Technology Association | 3 | Mar. 27, Oct. 04, Dec. 18 | Understanding of air conditioning equipment | Video |
| Renewable Energy Procurement Strategy for Corporations | Hankyung Academy | 3 | Mar. 31 | Establishing directions for renewable energy adoption | Face-to-face |
| ISO 14001 Internal Auditor Training | Korean Foundation for Quality | 46 | Mar. 16 - Mar. 17 | Training of ISO 14001 internal auditors | Video |
| ISO 50001 Internal Auditor Training | Korean Foundation for Quality | 29 | Mar. 30 - Mar. 31 | Training of ISO 50001 internal auditors | Video |
| Boiler Selection and Energy Saving Technology | Korea Industrial Technology Association | 1 | Sep. 05 - Oct. 04 | Boiler selection methods and acquisition of energy-saving techniques | Video |
| Basic Theory of Air Conditioning and Design Practice | Korea Industrial Technology Association | 1 | Sep. 13 - Oct. 12 | Understanding of air conditioning equipment | Video |
| Comprehensive Course on HVAC and Refrigeration Systems | Korea Industrial Technology Association | 1 | Oct. 23 - Oct. 27 | Understanding of HVAC and refrigeration systems | Face-to-face |
| Understanding Compressed Air Systems | Atlas Copco | 5 | Nov. 16 Dec. 07 | Understanding of compressed air systems | Face-to-face |
| Compressed Air Systems (Energy Saving Solutions) | Atlas Copco | 5 | Oct. 20, Nov. 17, Dec. 08 | Understanding of compressed air systems | Face-to-face |
| Comprehensive Practical HVAC and Refrigeration Energy Saving Course | Korea Industrial Technology Association | 6 | Dec. 18 - Dec. 20 | Acquisition of energy-saving techniques | Video |
| Practical Heat Pump and HVAC Energy Saving | Korea Industrial Technology Association | 1 | Dec. 20 | Acquisition of energy-saving techniques | Video |



I. STRENGTHENING ENVIRONMENTAL MANAGEMENT

Strengthening Environmental Management Performance Monitoring

Company-Wide Energy Costs Settlement System | KT&G has introduced a company-wide energy and water cost settlement system in 2022 to enhance monitoring of energy emissions and water withdrawal across all business sites, aiming to achieve the “2030 Green Impact” environmental vision, sharing the progress rates of greenhouse gas emissions performance relative to targets. This system, based on the specific business needs of KT&G which has 141 domestic and overseas business sites, allows each business site to input energy and water consumption data into the computer system based on supporting documents (billing statements), enabling headquarters to pre-verify data for timeliness and accuracy. This system serves as a strategic decision-making tool for systematic implementation by checking the progress of reduction targets by site, taking into account seasonal variations, and forecasting annual emissions. In 2023, the scope of the company-wide energy cost settlement system was expanded to include overseas manufacturing plants (in Indonesia, Türkiye, and Russia), further enhancing the management system.

Operation of the Monthly Regular Consultative Body “ESG Monthly” Meeting | KT&G is striving to enhance execution by conducting regular monthly video conferences (ESG Monthly), which involve headquarters and both domestic (six sites) and overseas (three sites) manufacturing business sites, thereby strengthening performance-based communication. In regular video conferences, we review the performance of each plant’s three main KPIs (GHG emissions intensity, water withdrawal intensity, and waste recycling rate) to ensure that all plants can achieve their ESG goals. We also encourage the implementation of improvement tasks such as replacing high-efficiency equipment and reusing water.

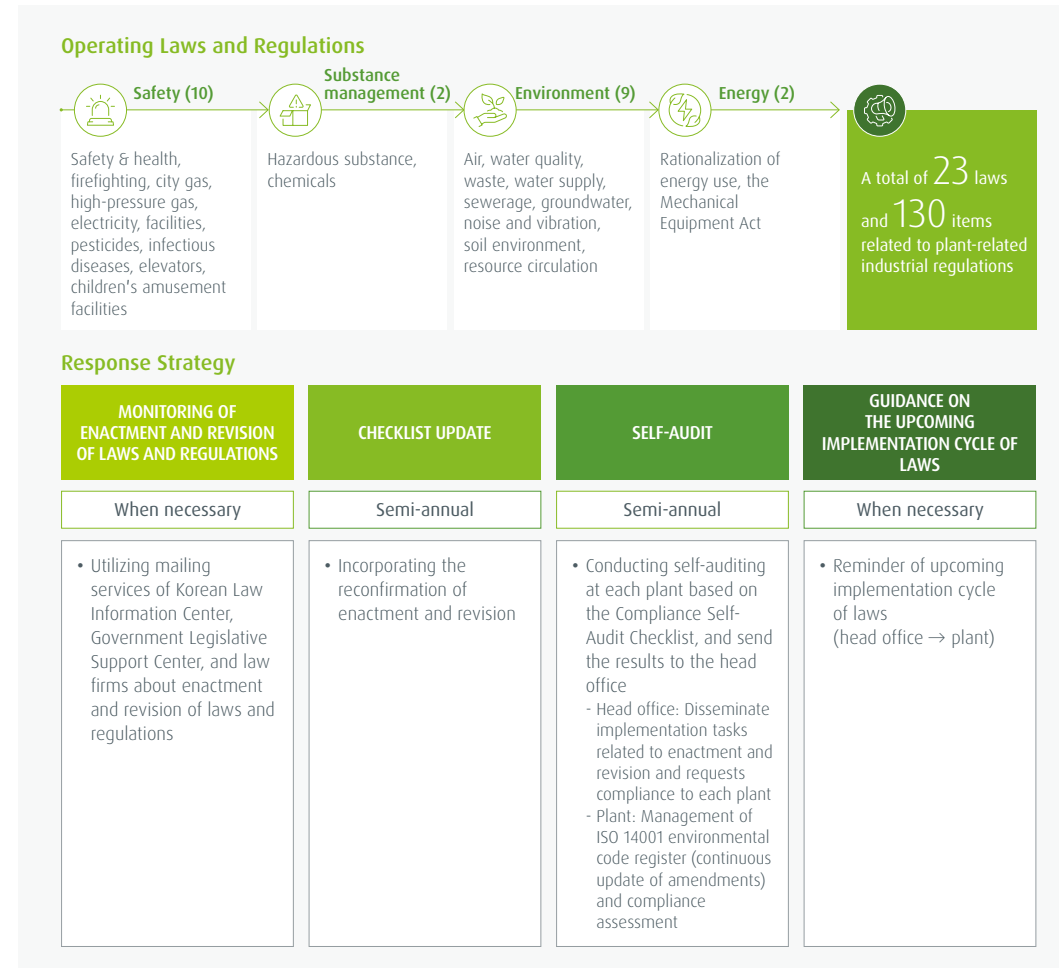
Establishment of FEMS | In 2023, KT&G installed a Factory Energy Management System (FEMS) at its Daejeon Plant, enabling real-time monitoring of energy consumption by each facility. Using data collected through FEMS, we analyze energy usage, identify factors causing efficiency losses, and either implement immediate improvements or select reduction projects that are linked to capital investments for energy savings. To enhance execution, reduction targets are assigned to each department, involving all employees in energy-saving activities. The system is configured to visibly demonstrate the effects. Additionally, energy-saving activities carried out in each department are managed in conjunction with ISO 50001. Looking ahead, we will expand the installation of FEMS to new plants and develop an overseas reduction infrastructure, ensuring rational energy-saving activities based on thorough analysis.

Investment in Energy Saving | KT&G is implementing energy reduction activities by enhancing the efficiency of energy use through high-efficiency equipment, LED lighting replacements, and maintenance activities. In 2023, we invested approximately KRW 10.6 billion in projects such as applying inverters to air compressors and chillers at the Daejeon Plant and upgrading air compressors to high-efficiency types at the Gwangju Plant, aiming to rationalize energy usage. We plan to continue investing to improve energy efficiency and achieve energy savings.

Environmental Regulation & Compliance Management | As environmental regulations related to climate change become increasingly stringent, and as stakeholders such as governments and investors emphasize the importance of managing corporate environmental risks, KT&G has been operating an “Industrial Regulation Operating Compliance System” since 2021. This system encompasses monitoring and updating regulations across 23 laws and 130 items related to safety, material management, environment, and energy in factory operations. It includes self-audits and reminders for compliance tasks due for implementation.

In 2023, a compliance status diagnosis was conducted concerning the obligation to display warnings on containers and packaging of substances that require a material safety data sheet under the Occupational Safety and Health Act. As a result, missing warning labels and pictograms were identified for three partner companies, prompting requests for corrections to ensure compliance. KT&G will continue to systematically manage environmental regulations and compliance through the Industrial Regulation Compliance Operating System to proactively prevent significant environmental risks.

Overview of Industrial Regulation Compliance Operating System



Key Activities of ESG Monthly

| Category | Activity |
|----------|--------------------------------------------------------------------------------------------------------------------------------------------------------------------------|
| Energy | Evaluation and analysis of energy saving through high-efficiency equipment replacement, LED replacement, and loss management |
| Water | Discussion of plans to promote water withdrawal reduction tasks, sharing of exemplary cases from other sites, and educational initiatives for reducing water consumption |
| Waste | Monthly analysis of waste generation and recycling rates, and review of improvement measures for enhancing recycling rates |

Energy saving target and performance of domestic and overseas business sites¹⁾ in 2023



GHG reduction target and performance of domestic and overseas business sites¹⁾ in 2023



¹⁾ Scope of aggregation: All KT&G domestic business sites (138 buildings including manufacturing sites (Daejeon Plant 1 and 2, Yeongju Plant, Gwangju Plant, etc.), leased buildings, branches, offices, etc.) and overseas manufacturing sites

ENHANCING PRODUCT ECO-FRIENDLINESS

Establishment of Product Eco-friendliness Management System

Sustainable Product Policy KT&G has established a “Sustainable Product Policy” that is applied to all the departments involved in the entire production process from the procurement of raw materials to disposal of products sold. This policy has enabled us to build a product environmental management system and enhance the sustainable competitiveness of its products. We define sustainable products as those that incorporate efforts to reduce the use of resources, enhance the recyclability of resources, and minimize carbon emissions, which includes minimizing the use of materials, reducing waste, and improving recyclability of resources.

KT&G conducts a life cycle assessment (LCA) of key products to manage their environmental attributes at the product level. The departments involved in product production, including the Marketing, R&D, Procurement, and Manufacturing Departments, collaborate to discuss strategies and activities aimed at enhancing the eco-friendliness of the company’s products. Since 2023, we have been developing an “Eco-Design” process in order to lay a systematic foundation for product environmental management.

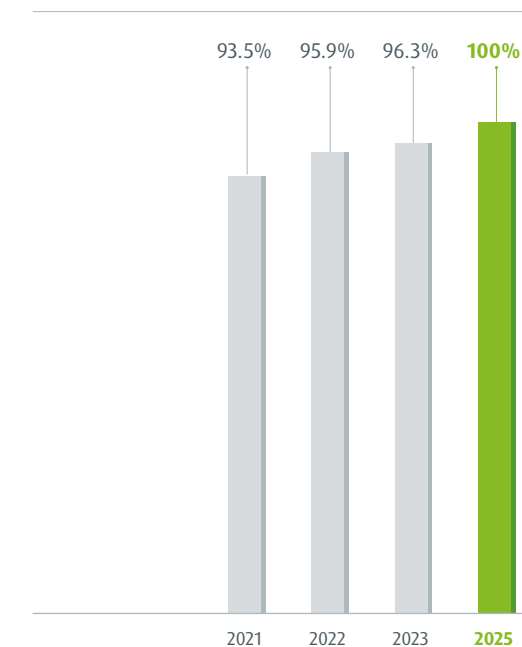
Establishing an Eco-Design Process Eco-Design is a technique that integrates environmental considerations from the very beginning of the product development stage. It can propose various eco-friendly alternatives such as using sustainable materials, enhancing recyclability, and reducing product weight. KT&G is developing and reviewing Eco-Design guidelines to help developers consider various aspects of sustainability in the development of new products. We aim to establish a system that allows for the review of environmental improvements during product development, along with raising awareness among developers, through the refinement of future

guidelines. Additionally, the Eco-Design guidelines leverage the results of previous LCA to provide key management indicators and improvement measures for managing resources, water, energy, waste, and product lifespan more effectively.

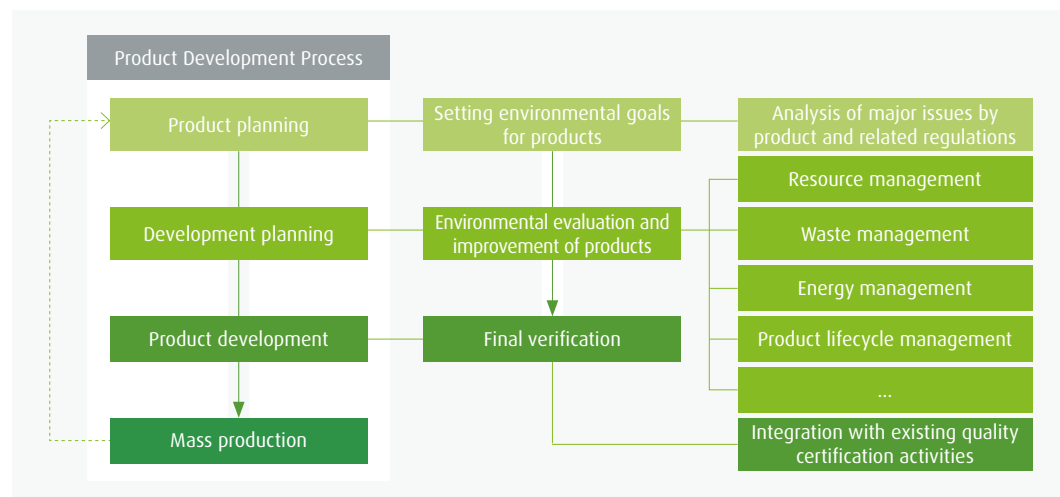
Going forward, KT&G plans to broaden the application of the Eco-Design process to product development, assess the feasibility and applicability of the process, and further refine it.

Establishing Mid-to Long-Term Goals for Product Eco-friendliness Management KT&G is establishing and implementing mid-to long-term goals for managing its product eco-friendliness, including expanding the recyclability of product packaging and device materials. From the consumer’s perspective, to facilitate easier recycling of waste, we plan to use only recyclable materials for the packaging of all products we manufacture by 2025, and are gradually expanding this practice from domestically produced products to those produced overseas. To facilitate recycling at the waste disposal stage, packaging materials are primarily made from easily recyclable substances such as paper, PP (polypropylene), or PE (polyethylene) films made of a single material. However, materials become non-recyclable due to the use of adhesives or other compounds during processing. KT&G therefore strives to replace such materials or find eco-friendly recyclable alternatives to meet these mid-to long-term goals. In particular, we will contribute to improving recyclability at the product disposal stage by fully converting the inner liners, which are currently partially made of aluminum in conventional cigarette packaging, to paper inner liners.”

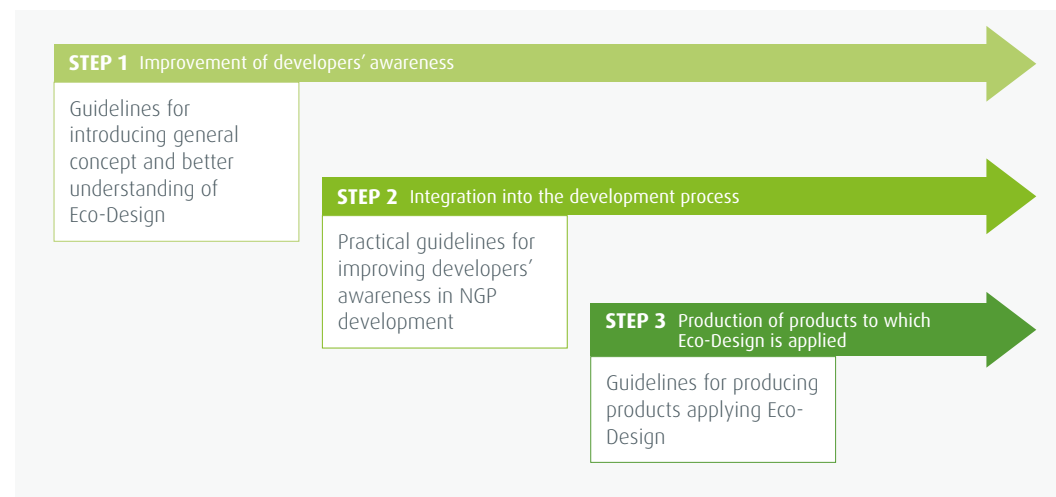
Target to and Performance of Transition to 100% Recyclable Packaging¹⁾



Procedure for Developing Products with Eco-Design (Draft)



Eco-Design Application Process



¹⁾ Scope: Based on domestic manufacturing sites

ENHANCING PRODUCT ECO-FRIENDLINESS

Activities to Improve Product Eco-friendliness















From the product planning and development stages, KT&G aims to establish an Eco-Design system that takes into account its environmental impact. We are laying the groundwork for enhancing product eco-friendliness by continuously expanding the LCA of key products. Starting in 2022, we expanded the scope of LCA in 2023 to quantitatively assess the environmental impacts throughout the lifecycle of 16 key products including both conventional cigarettes and the NGP (Next Generation Products) platform, and to implement measures for improving environmental performance based on the analysis of key issues.

Minimizing the Product's Carbon Footprint

Overview of LCA | Based on the international standards ISO 14040 & 14044, KT&G has analyzed the quantitative environmental impacts across the product lifecycle. Moreover, we aim to build comprehensive environmental information for all products through continuous LCA.

| Category | Contents |
|-------------------------------|-----------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|
| Performance Criteria | Guidelines for Environmental Product Declaration Certification by the Ministry of Environment |
| Impact Assessment Methodology | CML-IA non-baseline V3.07/EU25 |
| Calculation Program | Simapro |
| Calculation Impact Categories | ① Global Warming Potential (GWP) ② Abiotic Depletion Potential (ADP) ③ Ozone Depletion Potential (ODP) ④ Acidification Potential (AP) ⑤ Eutrophication Potential (EP) ⑥ Photochemical Ozone Creation Potential (POCP) ⑦ Water Footprint (m ³) |

Products Subject to LCA

| | 2022 | | | 2023 | | |
|-------------------------------------------------------------------------------------------------------|---------------------------------------------------------------------------------------|---------------------------------------------------------------------------------------|---------------------------------------------------------------------------------------|-------------------------------------------------------------------------------------|---------------------------------------------------------------------------------------|---------------------------------------------------------------------------------------|
| | CC | NGP P1 | NGP P2 | NGP P1 | NGP P2 | NGP P4 |
|  Device | |  |  |  |  |  |
| | | lil Solid 2.0 | lil Hybrid 2.0 | lil Solid ez | lil Hybrid ez | lil Aible |
|  Stick |  |  |  | | |  |
| | 2 types of cigarettes | 3 types of Fiit | 2 types of MIIX | | | 3 types of AIIM |
|  Vape | | |  | |  | |
| | | | P2-only vape cartridge | | P2-only vape cartridge | |

ENHANCING PRODUCT ECO-FRIENDLINESS

LCA Results | Based on the results of the LCA of key products, KT&G has analyzed the environmental impacts at each stage of the product lifecycle and identified key issues that should be prioritized for developing low-carbon products. Based on these findings, the company is developing strategies to improve the environmental attributes of its products and is committed to continuous efforts to enhance product eco-friendliness. Furthermore, KT&G will continue with its Eco-Design activities from the development stage of products, taking the environment into consideration.

Impact on Global Warming and Key Issues by Product

• Analysis of major issues - contribution over 50%

| Category | Product name | IMPACT ON GLOBAL WARMING | KEY ISSUES |
|----------|---------------------|--------------------------|----------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|
| CC | RAISON French Black | | 1. (Pre-manufacturing) Stemmed leaf tobacco 49% 2. (Manufacturing) Electricity 11% |
| | ESSE CHANGE 1mg | | 1. (Pre-manufacturing) Stemmed leaf tobacco 36% 2. (Manufacturing) Electricity 11% 3. (Pre-manufacturing) Sheet tobacco 11% |
| P1 | Fiit CHANGE | | 1. (Pre-manufacturing) [Stick] Slurry-type sheet tobacco 39% 2. (Manufacturing) [Stick] Electricity 18% |
| P2 | MIIX | | 1. (Pre-manufacturing) [Stick] Slurry-type sheet tobacco 27% 2. (Pre-manufacturing) [Vape] Electricity 13% 3. (Pre-manufacturing) [Vape] Cartridge 12% |
| P4 | AIIM R ICE | | 1. (Manufacturing) [Stick] Electricity 17% 2. (Pre-manufacturing) [Stick] Filter flock 16% 3. (Pre-manufacturing) [Stick] Standard rolls 11% 4. (Use) [Device] In-use phase 9% |
| | AIIM G TWICE | | 1. (Manufacturing) [Stick] Electricity 20% 2. (Pre-manufacturing) [Stick] Filter flock 15% 3. (Use) [Device] Use of sold products 11% 4. (Disposal) [Stick] End-of-life treatment of sold products 9% |
| | AIIM V ICE DOUBLE | | 1. (Manufacturing) [Stick] Electricity 19% 2. (Pre-manufacturing) [Stick] Filter flock 15% 3. (Use) [Device] Use of sold products 11% 4. (Disposal) [Stick] End-of-life treatment of sold products 9% |

* Conventional cigarettes: 1 Pack (20 Sticks)
 * P1: 1 Pack of sticks (20 Sticks) + (1 Device / Total packs smoked over lifetime)
 * P2: 1 Pack of sticks (20 Sticks) + (1 Device / Total packs smoked over lifetime) + 1 Vape
 * P4: 1 Pack of sticks (20 Sticks) + (1 Device / Total packs smoked over lifetime)

Activities to Reduce Product Environmental Impact | KT&G identifies environmental issues of major products through LCA and explores various ways to reduce their emissions. For each product, we first identify whether carbon emission reduction solutions developed during the internal development phase are present and whether they are being applied. If these solutions are in use, we analyze the environmental improvements compared to previous methods.



Removal of Device Adapter Protective Film – Completed

For user convenience, KT&G includes accessories when users purchase device kits, and chargers (adapters) are initially provided with a protective film to prevent surface scratches. However, as this packaging does not impact the product's functionality, all protective films have been removed from the adapters. This has resulted in an estimated reduction of approximately 5.74 tons¹⁾ of CO₂ in 2023, based on sales volume.

¹⁾ The estimate is based on the total device sales (for domestic use and export) in 2023.

Conversion of Device Cable Fastening Band to Paper – Completed

Among the device accessories, the polypropylene bands used to secure cables have been switched to paper materials. Based on the 2023 sales volume of device products, the conversion of cable fixation bands from polypropylene to paper is estimated to have reduced CO₂ emissions by approximately 12.51 tons²⁾.

²⁾ This estimate is calculated based on the reduction effects associated with the total sales of device products (for domestic use and export) in 2023.

Reduction of CC and Stick Inner Frame Weight – Completed

The weight of the inner frame used in the packaging of conventional cigarette (CC) and stick products has been reduced by about 8%, thereby minimizing material use without affecting quality. Based on the 2023 sales volume, this reduction is estimated to have decreased CO₂ emissions by approximately 62.16 tons³⁾.

³⁾ This estimate is based on the total sales volume of CCs and sticks (for domestic use and export) in 2023.

Conversion of Liquid Cartridge Injection Materials of NGP – In progress

For P2-exclusive liquid cartridges, a transition to materials with a smaller carbon footprint⁴⁾ than the existing materials is planned. Upon completion, this initiative is expected to reduce carbon CO₂ emissions by 11.96g per cartridge compared to existing e-liquid cartridges.

⁴⁾ The environmental impact assessment is based on the Ecoinvent v3.8 and CML-IA non-baseline V3.07/EU25 methodology.

Conversion of NGP Stick Inner Liner Aluminum Composite to Paper – In progress

KT&G is actively preparing to transition the inner liner of NGP stick products from aluminum composite to 100% paper by 2025, aiming to switch to recyclable packaging. When the NGP inner liner is transitioned to recyclable packaging, it is expected to result in a reduction of at least 4.905g of CO₂ emissions per pack compared to existing stick products.

Additionally, through discussions with related departments, we will assess the feasibility of improvement proposals for key issues at the product development stage, aiming to proactively enhance the environmental performance of new products.

ENHANCING PRODUCT ECO-FRIENDLINESS

Establishment of Electronic Cigarette Waste Recycling System Recyclable materials from waste devices include plastics, batteries, PCBs, and metals. KT&G has established and is operating a phased recycling process for these four materials. As a result, approximately 95% of the materials are recycled, after accounting for a 5% loss due to packaging and recycling processes.

Process to Turn Waste Devices into Resources through Consumer Engagement



Promoting “lil-cycle” for Device Material Recycling | In 2022, KT&G collaborated with the global recycling innovation company TerraCycle to establish a device material recycling operational process and identify licensed recycling companies. Building on this, the lil-cycle program is underway, targeting devices exchanged at service centers and discarded from the supply chain, recycling them back into resources. Following a pilot operation in December 2022, which collected and recycled approximately 100kg of devices (equivalent to 1,000 devices), the program in 2023 scaled up to implement resource recovery of around 7,196kg of devices (equivalent to about 72,000 devices), representing approximately 5.1% of domestic device sales.¹⁾

In April 2023, to celebrate Earth Day, KT&G entered into a partnership with E-Mart's resource circulation platform, “Gapuljiu (Take It, Protect the Plastic, Save Our Sea)”²⁾ campaign, committing to ongoing exploration of plastic recovery initiatives and brand collaborations. Through participation in the Gapuljiu program, KT&G is engaged in active discussions about the necessity of recycling and environmental activities. We are also exploring various ways to expand the material recycling program and enhance consumer participation through online and offline waste device collection points. We will continue to strive to operate an expanded material recycling program through this initiative.

In the first half of 2024, building on these efforts, it is expected that the device resource recovery volume will increase by approximately 143% compared to the same period last year, amounting to 6,274kg (equivalent to about 63,000 devices).

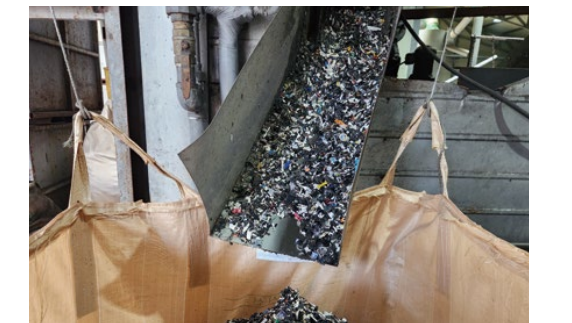
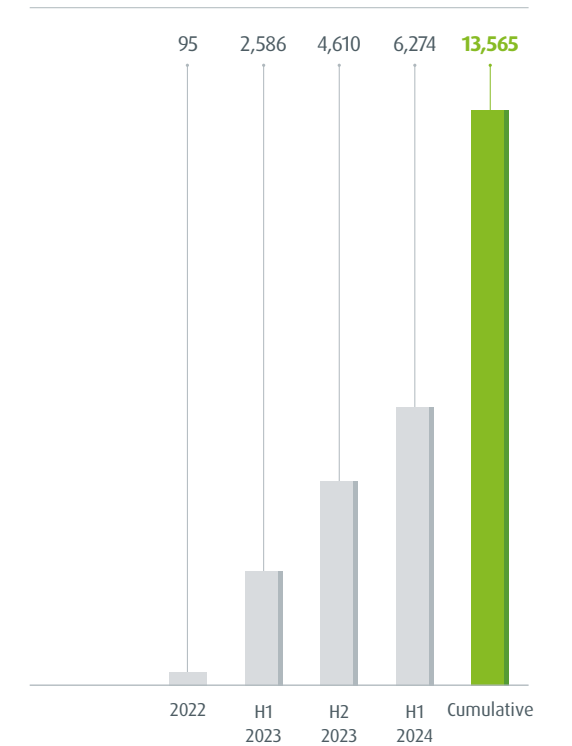
lil-cycle Program Operation Timeline



¹⁾ Excluding losses occurred in the processing process

²⁾ A comprehensive plastic reduction campaign platform involving customers, NGOs, institutions, and companies. It operates plastic collection bins in 85 E-mart stores located in the Seoul metropolitan area, promoting upcycling and donation initiatives. Additionally, the campaign includes coastal cleanup volunteering, marine environmental education, and exhibition activities, etc.

lil-cycle Device Material Recycling Performance (Unit: kg)



lil-cycle recycling site

I. ENHANCING PRODUCT ECO-FRIENDLINESS

II. R&D Activities to Improve Product Eco-friendliness

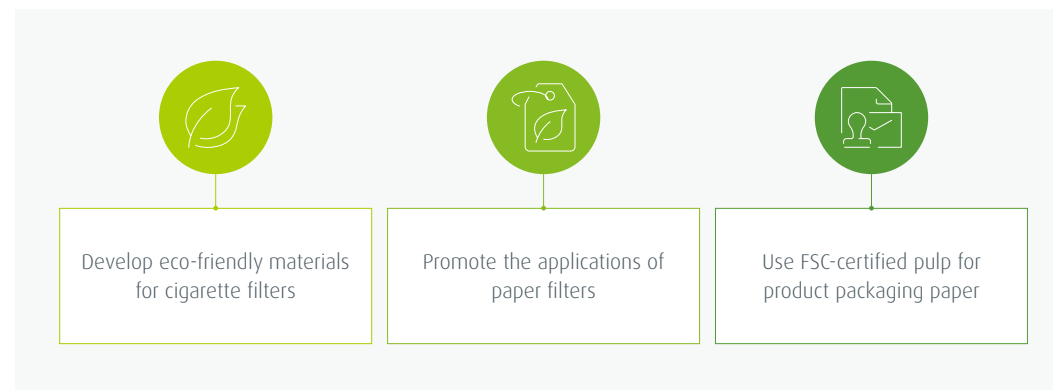
The necessity of securing a sustainable competitive base, in conjunction with corporate social responsibility, is emerging. Furthermore, it is becoming increasingly important to seek fundamental solutions at the product development and planning stages, not just at the operational level, to reduce environmental impacts.

KT&G's eco-friendly research and development (R&D) efforts are focused on creating products that reduce environmental loads throughout their entire lifecycle. This is achieved by developing eco-friendly new materials and technologies for replacing existing materials, thereby enhancing the company's ability to address environmental issues. In the short term, the objective is to replace cigarette packaging materials, while from a mid-to long-term perspective, we aim to minimize environmental impacts across the entire product lifecycle through the early development of core technologies, thereby enhancing product eco-friendliness. Furthermore, we will continuously review and develop related technologies to a level applicable to our products, balancing key factors such as environmental perspectives, consumer safety, and quality.

Developing and Applying Eco-friendly Materials Since 2013, KT&G has been conducting R&D on alternative materials, such as non-plastic, biodegradable substances, and thus confirmed the feasibility of using lyocell fibers¹⁾, known for their excellent biodegradability, in cigarette filters. In February 2023, KT&G signed an agreement with KOLON Industries for "the joint development of eco-friendly lyocell fiber cigarette filters." Additionally, we have secured intellectual property rights through patent registration and continue our research and development efforts to achieve quality similar to that of existing filters and to advance towards commercialization. We are also concurrently pursuing the development and evaluation of using paper filters for eco-friendly products.

KT&G has assessed the biodegradability of lyocell fibers and their application in cigarette filters under marine and industrial composting conditions²⁾ to verify their eco-friendliness. The evaluation confirmed that both conditions showed biodegradability of over 90%, compared to the control substance, cellulose. Moving forward, KT&G will continue to verify the biodegradability of lyocell fiber cigarette filters in various environmental conditions. In partnership with KOLON Industries, we will keep advancing our research and development to implement these filters in actual products and reinforce our initiatives in ESG management.

Develop Eco-friendly Materials and Use Eco-friendly Certified Materials



¹⁾ Lyocell fibers are produced from natural pulp extracted from wood without chemical alteration, and are known for their outstanding biodegradability after disposal.

²⁾ Seawater conditions are tested according to ASTM D 6691, while industrial compost conditions follow ISO 14855.

I. WATER RESOURCES MANAGEMENT

II. Water Management Targets and System

Water Withdrawal Reduction Target by 2030 Given the nature of KT&G’s business, which spans from tobacco leaf cultivation to cigarette manufacturing, water is a critically important resource. We have therefore declared a water management goal to reduce the water withdrawal by 20% at both domestic and overseas manufacturing sites by 2030 compared to 2020, aiming to implement a circular economy for this essential resource. To achieve this goal, we plan to secure internal capabilities for water management in the short term by introducing water recycling technologies, while aiming to expand its influence based on global standards, such as obtaining global water resource management certifications, in the long term.

Water withdrawal at KT&G’s domestic and overseas manufacturing sites has continuously decreased from 766,167 tons in 2020 to 743,323 tons in 2021, 733,014 tons in 2022, and 699,228 tons in 2023, representing an 8.7% reduction (66,939 tons) compared to 2020. This reduction is the result of enhanced company-wide monitoring through a monthly energy and water cost settlement system, the development and implementation of water-saving projects tailored to each plant’s characteristics, and the expanded use of reclaimed water sources, such as treated wastewater. Moving forward, we will make continuous efforts to meet the 2030 water withdrawal reduction target.

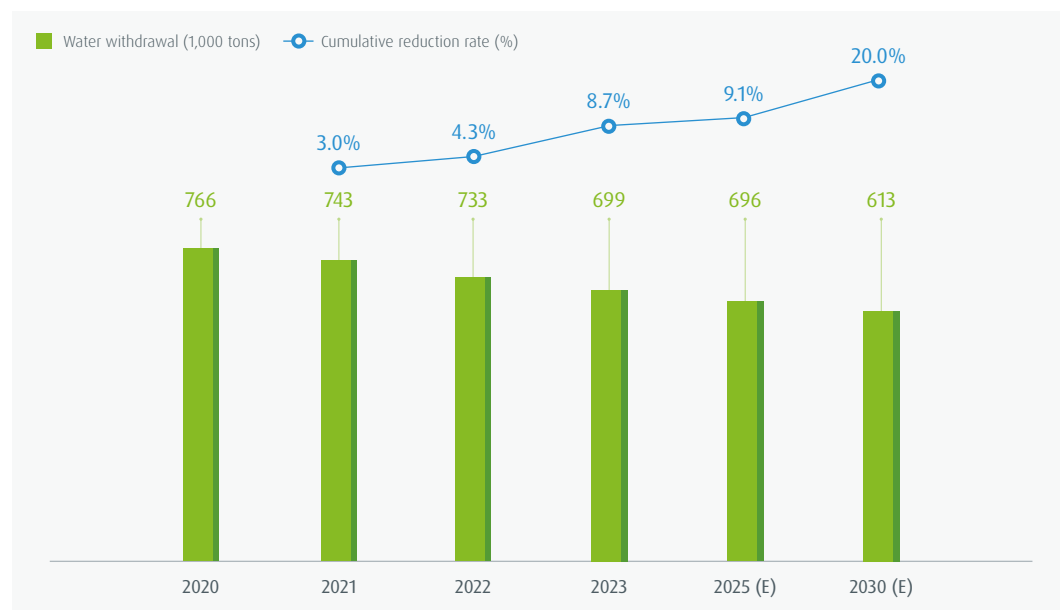
Water Management System

Water Management Process | To reduce water withdrawal and increase recycling rates, KT&G aggregates monthly water bills by source and analyzes the factors contributing to any increases or decreases. This information is used to implement strategies that enhance water efficiency, in coordination with the company-wide energy cost settlement system. Additionally, each manufacturing site sets specific water withdrawal and reuse goals, with progress monitored monthly.

Relevant plant officers input data into the system using a proprietary Excel format. The Energy and Environment Department at Manufacturing HQ then verifies this compiled data against actual performance and supporting billing evidence. The Department analyzes data on water withdrawal, reuse, and discharge to encourage reduction activities. It also identifies additional initiatives based on factory-specific achievement rates and water withdrawal simulations, all aimed at achieving its goals. Since January 2023, the Energy and Environment Department has been conducting monthly ESG video conferences with plant officers both domestically and internationally. These sessions focus on reviewing the previous month’s performance and enhancing the implementation of critical improvement tasks through proactive communication.

Water Management Division and R&R | The Energy Environment Department under the Manufacturing HQ is responsible for managing the water consumption of six domestic and three overseas manufacturing plants, as well as establishing and implementing mid-to long-term strategies including the standardization of the factory management process to achieve mid-to long-term water withdrawal reduction targets, and the introduction of optimized water reuse facilities for each plant. Each plant plays a vital role in discovering and improving ways to reduce water consumption in the production process and utility facilities while the Energy Environment Department leads the improvement at the company-wide level by horizontally disseminating improvement activities at individual plants to other plants through an organic cooperation system.

KT&G Domestic and International Water Resource Management Roadmap



* The water withdrawal reduction targets for 2025 and 2030 reflect KT&G’s commitment to reduction, and may be subject to change based on future external environmental changes and variations in business operations.

2030 Water withdrawal target

20% reduction compared to 2020

Water withdrawal target and performance of domestic and overseas manufacturing sites in 2023

| | |
|-------------|--------------|
| Target | 729,349 tons |
| Performance | 699,228 tons |

Achievement Rate
104.3%

Water withdrawal performance and outlook

| Category | Unit | 2021 | 2022 | 2023 | 2025 (E) | 2030 (E) |
|---------------------------|------|---------|---------|---------|----------|----------|
| Domestic | Ton | 538,346 | 522,708 | 534,285 | 394,558 | 393,082 |
| Overseas | Ton | 204,977 | 210,306 | 164,943 | 301,530 | 219,852 |
| Total | Ton | 743,323 | 733,014 | 699,228 | 696,088 | 612,934 |
| Cumulative reduction rate | % | 3.0 | 4.3 | 8.7 | 9.1 | 20 |

* Based on domestic and overseas manufacturing sites of KT&G

I. WATER RESOURCES MANAGEMENT

Acquisition of Global Water Resource Management Certification KT&G is applying water management practices that meet global standards for sustainable water use. As part of these efforts, we are working to obtain the AWS (Alliance for Water Stewardship)¹⁾ certification, recognized globally as the most credible in water resources, at the Yeongju Plant. To this end, we conducted a gap analysis against the AWS Standard in 2023, and thus derived 23 strategic tasks. We will do our utmost to obtain the certification by 2024 by executing the derived tasks, and we plan to strengthen our execution capabilities to gradually expand the application to other sites, starting with the Yeongju Plant.

Activities to Reduce Water Consumption and Improve Water Quality

Expanding Water Reuse Infrastructure

Domestic Plants | KT&G is exploring and implementing various methods to reuse wastewater and process water to reduce water withdrawal.

In December 2021, the Daejeon, Gwangju, and Gimcheon Plants introduced a system that reuses water discharged from wastewater treatment plants directly as wash water and for dissolving chemicals. In 2023, including the Yeongju Plant, this initiative was expanded to other target plants, reusing an annual total of 3,841 tons of water. Additionally, the discharged wastewater was further purified using methods such as ozone treatment and filtration, allowing its reuse in scrubbers and toilets and enabling an additional annual reuse of 17,772 tons. At the Daejeon plant, we reused 2,210 tons of water annually by improving the piping system to repurpose the high-temperature water used for cooling the dryer in the raw material processing process as cleaning water for parts in the tobacco manufacturing process. In December 2023, additional purification facilities, including ozone and filtration systems, were installed at the wastewater treatment plant to enable the reuse of discharged wastewater in scrubbers and toilets, which is expected to save approximately 16,113 tons of water annually. As a result, we have established wastewater reuse infrastructure at our four domestic plants (Daejeon, Yeongju, Gwangju, and Gimcheon) that have wastewater treatment facilities.

Moreover, KT&G continues to identify and implement improvement tasks for further reduction. In April 2024, the Gwangju Plant is set to install additional reverse osmosis (RO) equipment at the wastewater treatment plant to expand the reuse of discharged wastewater in cooling towers, with an expected additional annual reuse of approximately 11,776 tons. The Daejeon 2 Plant will reuse concentrate discharged from the RO equipment in the membrane manufacturing process as wash water for cleaning tanks and other equipment, further reducing water consumption. Additionally, to reduce the use of sanitary water, we plan to introduce water purification devices in baths starting with the Daejeon Plant, followed by Yeongju and Gwangju, which have bath facilities.

Overseas Plants | Since September 2023, the Indonesia Plant has used discharged wastewater for landscaping, saving about 515 tons from September to December 2023. It is expected to save approximately 1,421 tons annually. In 2023, the Türkiye Plant reinserted concentrate processed through the RO system, saving about 5,772 tons.

Rationalizing Water Use at Business Sites Water consumption at KT&G mostly occurs at manufacturing plants. The plants identify water-saving opportunities through regular monitoring, analysis, and diagnostics of water consumption, and they also confirm and implement improvement projects through close communication with the headquarters.

In 2023, 28 initiatives were identified and enhanced for rationalizing water use, which are expected to save approximately 58,005 tons annually. The Daejeon and Yeongju Plants have established systems that reuse discharged wastewater in scrubbers and toilets. Additionally, the Yeongju Plant, in collaboration with its cafeteria service provider, installed water-saving pedals and high-pressure wash guns in the cafeteria and ran a water reduction campaign, achieving savings of approximately 4,020 tons. In December 2023, the Daejeon Plant completed the installation of water purification equipment to reuse bath water. Following the stabilization and effectiveness analysis of this equipment, its adoption in other plants will be considered.

KT&G will continue to identify tasks for rationalizing water use and will accelerate their implementation by applying domestically developed technologies in its overseas plants.

Wastewater Quality Improvement Activities KT&G treats wastewater from its tobacco manufacturing processes before returning it to aquatic ecosystems, applying internal standards that exceed the legal limits for water pollutants. For instance, the Daejeon Plant manages its wastewater according to standards that are 40% stricter than the legal requirements. KT&G conducts regular water quality tests for detected pollutants such as pH, BOD, and TOC. Additionally, we have established our own regulations and perform annual tests to detect new pollutants, aiming to minimize impacts on aquatic ecosystems.

Key achievements in water resource management in 2023



Decline in water withdrawal for 3 consecutive years – Reduction rate in 2023 compared to 2020

8.7% (Reduction of 66,939 tons)

Pursuing the acquisition of credible global certification in the field of water resources

AWS (Alliance for Water Stewardship) certification

Water Security sectors in the CDP Korea Awards

A rating

¹⁾ Global membership collaboration comprising businesses, NGOs and the public sector, contributing to inducing good water stewardship performance through the adoption and promotion of a universal framework for the sustainable use of water – AWS Standard

I. WATER RESOURCES MANAGEMENT

II. Water Risk Management by Business Site

Water Risk Management Status KT&G assesses water risks at all its sites, both domestically and internationally, including overseas tobacco farms and key domestic material partners. Priorities for minimizing water risks and reducing environmental burdens are determined based on risk analysis results and water usage, leading to targeted improvement activities.

Results from water-related risk assessments, including WRI water risk analyses and VOC evaluations, are incorporated into KT&G's overall corporate management strategy. As a key element of the company-wide ESG management strategy and environmental management policy, we have included water resource management, and are establishing and implementing related goals and detailed improvement tasks. Tasks such as reducing water withdrawal, improving water efficiency, and enhancing wastewater quality, established by KT&G, are integral to the ESG management strategy and both short and long-term environmental goals, and are actively implemented at each business site.

2023 Water Risk Analysis Results | Water risk assessments are conducted using the World Resources Institute's (WRI) Water Risk Atlas tool, with separate analyses of indicators such as Baseline Water Stress and Baseline Water Depletion to identify water-stressed regions.

Water Stress | In 2023, a total of 43 sites, encompassing all domestic and overseas manufacturing sites, were analyzed. The overall water resource risk level at KT&G's domestic manufacturing sites ranges from Low to Medium. However, the water stress index rates higher, at Medium to High, and the Türkiye Plant, among the international sites, has been identified as a water-stressed region.

Water Accessibility | According to the WRI water risk analysis, the Türkiye Plant's Baseline Water Stress score is 4.72 (on a 5-point scale), classified as Extremely High, and its Baseline Water Depletion score is 2.96, rated as Medium-High. A high water stress score indicates intense competition among water users within the basin, resulting in low water accessibility at the Türkiye Plant.

In response to the high water stress risk and acute drought conditions at the Türkiye Plant, KT&G is increasing investments in water reuse and recycling processes and is considering the installation of equipment for alternative water resources, such as rainwater and treated wastewater. Specifically, recognizing the availability of multiple alternative water sources near the Türkiye Plant, preparations are being made to utilize these in emergency situations, such as during droughts when groundwater is inaccessible, and relevant training is being conducted.

Overview of KT&G Water Risk Analysis

Analysis Target

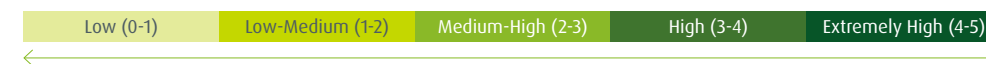
Domestic and overseas manufacturing sites, leaf tobacco supply chain, significant material partners

Analysis Methodology

World Resources Institute's "Water Risk Atlas" tool

Definition of Water Risk Zone

A zone classified as "High" or higher (3 points or above) on the overall water risk scale, which consists of 13 water risk-related indicators based on the results of WRI water risk analysis



Domestic and Overseas Business Sites

- Low (<10%)
- Low - Medium (10-20%)
- Medium - High (20-40%)
- High (40-80%)

Domestic and Overseas Supply Chain (significant material partners, leaf tobacco farms)

- Low (<10%)
- Low - Medium (10-20%)
- Medium - High (20-40%)
- High (40-80%)



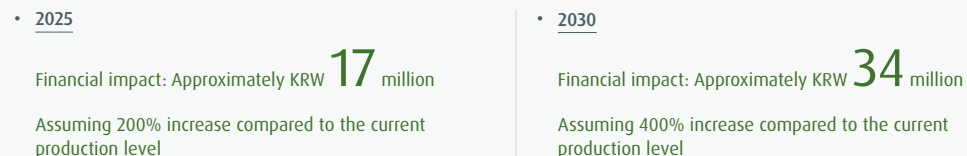
I. WATER RESOURCES MANAGEMENT

Water Risk and Opportunity Analysis

Water Risk | According to the WRI water risk analysis, the Türkiye Plant, one of KT&G’s overseas manufacturing sites, has been identified as having the highest Baseline Water Stress index among all KT&G’s domestic and Overseas manufacturing sites. Water stress is defined by the ratio of water withdrawal to available water in a basin, where a high value indicates intense competition among water users. Given Türkiye’s robust national manufacturing capabilities and geographic advantages, its role in the global supply chain market is expected to strengthen, potentially attracting various global manufacturers. The establishment of new manufacturing plants and an increase in water withdrawal within the basin of the Türkiye Plant will likely result in a higher Baseline Water Stress index. Increased water demand in the basin, coupled with insufficient water resources, will likely result in higher water bills and operational instability in managing water resources at the Türkiye Plant, ultimately increasing the risk to production stability.

Potential Financial Impact (Risk)

The projected financial impact is based on the assumption that production at the Türkiye Plant will increase proportionally to water withdrawal. Increases in water bills due to higher water withdrawal are considered financial impact factors.



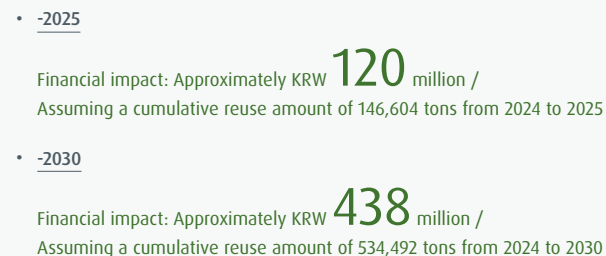
Response Strategy

KT&G is proactively addressing water stress risks and the associated business impacts of increased water withdrawal in Türkiye Plant by enhancing water use efficiency, promoting water reuse, and engaging in water conservation activities. The Türkiye Plant has established a mid-term goal to reduce water withdrawal by 20% by 2030 and has conducted a feasibility study on the use of reclaimed water to decrease actual water dependency. In the short-term, KT&G is identifying improvement tasks aimed at water conservation. In 2023, these activities included the reuse of concentrate discharged from the reverse osmosis (RO) system. KT&G also plans to identify further reduction tasks by referring to the “Water Conservation Best Practice Casebook,” which compiles exemplary water conservation practices verified at domestic plants. In the long term, we will obtain ISO 14001 (Environmental Management System) and Alliance for Water Stewardship (AWS) certifications to elevate our management system to global standards.

Water Opportunity | KT&G has established water resource goals to minimize on-site water withdrawal by efficiently using water, an essential resource in tobacco product production. Reducing water withdrawal not only lowers water charges but also decreases the operational costs associated with wastewater treatment for discharge. Beyond mere cost savings, this strategy offers a significant opportunity to lower the overall water dependency of the tobacco business.

Potential Financial Impact (Opportunity)

The projected financial impact was calculated by applying the average water resource fee unit price from KT&G’s manufacturing sites to the anticipated volume of reclaimed water.



Response Strategy

KT&G annually establishes an environmental budget aimed at strengthening water resource management, including the expansion of water reuse, and carries out targeted implementation activities in line with the annual financial plan. We reuse purified wastewater from wastewater treatment plants at four domestic plants (Daejeon, Yeongju, Gwangju, Gimcheon) for uses such as dehydrator washing and chemical dissolution. We also analyze water consumption by application and undertake various water conservation measures accordingly. As an example, analyzing water usage by application area revealed opportunities to reduce sanitary and washing water usage, resulting in the replacement of faucets and showerheads with water-saving models in bathhouses, toilets, and wash stations. Moreover, to enhance comprehensive water resource management capabilities, we strive to obtain AWS (Alliance for Water Stewardship) certification, starting with the Yeongju Plant, with a plan to extend this initiative to all KT&G business sites.



I. WASTE MANAGEMENT

II. Waste Management Goals and Implementation Plans

Waste Management Goals Waste generated unavoidably during the production process, if not recyclable, is disposed of through methods such as landfilling or incineration, which place a burden on the environment. Recycling waste is the most effective way to reduce these risks and realize a circular economy, thereby minimizing the use of new resources.

KT&G has set a goal of achieving a 90% waste recycling rate at its business sites by 2030, and to achieve this goal, we are thoroughly separating waste for easy recycling. We are also working to increase recycling rates by exploring and switching to suitable recycling methods for waste that was previously handled in non-recyclable ways. In 2023, KT&G's domestic and overseas waste discharge increased by 23.8% (2,903 tons) year-on-year due to the increase in cigarette production, but we increased recycling by 27.7% (2,742 tons) year-on-year through active efforts, improving the total recycling rate by 2.5%p from 81.4% to 83.9%.

Waste Management System From the second half of 2021, KT&G has strengthened its processes for waste contractors, including mandatory due diligence evaluation sheets before contracting with waste contractors, unification of due diligence evaluation sheets for each factory, addition of air and water quality compliance evaluation items, and regular checks on the proper disposal of waste by contractors through the Allbaro system. In particular, the contents have been included in KT&G's internal business manual, "Energy and Environment Guidelines," and are being implemented and continuously upgraded. In addition, in order to prevent environmental pollution caused by waste, the headquarters conducts on-site inspections once a year at all domestic plants to check compliance with relevant laws and regulations on waste management processes from waste generation to disposal.

To achieve tangible waste management results, we monitor waste generation and recycling rates at our nine domestic and overseas plants every month to analyze the nature of waste and identify the causes of increases and decreases, and discuss waste reduction measures and ways to increase recycling rates with those in charge of each plant through the ESG Monthly video conference. In addition, for waste that is not generally suitable for in-house recycling due to its nature, we are accelerating the transition to recycling based on a close collaboration system, which involves jointly exploring legal disposal methods and identifying suitable companies in cooperation with the Energy Environment Department at the headquarters.

Waste Management at Overseas Business Sites KT&G has introduced and operates key performance indicators (KPIs) for waste emissions and recycling rates to enhance waste management at overseas plants to the level of domestic plants. In addition, we will improve the recycling rate at overseas plants by closely utilizing domestic recycling methods to minimize waste generation and recycle unavoidable waste as much as possible.

Zero Waste to Landfill KT&G prioritizes recycling when outsourcing waste treatment and has established internal regulations to avoid landfill disposal methods. As a result, waste from wastewater treatment plants, which was previously disposed of in landfills, is now being recycled for soil improvement purposes. In July 2023, KT&G's Cheonan plant achieved the platinum status in the Zero Waste to Landfill (ZWTL)¹⁾ from Underwriters Laboratories (UL), a global environmental and safety certification company, recognizing its 100% waste recycling rate. ZWTL is a global certification awarded to facilities with a recycling rate of over 80%. Starting with the Cheonan plant certification, KT&G is now working to obtain the certification for the Daejeon Plant 2 in 2024 and plans to gradually expand certifications across its facilities.

Waste Management Activities at Business Sites

Reduction of Process Waste and Transition to Recycling In 2023, due to an increase in cigarette production, our domestic and overseas waste discharge rose by 24.1% (2,930 tons) compared to the previous year. However, through proactive recycling efforts, the amount of recycled waste increased by 27.7% (2,742 tons) over the previous year, thereby improving the overall recycling rate from 81.4% to 83.9%, a 2.5%p increase year-on-year.

KT&G is undertaking various activities to reduce the generation of process waste. Previously, we used high grammage C48 cardboard boxes, which are high-density boxes, for storing some waste after final processing of leaf tobacco. However, we designed a dedicated waste box with reduced weight but the same size, discovered suppliers, produced it in-house, and conducted work safety tests before introducing it to the manufacturing plants. Through the appropriate specification of these dedicated waste boxes, it is expected to reduce waste generation by 72 tons annually. In addition, at Daejeon Plant 2, KT&G implemented a system to recycle 24 tons of waste annually by using a fragrance extractor. This system separates unqualified products from the fragrance capsule manufacturing process into fragrance liquid and remaining film material, allowing the extracted fragrance liquid to be reused.

¹⁾ The certification from UL, a global safety certification specialist, serves as a measure of a company's resource recycling level. Depending on the recycling rate, the certification awards Platinum (100%), Gold (99-95%), and Silver (94-90%) levels. By obtaining ZWTL certification, a company can benefit from cost savings related to waste management, reduced reliance on limited landfill space, and fulfillment of corporate social responsibility regarding environmental impact.

Waste recycling target



Recycle **90%**¹⁾ of waste generated at our business sites by 2030

¹⁾ Based on domestic and overseas manufacturing sites of KT&G

Waste recycling performance in 2023



Total waste recycling rate **83.9%**²⁾ (2.5%p increase from the previous year)

²⁾ Based on domestic and overseas manufacturing sites of KT&G

Target and performance of waste recycling at domestic and overseas manufacturing sites



Recycling Rate



Achievement Rate

101.8%

I. MANAGEMENT OF NATURAL CAPITAL AND BIODIVERSITY

KT&G's business relies on natural capital such as forest, soil, and water, from which it derives numerous benefits through ecosystem services. We recognize the importance of natural capital provided by nature and ecosystems, actively managing all stages of the value chain to reduce or prevent any negative impacts on nature. As global interest and the necessity for corporate management of natural capital and biodiversity have grown, there is increasing pressure worldwide for companies to disclose relevant information and manage these aspects effectively. In alignment with global trends, KT&G is committed to expanding the disclosure of its natural capital management performance following the recommendations of the Taskforce on Nature-related Financial Disclosure (TNFD). As a Forum Member of TNFD, we will contribute to the collective effort of our society towards nature by continuing to enhance our disclosure practices based on the TNFD Recommendation released in September 2023. In addition, we want to analyze and manage the impact on the overall value chain, including upstream and downstream suppliers that can affect domestic and overseas business sites and their adjacent areas.

Governance

Management Responsibility and Reporting System for Natural Capital KT&G's management of natural capital is overseen by Sustainability Committee under the BOD. The Committee reviews the alignment between our ESG strategy and long-term natural capital management strategies, approves key challenges in natural capital management, and monitors the appropriate implementation status of these challenges. The Sustainability Committee also oversees the dependency on and impacts of natural capital related to KT&G's business activities, including the associated risks and opportunities.

KT&G evaluates the appropriateness of methods used to assess our dependency, impact, risks, and opportunities related to natural capital. These evaluations, along with identified issues, their resolutions, and mitigation plans, are reported to the Head of Strategy Division (who also serves as CSO/CFO), ensuring responsible management. The ESG Management Office under the Strategy Division collaborates with relevant departments through a Task Force in the ESG and environmental fields to assess the significance of natural capital management issues, reporting key matters to the Chief of Strategy Division. As sustainability disclosures gain prominence at the group level, discussions on natural capital issues are also held within the group body, including subsidiary ESG teams. KT&G integrates its natural capital management into a unified company-wide risk management process, treating it as a non-financial risk. Continuous monitoring is planned to understand the risks, opportunities, and impacts identified through analysis.

Key Management Strategies for Natural Capital Natural capital is an integral part of our economic system, and the financial, institutional, environmental, and social risks and opportunities that arise from its utilization influence our business decisions. KT&G assesses the risks and opportunities of natural capital utilization through the perspectives of various stakeholders, including government agencies, companies, investors, and local communities in each country, and establishes and implements our short-, mid-, and long-term strategies and policies.

Biodiversity & No Deforestation Policy | KT&G's Biodiversity & No Deforestation Policy, established in 2023, applies to our entire value chain, including domestic and overseas operations, farms in our supply chain, and partners. The purpose of the Policy is to prevent and mitigate risks that may arise throughout the business, and it was established with reference to international conventions and guidelines such as the Convention on Biological Diversity, the IUCN Guidelines for Applying Protected Area Management Categories, and the Convention on International Trade in Endangered Species of Wild Fauna and Flora. The Sustainability Committee under the BOD makes the final decision on the establishment/amendment of this policy, and reviews and deliberates on legal and regulatory responses in the field of biodiversity/forests that have a significant impact on business operations, establishment of biodiversity/forest risk assessment and protection plans, and related investment decisions based on this policy.

Protection of Grower and Local Residents | At the upstream level, KT&G recognizes that cultivators and local communities around farms, who are often exposed to human rights issues, may have their livelihoods and lives affected by changes in natural capital caused by our operations. We define them as human rights vulnerable groups and strengthen our management, including monitoring, to ensure their basic rights are protected.

For leaf tobacco farms, we introduce the Sustainable Tobacco Program (STP) and conduct assessments and due diligence on the "human and labor rights" area of the program. In Korea, KT&G conducts direct on-site monitoring through our own STP Guidelines, while overseas, it involves leaf tobacco suppliers and third-party due diligence experts, and assesses a total of nine areas, including climate change, water, cultivation, soil health, human and labor rights. The human and labor rights part of our assessment identifies a range of human and labor rights risks that can occur on farms, including child labor, forced labor, unfair compensation, overtime, and workplace safety hazards. We prioritize risks based on the assessment and due diligence, and drive engagement and improvement activities through supplier-specific action plans.

In 2023, we established our own Sustainable Ginseng Program (SGP) for ginseng farms. In order to improve the effectiveness of the program, we piloted it with a select number of farms in the first year, and plan to gradually expand the number of participating farms to ensure that ginseng is grown in compliance with environmental and social regulations. In particular, we share with farms the regulations related to human and labor rights that must be observed through domestic laws and regulations in the form of guidelines, and use GC (Ginseng Consultant) to systematically manage compliance with the guidelines.

In addition, at the KT&G Yeongju plant, which is highly dependent on local water resources, we conduct specialized monitoring on the ecosystems near the plant to prevent infringement on the water rights of local residents who may be affected by our business activities. We utilize a self-developed checklist to continuously manage compliance with environmental regulations, and consider various channels to engage and voluntarily communicate with local residents, such as conducting surveys to identify water issues they may face in their daily lives. As a result of a survey conducted with local residents in 2023, we found that rust water was occurring in the water supply, and through discussions with the local waterworks, we took measures to ensure that clean water was supplied as soon as possible.

Biodiversity & No Deforestation Policy



MANAGEMENT OF NATURAL CAPITAL AND BIODIVERSITY

TNFD Index

Joining Global Natural Capital Initiatives | Considering the industrial characteristics of the Group subsidiaries, which operate food and tobacco businesses with a high dependence on natural capital, KT&G joined the TNFD Forum Membership in December 2022 to actively monitor related trends and enhance communication. Based on the TNFD Disclosure Recommendations and the TNFD LEAP Approach, KT&G plans to set biodiversity management indicators, proactively respond to risks, assess natural capital impacts in the value chain, prevent natural losses and contribute to ecosystem recovery, and strengthen ESG management considering the characteristics of the business, while promoting external communication based on global initiatives. Through these activities, KT&G will strengthen our capabilities to respond to natural capital issues that are growing in importance and make continuous efforts to reduce the impact on biodiversity in our business operations.

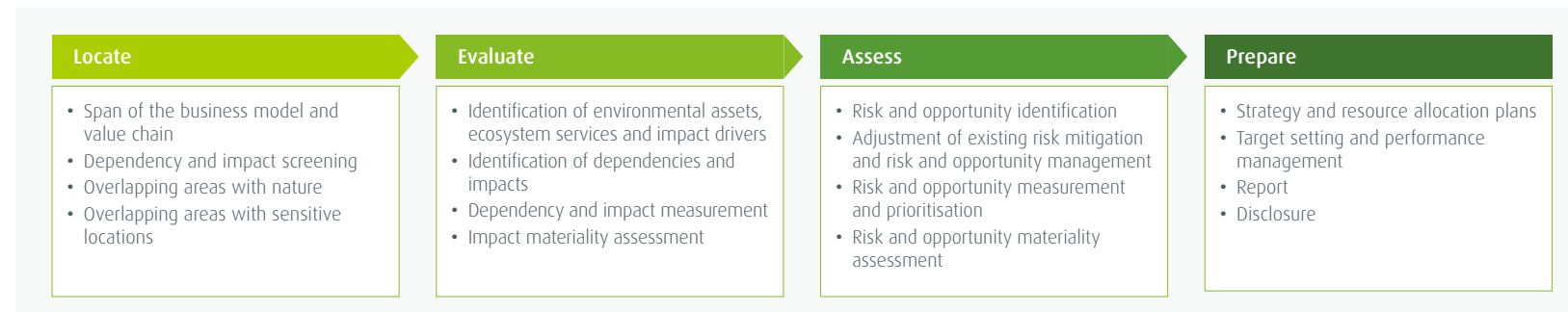
Metrics and Targets

Linking Performance Rewards to Natural Capital In order to establish and promote a robust ESG management system, KT&G reflects ESG KPIs and targets in the performance evaluation and compensation system for top executives (10% weight), and includes items related to “establishing the Group strategy and response framework for natural capital management” in the ESG core initiative task category based on business characteristics. In particular, in the soil and forest sector, we aim to halt deforestation and land conversion (Deforestation & Conversion Free) in protected areas by 2030¹⁾ in order to minimize potential negative impacts on ecosystems from our business in the medium to long term, and for details, please refer to the “Indicators and Targets” section of this report.

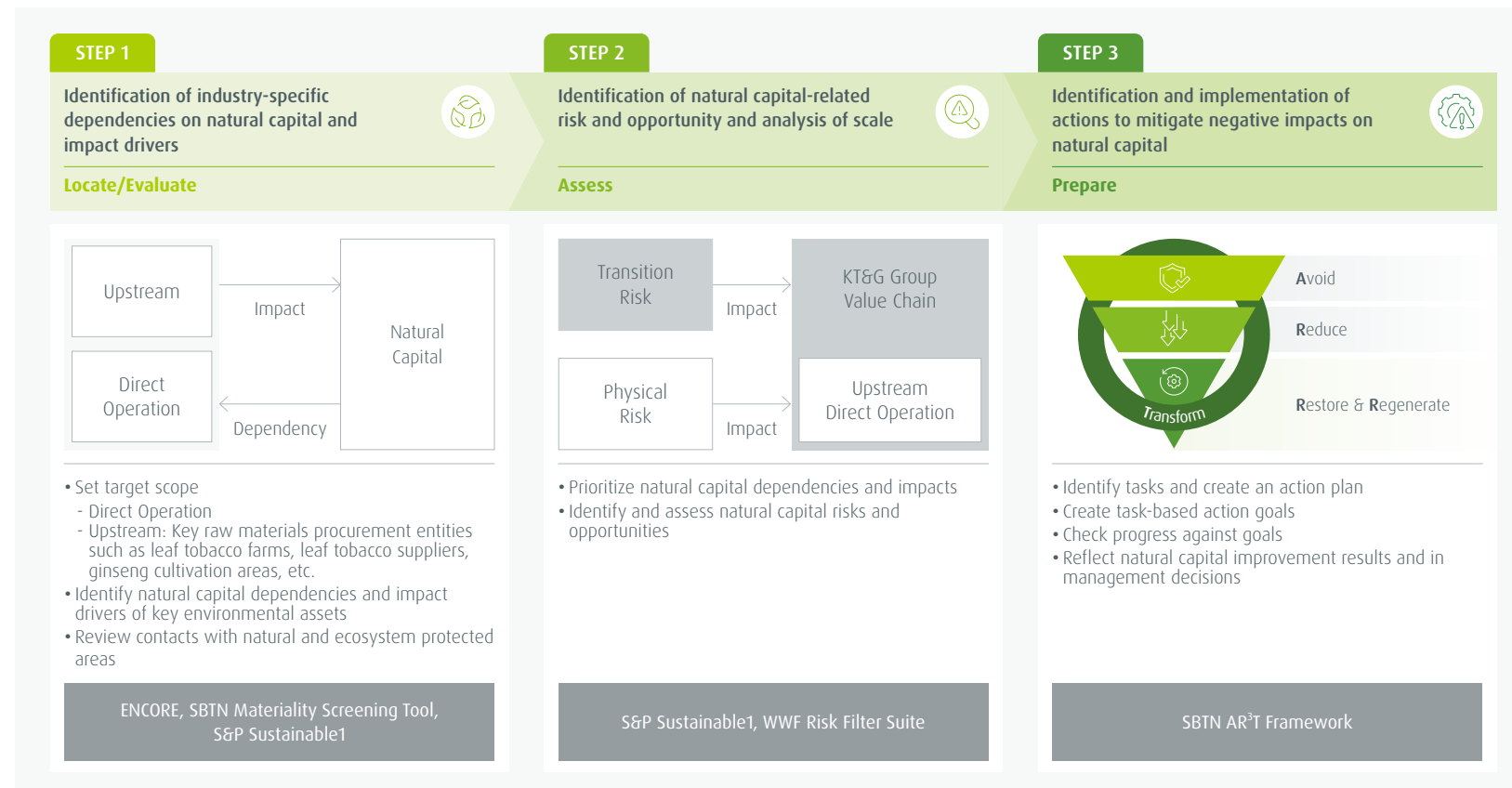
Strategy

KT&G follows the LEAP Approach set out by the TNFD to identify and materialize our dependencies, impacts, risks and opportunities related to nature. The LEAP Approach is a methodology for identifying, assessing, managing, and disclosing natural capital issues that includes the processes of scoping natural capital targets (Locate), reviewing dependencies and impact levels (Evaluate), and conducting risk and opportunity assessments (Assess), as well as a holistic approach to disclosing and responding to critical nature-related issues in line with TNFD recommendations (Prepare).

TNFD LEAP Approach



KT&G Natural Capital Management Process



¹⁾ Targeting the Group subsidiaries and supply chain of KT&G and KGC

MANAGEMENT OF NATURAL CAPITAL AND BIODIVERSITY

LOCATE Identifying Overlapping Areas for Assessing Dependency and Impact on Natural Capital

Scope of Business Model and Value Chain | Although KT&G operates in the tobacco manufacturing industry, it also has subsidiaries in various sectors such as health functional food, pharmaceuticals, and cosmetics. This diversification means KT&G relies on and impacts a broader range of natural ecosystems. To systematically manage the natural ecosystems affected by KT&G and its subsidiaries' business activities, KT&G has identified key overlapping areas for assessing dependency and impact across its headquarters, sales offices, plants, and adjacent areas of KT&G and its consolidated subsidiaries. Our assessment scope also includes the upstream value chain, encompassing key domestic and international farms producing raw materials for tobacco and ginseng, as well as certain suppliers. In total, 147 sites were evaluated to understand the levels of natural capital dependency and impact.

EVALUATE Assessment of Natural Capital Dependency and Impact Level

Screening and Prioritization of Natural Capital Dependency and Impact of Key Assets | In the Evaluate step, we identified the relative importance of the extent to which our business processes rely on and impact natural capital. KT&G utilized the Exploring Natural Capital Opportunities, Risks and Exposure (ENCORE), a global tool that assesses the level of natural capital dependency and impact by industry, and the materiality screening tool provided by Science Based Targets for Nature (SBTN) to identify the factors we should focus on and assess. In addition, we leveraged the World Wide Fund for Nature's (WWF) Risk Filter Suite tool and worked with external experts, S&P Global Sustainable1 (Sustainable1), to provide a more detailed quantitative assessment of our natural capital dependency and impact levels based on 147 key asset locations. We thus prioritized the natural capital factors on which we actively rely for our operations and business activities or that significantly impact our operations and business activities.

Identification of Dependency Factors According to the assessment results of Sustainable1, the agriculture-based tobacco and ginseng business is moderately dependent¹⁾ on the provisioning services of ecosystems, including plant materials and water resources such as groundwater and surface water, as it sources its raw materials through large-scale cultivation. In addition, a moderate level of dependency factors related to agriculture, such as soil quality, flow, climate regulation, disease and pest management, soil stabilization, and erosion control, was identified for regulating & maintaining services, which refers to nature's ability to regulate the function, structure, and composition of ecosystems to keep them in optimal condition. The results identified by Sustainable1 were used to further compare and examine each of KT&G's major assets using the WWF Risk Filter Suite, resulting in a total of six factors, including "protection from floods and strong winds," as the main natural capital dependencies of KT&G Group.

Identification of Impact Factors Meanwhile, KT&G has identified the ecological impacts of its agricultural-based businesses, such as tobacco and ginseng production, using WWF's Risk Filter Suite. The analysis revealed that pollution, protected and conservation areas, forest loss, and changes in the use of soil, freshwater, and marine resources are relatively high-priority issues. All highly relevant ecological impact drivers are related to natural capital, such as soil, water resources, and air, which are affected by the cultivation of raw materials for KT&G's core products, leaf tobacco, and ginseng.

KT&G aims to pursue a sustainable natural capital management strategy by comprehensively analyzing and identifying risks and opportunities related to key natural capital identified. By developing systematic response measures, we seek to reduce our dependency and impact on natural ecosystems while expanding our business capabilities. In addition, we plan to innovate our business operations to ensure mutual positive impacts with nature, explore opportunities for new business activities, and continue monitoring to promote coexistence with the environment.

KT&G's Key Dependency on Natural Capital



KT&G's Key Impact on Natural Capital



¹⁾ Analysis results of S&P Sustainable 1 regarding KT&G assets' dependency on natural capital (0-1 scale): Very low: <0.2, Low: 0.2-0.4, Medium: 0.4-0.6, High: 0.6-0.8, Very high: ≥0.8

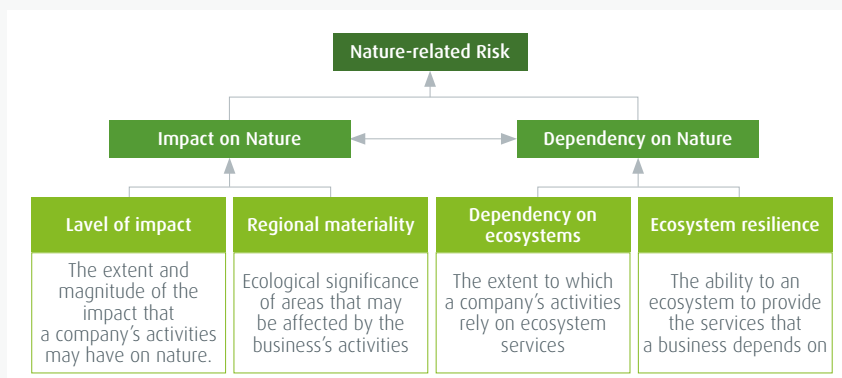
MANAGEMENT OF NATURAL CAPITAL AND BIODIVERSITY

Nature & Biodiversity Risk Assessment

Nature & Biodiversity Risk Assessment

KT&G collaborated with Sustainable1 to conduct an assessment on “nature & biodiversity risk.” This risk assessment utilized the Nature Risk Profile, developed to analyze the impact and dependency of businesses on nature. Using data covering over 17,000 companies and more than 1.6 million assets, the assessment translated land area, ecosystem destruction, and ecosystem importance measurements into units of ecosystem footprint. This approach enabled us to identify the levels at which we have impact and dependency on nature.

Methodology for Nature Risk Profile



1 Overlapping Areas with Natural and Protected Areas (Reputational and Regulatory Risks)

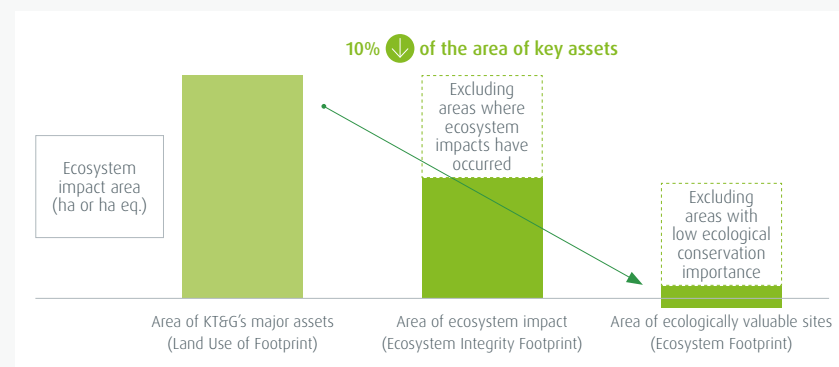
KT&G selected 147 key environmental assets, including business sites, major upstream suppliers, and primary tobacco and ginseng farms. Using Sustainable1’s specialized tools, we analyzed the proximity of these assets to areas with a high need for ecosystem and natural capital conservation. The analysis revealed that approximately 94% of the major tobacco and ginseng farm areas within our business sites and upstream supply chain are not located in the protected area, and it was found that none of KT&G’s business sites are adjacent to key biodiversity area¹⁾. Moving forward, KT&G plans to closely examine the estimated 6% of the value chain that is adjacent to protected area and key biodiversity areas. By thoroughly understanding the current status and reviewing local regulations, KT&G aims to develop and implement response plans to mitigate any negative impacts.

¹⁾ Protected Area: Identification based on IUCN, world database on protected areas
Key Biodiversity Area: Identification based on Integrated Biodiversity Assessment Tool

2 Risk Analysis of Impacts on Nature (Impact Risks)

KT&G has assessed its impact on ecosystems, based on the spatial area (in hectares equivalent), using the Ecosystem Integrity Footprint to determine how degraded is the ecosystem’s condition where KT&G operate in. We then identified the area that retains ecological value out of the area where we have impacted ecosystems, and analyzed that about 10% of our total area is impacting nature. The implication is that the larger the area, the greater the environmental responsibility.

Ecological Footprint Impact Assessment of KT&G Group

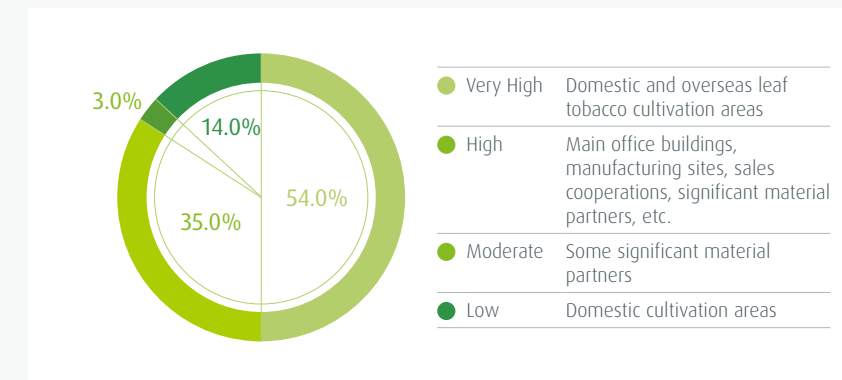


3 Risk Analysis of Dependency on Nature (Dependency Risks)

We also diagnosed the degree of natural capital Dependency based on two key factors of ecosystem “reliance” and “resilience” for 147 key assets. As a result, the risk of natural Dependency of leaf tobacco farmland, which covers more than half of the area of 147 key assets, was identified as Very High, and the risk level of the headquarters, the Group subsidiaries’ business sites, manufacturing and sales corporations, and some partners was analyzed as High. On the other hand, the risk level of core ingredient partners was identified as Moderate, and the risk level of ginseng cultivation sites was identified as Low. The dependency score of KT&G Group’s key assets is 0.77²⁾, which is the sum of the risks associated with being dependent on nature. Due to the nature of KT&G’s agriculture-based upstream operations, the level of dependency on ecosystem services is relatively high, and we found that the process of cultivating leaf tobacco in particular is highly dependent on natural capital.

²⁾ Dependency Level Classification thresholds are defined as (0-1 scale):
No Dependency=0, Very low: <0.2, Low: 0.2-0.4, Medium: 0.4-0.6, High: 0.6-0.8, Very high: ≥0.8

Risk Analysis of Dependency by Asset Type



Assessment Results of Biodiversity at Key Operations (based on number and area of facilities, risk exposure)

(Unit: Location (area))

| Category | Total targets subject to impact assessment | Assessment completed | Assessment results | | |
|-----------------------------------------------|--------------------------------------------|----------------------|------------------------------|-------------------------------------|-------------------------------------|
| | | | Protected area ⁴⁾ | Key biodiversity area ⁵⁾ | Establishment of measures and plans |
| Owned by KT&G | 20 (205ha) | 20 (205ha) | 0 (0ha) | 0 (0ha) | 0 (0ha) |
| Entire value chain (including own operations) | 147 (23,749ha) | 147 (23,749ha) | 18 (1,329ha) | 2 (128ha) | 20 (1,457ha) |

³⁾ Significance by asset location assesses whether an asset could have a significant impact on ecosystems by identifying overlaps with protected areas (PAs) and key biodiversity areas (KBAs)

⁴⁾ This refers to geographic space managed for the long-term conservation of ecosystem services, cultural values, and more, identified using the World Database of Projected Area (WDPA), a data set developed jointly by UNEP and IUCN.

⁵⁾ IUCN defines them as areas that contribute to the global persistence of biodiversity based on standardized scientific criteria and thresholds, and utilizes the World Database of Key Biodiversity Areas built by the KBA Partnership, a group of 13 organizations including IUCN, WWF, and others.

MANAGEMENT OF NATURAL CAPITAL AND BIODIVERSITY

ASSESS | Assessment of Natural Capital Risks and Opportunities

Based on our material natural capital dependencies and impacts, KT&G has identified natural capital risks and opportunities directly related to our business activities. We clarified how the identified risks and opportunities affect us and identified the potential business impacts that could arise from them.

KT&G's Natural Capital Risks and Opportunities

| Category | Dependency and impact prioritization | KT&G's current risks and opportunities | Potential impact on KT&G business | Impact period | |
|------------------|--------------------------------------|--------------------------------------------------------------------------------------|------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|---------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|---------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|
| Transition risks | Market | - | <ul style="list-style-type: none"> Increased need to shift to sustainably grown ingredients Higher sourcing costs for sustainably produced raw materials | <ul style="list-style-type: none"> Transitioning to a sustainable supply chain is costly and resource-intensive Impact on our profitability due to higher raw material purchasing costs | Mid/Short-term |
| | Regulation | - | <ul style="list-style-type: none"> Increased need to aggregate and manage data on natural capital and biodiversity for key upstream and downstream partners | <ul style="list-style-type: none"> Operational costs incurred by developing a data platform to monitor natural capital management in key supply chains, promoting awareness education programs, etc. | Mid/Short-term |
| | Reputation | (Impact) Protected/conservation areas (Impact) Forest loss | <ul style="list-style-type: none"> Increased need to cease operations of our business sites, partners, and cropland adjacent to natural areas An estimated 6 % of key assets in our value chain are estimated to be located adjacent to protected areas or key biodiversity areas¹⁾ | <ul style="list-style-type: none"> Adoption of technology to identify value chains adjacent to protected areas, incurring costs for input of human resources Reviewing measures/transition plans for value chains adjacent to natural protected areas and preparing countermeasures Concerns about corporate value impact due to deterioration of social reputation and instability of business operations | Mid/Short-term |
| | Reputation | (Impact) Labor rights/human rights | <ul style="list-style-type: none"> Possible diseases and illnesses of grower that may occur during the cultivation process Forced labor and child labor issues at farms | <ul style="list-style-type: none"> Decrease in the number of farms and raw material production, as well as an increase in corporate reputation risk in the event of human rights risks of growers Increased uncertainty and volatility of farming continuity in the event of grower's health and safety issue | Mid/Short-term |
| Physical risks | Acute | (Dependency) Protection from flooding and high winds | <ul style="list-style-type: none"> Reduced soil productivity due to degraded cropland following climate disasters | <ul style="list-style-type: none"> Incurring costs for rehabilitation support on directly contracted cropland | Short-term |
| | Acute | (Dependency) Climate control (Dependency) Disease control | <ul style="list-style-type: none"> Crop quality deteriorates due to growing environment instability Crop productivity deteriorates due to unstable growing environments | <ul style="list-style-type: none"> Increased production and procurement costs due to reduced production and supply of raw materials such as leaf tobacco and ginseng Rise of losing market competitiveness and long-term customers due to quality issues Disease and invasive species outbreak incurring costs to support farms in preventing invasive species outbreaks | Mid/Short-term |
| | Chronic | (Dependency) Soil erosion management (Impact) Change in soil/freshwater/ocean use | <ul style="list-style-type: none"> Reduced soil productivity due to abnormality such as soil erosion Increased carbon emissions from expanding agricultural land and changing soil use | <ul style="list-style-type: none"> Incurring costs to help restore damaged cropland due to soil erosion Additional expenditures incurred to meet value chain GHG reduction targets | Mid/Long-term |
| | Chronic | (Dependency) Maintaining flow | <ul style="list-style-type: none"> Reduced production and supply of raw materials due to irrigation water shortages Decreased reputation with local people due to increased water sensitivity around croplands | <ul style="list-style-type: none"> Costs incurred to support water sensitization in areas surrounding tobacco and ginseng farms Increased production and procurement costs due to reduced production and supply of raw materials such as leaf tobacco and ginseng | Mid/Long-term |
| | Chronic | (Dependency) Soil quality (Impact) Pollution | <ul style="list-style-type: none"> Crop quality suffers due to unstable growing conditions | <ul style="list-style-type: none"> Developing supply chain-targeted technologies to improve soil and water quality, incurring R&D expenses | Mid/Long-term |
| | Opportunities | Resilience | - | <ul style="list-style-type: none"> Increased supply of sustainably certified crops expands opportunities to produce green products | <ul style="list-style-type: none"> Enhancing corporate reputation by producing and selling more sustainable products Gaining customers through certification and marketing of more sustainable products |
| Opportunities | Resource Efficiency | - | <ul style="list-style-type: none"> Adoption of cropland green technologies expands supply chain carbon reduction opportunities Croplands can improve soil quality and crop productivity | <ul style="list-style-type: none"> Diversifying our business portfolio (e.g., by pursuing projects that issue carbon credits) Enhancing business sustainability by reducing the cost of implementing GHG reduction targets and increasing crop production | Mid/Long-term |

¹⁾ Utilizing S&P Sustainable 1's natural capital impact analysis of 147 KT&G's key assets

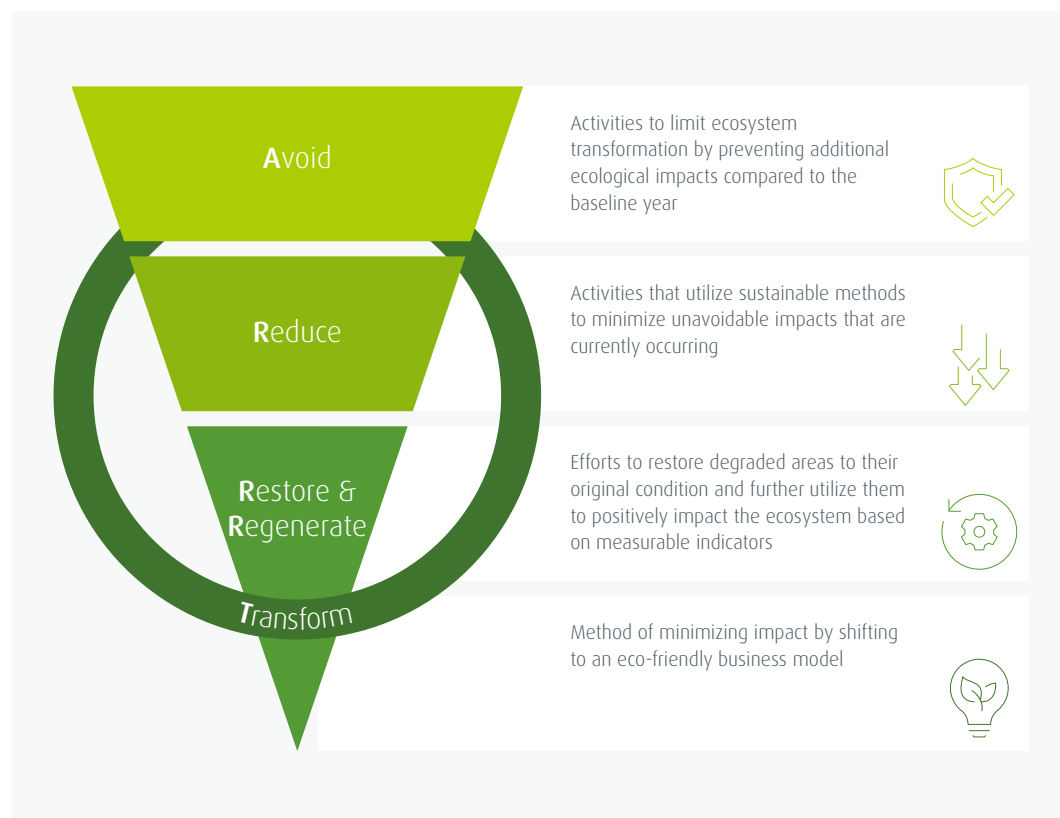
I. MANAGEMENT OF NATURAL CAPITAL AND BIODIVERSITY

II. Risk and Impact Management

PREPARE Efforts to Mitigate Natural Capital Risks

SBTN AR3T Framework-based Risk Mitigation Efforts Promotion | KT&G aims to manage the negative impacts on natural capital and biodiversity that may arise from our activities across the value chain in a balanced manner. To this end, we are systematically approaching the mitigation of natural capital risks by utilizing the AR3T Framework, an implementation framework for achieving science-based natural capital management targets set by the Science Based Target Network (SBTN). The AR3T Framework encompasses approaches to “avoid” potential future impacts, “reduce” current impacts, “regenerate and restore” ecosystems, and contribute to the “transformation” of the entire system.

Description of AR³T Framework



Examples of KT&G’s Major Natural Capital Risk Mitigation Activities

| | |
|-------------------------------------|----------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|
| Avoid | <ul style="list-style-type: none"> Establish a goal of halting deforestation and land conversion (Deforestation and Conversion-Free) in protected areas by 2030 Develop and disseminate STP and SGP guidelines for farms on soil conservation, pollutant management, and standard farming practices Analyze biodiversity risks in the production of products near domestic and international manufacturing operations Include related issues such as environment, human rights, labor, and working conditions in supply chain diagnostic indicators and conduct regular inspections based on codes of conduct |
| Reduce | <ul style="list-style-type: none"> Reuse effluent in wastewater treatment plants (domestic), reuse concentrated water based on R/O technology (overseas) Monitor changes in soil use on farmland and business sites at home and abroad Regularly monitor water quality, soil pollutant emissions, manage total annual emission targets, and conduct soil contamination tests Implement an LCA for major products to evaluate the environmental impact of products produced and sold, and applying improvement projects (e.g., removal of device adapter protective film, conversion of device cable fastening band to paper, etc.) Expand the use of raw materials with FSC, GAPC, and other sustainable agriculture and procurement-related certifications |
| Regenerate & restore | <ul style="list-style-type: none"> Implement forest and ecosystem restoration measures when nature-damaging activities are identified through regular and irregular farm due diligence. Voluntary forest restoration and afforestation activities in areas of high nature conservation value at home and abroad Conduct annual improvement activities for biodiversity conservation in communities near our operations with the National Institute of Ecology (wetland protection activities, forest creation, etc.) |
| Transform | <ul style="list-style-type: none"> Promote the development of non-plastic eco-friendly filters using “lyocell fiber” to improve ecosystem sustainability at the product disposal stage (in collaboration with KOLON Industries) Review facilities and technical support to prevent climate disasters (floods, heat waves, etc.) for cropland under direct and indirect contracts |

MANAGEMENT OF NATURAL CAPITAL AND BIODIVERSITY



CASE STUDY

KT&G's Key Natural Capital Risk Management Activities (Case-based)

Avoid → Eliminate and manage potential ecosystem risk factors

Establish a goal of halting deforestation and land conversion (Deforestation and Conversion-Free) in protected areas by 2030

KT&G has established a "Deforestation and Conversion-Free" goal in natural protected areas¹⁾ by 2030. We aim to halt deforestation in natural forests and cultivation in natural protected areas for the purpose of sourcing leaf tobacco, ginseng, wood for drying leaf tobacco, and paper and pulp for packaging by 2030 for domestic and international cultivation areas where leaf tobacco and ginseng are cultivated.

To this end, we will implement a number of proactive measures, including regularly monitoring the overlap between the locations of our supply chain for each of our key commodities and protected areas¹⁾ and conducting on-site due diligence in areas of high-risk concern. For example, we will proactively manage the risk of natural capital loss by considering the overlap of protected areas from the contract review stage for farms entering into new contracts. We will also strive to create additional net positive impact on forests and soils by identifying factors that cause degradation of protected areas within our value chain and neighboring communities and restoring the impact of degradation.

¹⁾ Natural forests, including protected/primary forests, as designated by the International Union for Conservation of Nature (IUCN) and SBTN, as well as areas identified as having high conservation needs.

Develop and disseminate STP and SGP guidelines for farms on soil conservation, pollutant management, and standard farming practices

KT&G provides strict cultivation guidelines to domestic leaf tobacco farms based on the Standard Cultivation Method for Leaf Tobacco, considering the potential impacts of fertilizer application on soil and water pollution, and supports all leaf tobacco farms through the Korea Tobacco Growers Organization (KTGO) to supply fertilizer for each type of tobacco.

We are guiding leaf tobacco farms to use compound fertilizers and by-product fertilizers that are suitable for cultivation according to standard farming methods, such as designating crop protection products, proposing strict usage standards, and prohibiting the use of commercially available compound fertilizers and livestock manure.

We also monitor the types and amounts of fertilizers used by farms each year, whether the fertilizers used meet the standard set forth in the standard cultivation practice, and provide guidelines for the disposal of crop protection product packaging to ensure that residues do not cause soil contamination.

Reduce → Reduce value chain risk

Reuse effluent in wastewater treatment plants (domestic), reuse concentrated water based on R/O technology (overseas)

KT&G recognizes the importance of managing potential water pollutants generated during the production of cigarettes, and wastewater generated from its operations is disposed of legally and in accordance with the law. We also continuously manage relevant laws and amendments. We apply internal standards that are higher than the law in consideration of the impact in the region where our plants are located. The Daejeon Plant implements strict internal water quality management standards, including applying a 40% standard compared to the national legal level.

In addition, we evaluate compliance with water pollution standards through global management systems such as ISO 14001, conduct water quality tests for about 28 detected water pollutants such as pH, BOD, and TOC, and check whether new water pollutants are detected once a year based on KT&G's own standards. As of 2023, all six domestic plants have acquired and maintained ISO 14001 certification, and the overseas plants in Türkiye and Indonesia are on track to obtain it in 2024.

Due to the nature of our industry, there is a possibility of water pollution attributable to fertilizers and pesticides used in the leaf tobacco cultivation process of our suppliers. In response to this, we apply strict agricultural standards to farms through KTGO and supply only designated types of fertilizers for each crop type every year in consideration of water pollution. In addition, in 2022, we joined the Sustainable Tobacco Program (STP), a global leaf tobacco initiative, to strengthen our management of leaf tobacco farms through supplier risk assessment and on-site due diligence in consideration of water pollution.

MANAGEMENT OF NATURAL CAPITAL AND BIODIVERSITY



CASE STUDY

KT&G's Key Natural Capital Risk Management Activities (Case-based)

Restore & Regenerate → Activities to enhance ecosystem function and restore ecosystem function within communities

Protecting wetlands and promoting biodiversity near the Yeongju Plant

To contribute to the recovery of natural capital and the restoration of biological species, KT&G signed an agreement with the National Institute of Ecology in 2022 for the "Ecosystem Conservation and Biodiversity Promotion" and has been conducting mid-to long-term cooperation projects for the next three years, starting in 2023, to protect ecosystems and restore biodiversity. In 2023, we carried out protection activities for the Janggu catfish wetland (a mountainous wetland of about 38,000 m²) located in Yangyang-gun, an area near our manufacturing facility, Yeongju Plant. We completed the restoration of the wetland, which has been experiencing a decline in biodiversity due to the destruction of its habitat by soil inflow and scour phenomenon caused by the surrounding roads, and will continue to conduct research on the species living in the area. In 2024, we are working on a project to restore the black stork (Natural Monument No. 200, Class I Endangered Wildlife), which once inhabited the Gyeongbuk region but is known to have been extinct. In collaboration with the Endangered Species & NIE Wetland Center of National Institute of Ecology and the Eco-Institute for Oriental Stork of Korea National University of Education, we will introduce and breed black stork juveniles and lay the foundation for their reintroduction to their native habitat. For more information, please refer to the Preserving Biodiversity part of the S-Report.

PROJECT OUTCOME

2023 Outcomes of the Agreement to Ecosystem Conservation and Biodiversity Promotion

- Target Area: Janggu catfish wetland nearby the KT&G Yeongju Plant
- Restoration Area: Approximately 38,000 m²
- Major Species identified
 - Endangered Wildlife Class II: 1 bird species (goshawk), 3 mammal species (yellow-throated marten, leopard cat, siberian flying squirrel)
 - National Red List Near Threatened (NT): 1 inset species (migrant hawk)
 - National Red List Least Concern (LC): 3 plant species (trigonotis icumaevine, etc.), 7 insect species (agelastica coerulea Baly, etc.)

S-Report: Preserving Bio

KT&G forestation projects (restoration of damaged forests, relief in large wildfire disaster areas, creation of SangSang Forest, etc.)

For 18 years since 2006, KT&G has been contributing to the improvement of forest environments at home and abroad, with a total of KRW 5 billion in forestation projects led by the KT&G Welfare Foundation. From 2006 to 2012, we planted 38,000 trees in the Naksansa Temple wildfire-damaged area in Yangyang, Gangwon-do, and from 2013 to the present, we have planted 14,000 trees and removed harmful plants to restore the ecology of Bukhansan Mountain. Following the restoration of deforested areas through volunteer activities, we have expanded the scope of our project to support communities affected by wildfires. In 2022, KT&G launched the "KT&G SangSang Forest" forestation project as part of its strategic ESG management initiative, after the first generation focused on restoring damaged forests and the second generation on providing relief to victims of major wildfires. In 2023, we completed the creation of the third KT&G SangSang Forest in Korea and Mongolia, where we operate. The cost of the forestation project is funded by the SangSang Fund, collected through voluntary donations from KT&G employees, and we strived to fulfill our corporate philosophy of working together in parallel with employee volunteer activities at home and abroad. For more information, please refer to the Forestation Projects part of the S-Report.

PROJECT OUTCOME

Achievement of Forestation Project in 2023

- Value of the SangSang Forest in Bonghwa-gun, Korea¹⁾
 - CO₂ absorption of 54,000 kg/year, fine dust absorption of 110 kg/year
- Value of the SangSang Forest in Mongolia²⁾
 - CO₂ absorption³⁾ of 862.2 tCO₂e/year, desertification prevention effect of 5.2 ha (equivalent to the area of 7 soccer field)

¹⁾ Estimated by Tree Planet, a partner organization, based on "National Institute of Forest Science, 2012, Standardized carbon uptake of major forest tree species," "National Institute of Forest Science, 2017, Basic data analysis of fine dust reduction capacity of forests in Hongneung Forest Science Test Forest," etc.
²⁾ Estimated by Green Asia, a partner organization, based on "Ministry of Environment, 2020, Research on sources of yellow dust particulate matter reduction in Northeast Asia," etc.
³⁾ Including soil carbon sequestration resulting from the restoration of desertified land

S-Report: Forestation Projects

Transform → Implement ecosystem impact reduction initiatives

Promote the development of non-plastic eco-friendly filters using "lyocell fiber"

KT&G is focusing on developing eco-friendly cigarette filters to take fundamental measures against environmental issues arising from the product disposal stage. Existing plastic filters, which are difficult to decompose naturally, can enter the marine ecosystem along the value chain and decompose back into microplastics, causing negative impacts on the marine ecosystem and contributing to pollution. KT&G has been conducting research and development on alternative materials such as non-plastic and biodegradable materials for the past several years, and in 2023, we jointly developed a cigarette filter with lyocell fiber⁴⁾, known as an eco-friendly material, with KOLON Industries. KT&G actively seeks to mitigate negative ecological impacts that may occur during the use and disposal of our products by balancing environmental and ecological perspectives with consumer safety and quality.

⁴⁾ Made using a process that dissolves natural pulp extracted from wood without chemical modification to create fibers, it is an excellent biodegradable alternative material, particularly for cigarette filters after disposal.

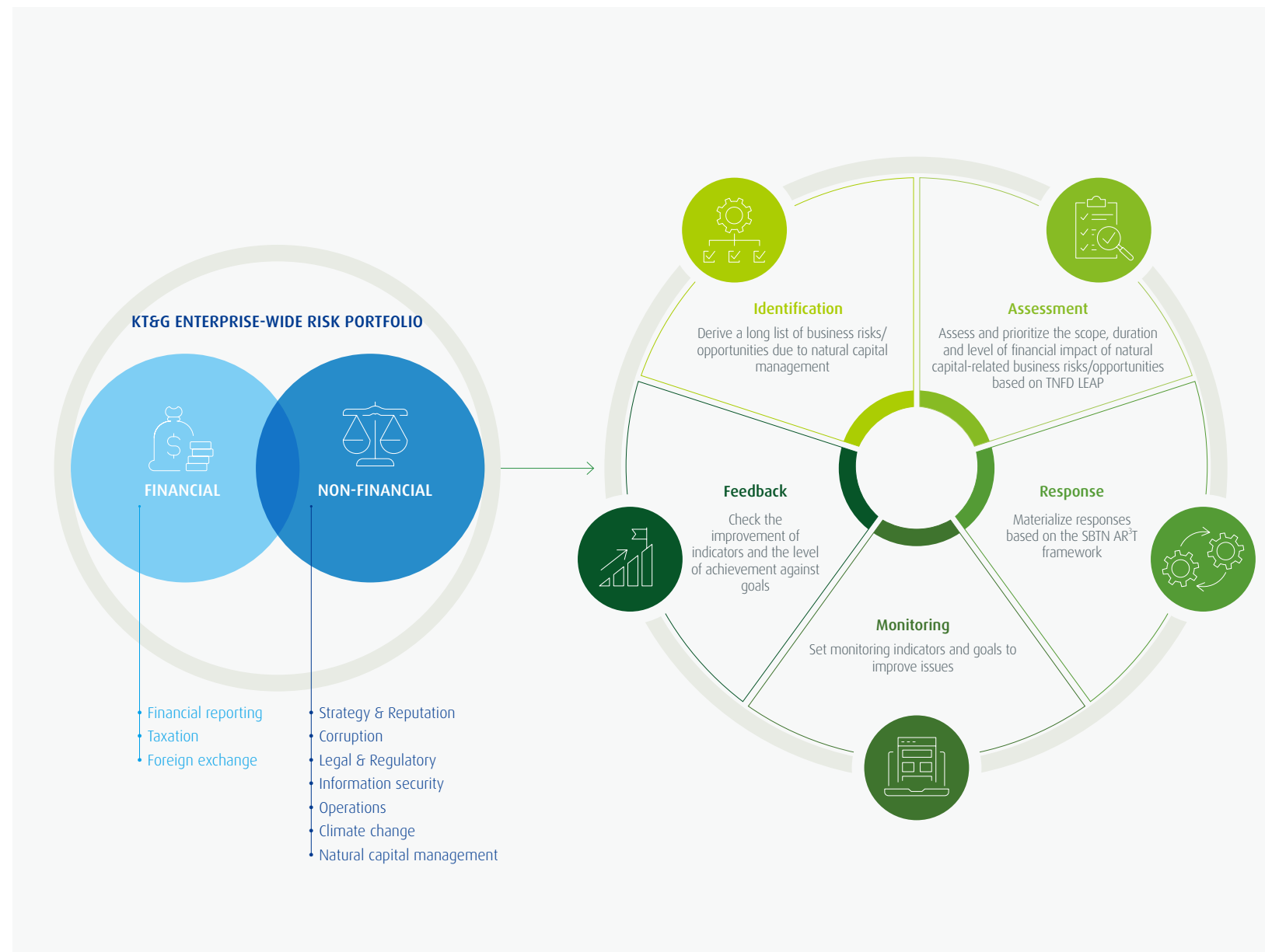
I. MANAGEMENT OF NATURAL CAPITAL AND BIODIVERSITY

Natural Capital Risk Management Process KT&G reviews financial and non-financial risk factors that may arise throughout its business to identify potential risks and to prevent and respond to them in advance. Information related to the enterprise-wide risk management process and organizational structure is detailed in the risk management section of this report."

Risk Management

With the recent rise of biodiversity-related issues, the importance of sustainable natural capital management for companies to address biodiversity issues around their operations and key supply chains is increasing. KT&G plans to add issues related to "natural capital" and "biodiversity" as major non-financial risks in its enterprise risk portfolio and to establish and operate a natural capital risk assessment and management system that includes not only its own operating sites but also the entire value chain. We will mitigate and manage natural capital risks by operating the identification, assessment, response, monitoring, and feedback process for natural capital risks based on the established system.

KT&G's Natural Capital Risk Assessment and Management System



MANAGEMENT OF NATURAL CAPITAL AND BIODIVERSITY

Metrics and Targets

2050 Target for No Net Loss & Net Positive Impact In 2023, KT&G declared the Protection of Biodiversity Principles in the KT&G Biodiversity & No Deforestation Policy. Furthermore, we have established a long-term direction for natural capital management that aims to prevent any losses related to biodiversity (“No Net Loss”) and to achieve a positive impact (“Net Positive Impact”) at our operation sites near important biodiversity conservation areas by 2050. KT&G aims to continue a diverse and systematic approach to reduce negative impacts and maximize positive impacts on natural capital such as forests, soils, water resources, etc. that have a significant impact on future corporate operations and business activities.

2030 Forest and Soil Management Metrics and Targets KT&G is committed to reducing the potential negative impacts of its business on natural capital, aiming to prevent biodiversity-related losses. To measure the impact of its corporate operations and business activities on forests and soil, KT&G has followed the SBTN Land Target Setting Guidance. This involved measuring the overlap ratio between protected areas and KT&G’s domestic and international business sites, as well as key domestic tobacco and ginseng farms.

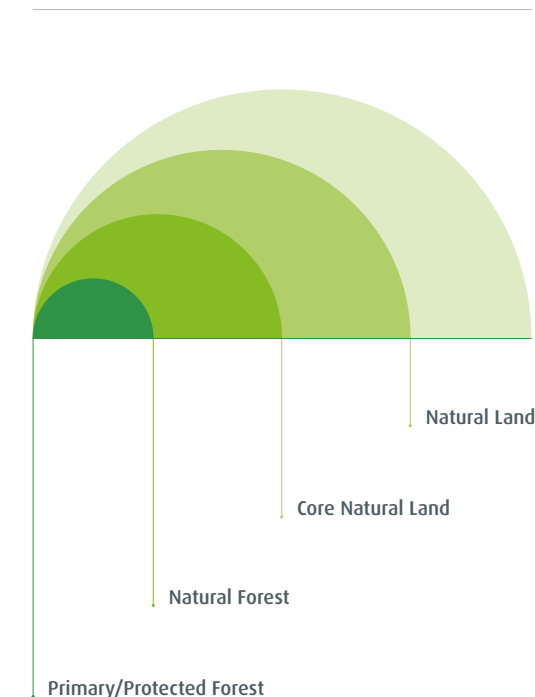
The locations of KT&G’s operations and those of its domestic and foreign subsidiaries that are subject to measurement in 2023 were analyzed and found not to overlap with protected areas, indicating that our directly operated assets do not have significant negative impacts on forests and soils. On the other hand, for domestic leaf tobacco farms under contract with KT&G and domestic ginseng farms under contract with KGC Ginseng Corporation, over 96% of the locations were identified as not overlapping with protected areas. Based on the results of the status check, KT&G Group plans to regularly monitor the overlap between tobacco and ginseng cultivation areas and protected areas and conduct preventive activities, such as conducting on-site due diligence in problem areas. In particular, for farms entering into new contracts, we will proactively manage the risk of natural capital loss by considering the overlap with natural protected areas from the contract review stage.

We also analyzed the use of fuel wood for drying tobacco and paper packaging materials for KT&G and KGC to ensure that the raw materials for materials and packaging are sustainably sourced without damaging natural protected areas. In the case of wood for drying leaf tobacco overseas, we checked whether it was sourced from certified tree plantations, and in the case of paper packaging materials, we checked whether FSC-certified paper and pulp were used. Based on the results of the inspection, we identified materials and packaging materials that need to be managed in the future, and we plan to source all wood, paper, and pulp through sustainable procurement. In the mean while, due to limitations in collecting accurate location information of overseas leaf tobacco supply chains that are not direct contract farms, we are considering ways to improve the accuracy of data collection and enhance the reliability of the diagnosis of impacts and dependence on natural capital moving forward.

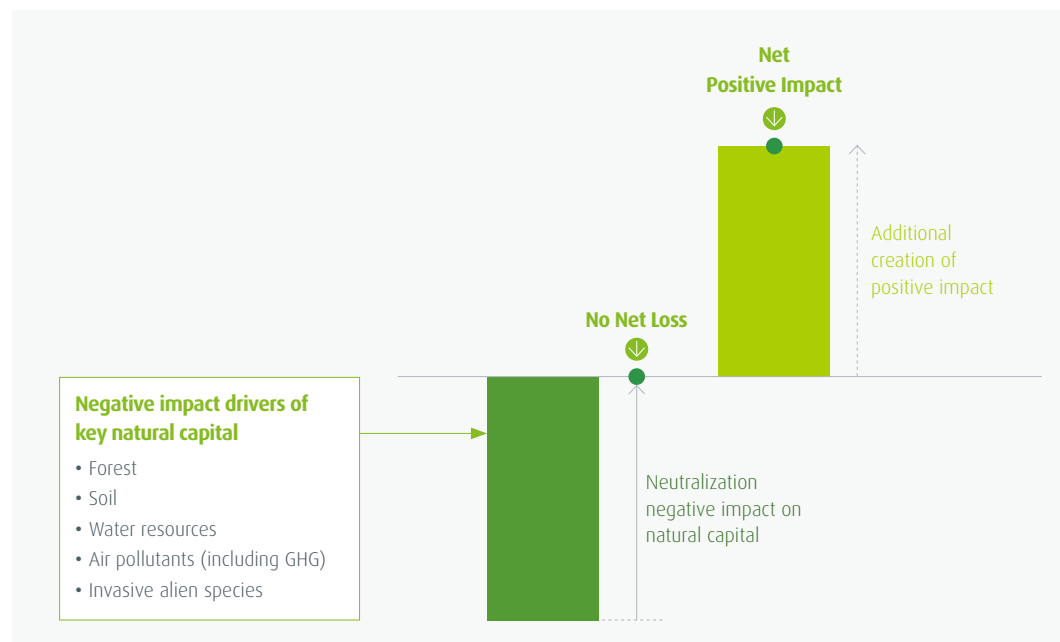
In order to achieve the NNL and NPI target by 2050, KT&G has established a “Deforestation and Conversion-Free” target in protected areas by 2030 in a more specific scope of implementation (leaf tobacco and ginseng farms, partners, business sites, etc.). Protected areas refer to natural forests, including protected and primary forests as designated by the IUCN, and areas identified as having high conservation needs¹⁾. We aim to stop deforestation in natural forests and clearing in protected areas in the process of procuring leaf tobacco, ginseng, wood for drying leaf tobacco, and paper and pulp for packaging by 2030 for domestic and international cultivated land where leaf tobacco and ginseng are cultivated. Leaf tobacco, wood, paper, and pulp are commodities with high impact on natural capitals as defined by the SBTN, and we will actively seek ways to minimize negative impacts on natural capital in the process of producing or procuring these commodities, and to restore natural capital as much as possible.

To achieve this goal, we will regularly monitor the overlap between the supply chains of our key commodities and protected areas, and conduct on-the-ground due diligence in areas of concern with a high risk of overlap to improve the accuracy of our understanding of the situation and actively review our response. In addition, we will make continuous efforts to identify and restore factors in our value chain that contribute to the degradation of protected areas in adjacent communities, thereby creating additional positive impacts on forests and soil.

Categorization of Protected Areas



No Net Loss & Net Positive Impact



¹⁾ Natural protected areas as designated by SBTN Natural Land Map

BUILDING A SUSTAINABLE BUSINESS ECOSYSTEM



MANAGEMENT APPROACH

One particularly notable initiative is the participation in the Global Sustainable Tobacco Program (STP), an ESG program related to the cultivation of tobacco leaves, with an aim to secure a sustainable production base for tobacco leaf farmers, crucial part of our value chain, thereby ensuring a stable supply of high-quality tobacco leaves. Furthermore, we are carrying out various activities to fulfill our social and environmental responsibilities, such as protecting the labor rights and safety of tobacco leaf farmers and reducing greenhouse gas emissions.

In our corporate management process, KT&G respects the human rights of all our stakeholders. To manage potential human rights risks throughout our business activities, we have established a human rights management system company-wide, and we conduct human rights impact assessments to identify, prevent, and mitigate these risks. In addition, we are developing and implementing systematic diversity, equity, and inclusion (DEI) management strategies and various programs in order to foster a culture in which our employees respect and embrace one another.

KEY PERFORMANCE INDICATORS

Percentage of female managers
(2.0%p ↑ YoY)

13.4%¹⁾



Sustainable Tobacco Program
(Sustainability assessment of domestic farms)

680 Farms



Value chain-related social contribution project

- Creation of SangSang Forests at home and abroad and wetland restoration totaling 10.8 hectares
- Installation of 80 dedicated spaces for improving smoking environments, 1,688 cigarette butt collection boxes, etc.

KRW 2.3 billion



¹⁾ Based on domestic business sites and overseas subsidiaries of KT&G, from senior manager to executive directors

I. SUPPLY CHAIN SUSTAINABILITY

II. Supply Chain Sustainability Management System

Supply Chain Management Policy KT&G manages the supply chain because it is a core task for creating a sustainable industrial ecosystem and an essential requirement for mid-to long-term business strategies. We are therefore making active efforts at the enterprise level to strengthen sustainability competitiveness and manage partners systematically within the supply chain of the global tobacco industry as well as the domestic tobacco industry. We have established the Supplier Code of Conduct for the management of a supply chain sustainability and encourages partner companies to participate in ethical management by establishing special terms and conditions for partners to conduct ethical business practices.

KT&G strives to establish and operate a supplier management system that meets the global standards. To this end, we plan to assess and improve the ESG risk management status of our key partners of both domestic and overseas subsidiaries. Additionally, we aim to create and maintain an ecosystem within which we can collaborate with our partners through various ESG enhancement programs and education initiatives. Moving forward, we will strive to minimize supply chain ESG risks by enhancing our supply chain management policies and evaluation systems. We also plan to contribute to enhancing sustainability across the entire value chain through a variety of collaborative projects with partners, thereby fostering a more responsible business environment.

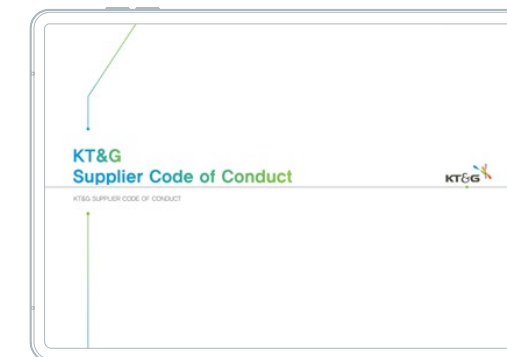
Supply Chain Management Governance KT&G is establishing sustainable supply chain governance that conforms to ESG standards. We ensure compliance with the Supplier Code of Conduct when purchasing from partners and conducts continuous reviews to prevent conflicts with ESG requirements. If a partner is found to be disqualified from the certification conditions, KT&G will inform the contents and grounds for disqualification and conduct a re-examination to prevent contracting with partners that fail to comply with ESG standards and maintain a sustainable supply chain.

KT&G also strengthens partner company management by giving priority to partners with excellent ESG performance when selecting them. When selecting and contracting with partners, KT&G incorporates ESG criteria in order to strengthen collaboration with sustainable partners while enhancing the sustainability of our supply chain. We also provide ESG-related education to our partners to raise awareness of the importance of managing social and environmental impacts as well as ethical business practices. For areas where improvement is needed, we support participation in improvement programs. Our ESG management office serves as a control tower, facilitating active cooperation between purchasing departments and compliance management teams. Moreover, we report our supply chain sustainability management strategies to the Sustainability Committee under the Board of Directors.

Supplier Code of Conduct and Special Clauses on Ethical Practice KT&G promotes a corporate culture of fulfilling social and environmental responsibilities and thus operates the Supplier Code of Conduct to prevent and mitigate supply chain risks. We have established and enforced our Procurement Regulations to enhance ethical management levels and minimize risks across our supply chain. When contracting with partners, we require them to attach the Supplier Code of Conduct and KT&G Special Clauses on Ethical Practice, encouraging their participation in ethical management and enhancing supply chain sustainability.

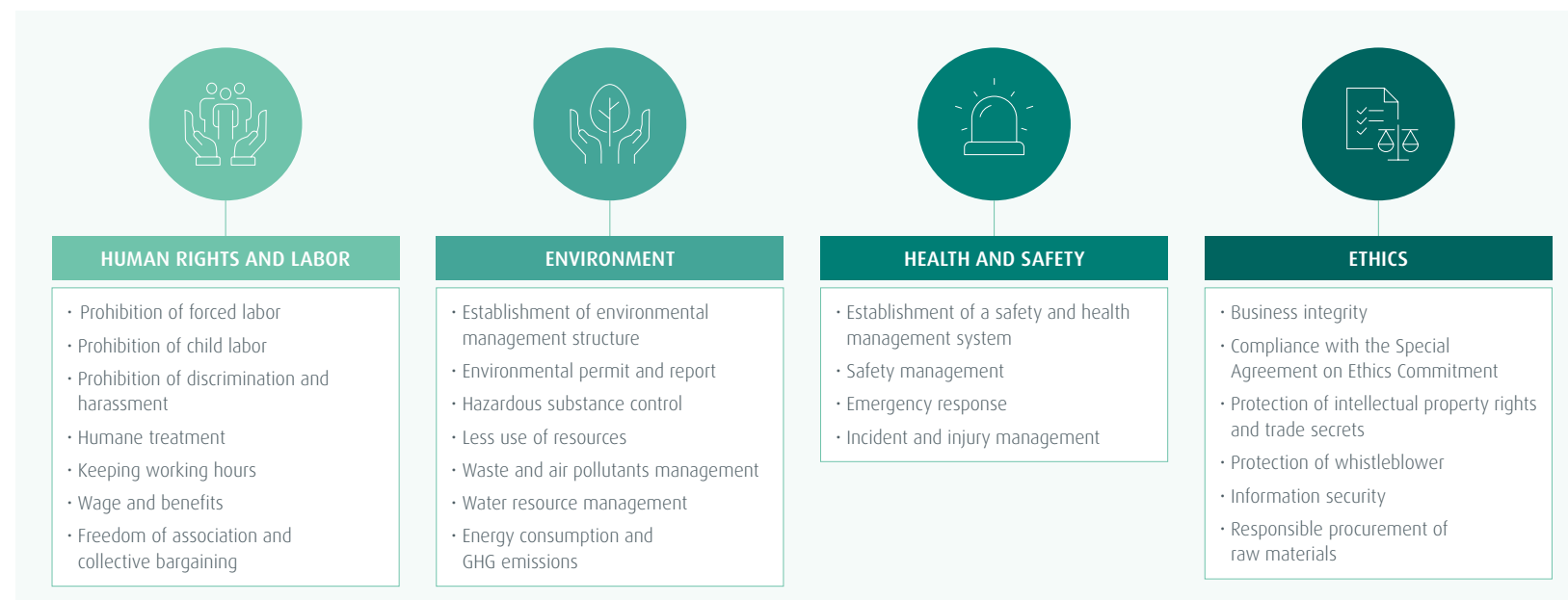
KT&G's partners must consider the provisions of the Supplier Code of Conduct in their decision-making and business operations. KT&G conducts checks and audits to ensure their compliance with these standards and recommends improvements for identified risks. Our partners are also required to develop and implement improvement plans based on mutual agreement. The Supplier Code of Conduct incorporates internationally recognized standards, including the UN Guiding Principles on Business and Human Rights, the OECD Guidelines for Multinational Enterprises, the ILO Core Conventions, the Universal Declaration of Human Rights, ISO 26000 on Corporate Social Responsibility, ESG evaluation metrics from MSCI, Dow Jones Sustainability Indices (DJSI), the S&P Global Corporate Sustainability Assessment, the Responsible Business Alliance's (RBA) Code of Conduct, and the Self-Assessment Questionnaire. It outlines the objectives, scope of application, and roles and responsibilities of the Supplier Code of Conduct, and provides compliance standards in key ESG areas such as human rights and labor, health and safety, environment, and ethics.

Our partners can conduct self-assessments of their social and environmental responsibilities through the Supplier Code of Conduct, certification process, and comprehensive evaluation process. This allows an evaluation of partners' contract performance capabilities and ESG management levels, while promoting continuous improvements to enhance supply chain sustainability.



Supplier Code of Conduct

Environmental Management Vision System



I. SUPPLY CHAIN SUSTAINABILITY

Inspection of the Supplier Code of Conduct | To inspect the compliance and implementation of the Supplier Code of Conduct, KT&G inspects compliance in writing and on-site to the extent permitted by law. To comply with the OECD due diligence guidelines, KT&G and a third-party institution conduct the inspection and visit. Based on the results of inspection and due diligence, we recommend partner companies to make improvement for identified risks and prevents business risks in advance by monitoring partners on a regular basis so that they can devise risk mitigation plans and carry out implementation actions for matters to improve.

Supply Chain Status

Classification of Partners | KT&G defines significant suppliers comprehensively based on finance, ESG, quality management, delivery quality, cooperation, and international certification criteria. Major partners include manufacturing partners and service providers with purchasing amounts that exceed KRW 100 million. ESG evaluations of these partners are conducted by KT&G.

Partners Status | KT&G's partners are classified into materials, facility construction of Real Estate HQ, sales goods of Sales HQ, and overseas. Significant suppliers, accounting for approximately 97.6% of our purchase volume as of 2023, are managed by distinguishing between manufacturers and service providers. Secondary and tertiary transaction partners (Non-tier 1) selected for management are involved in manufacturing goods with a high societal interest, such as waste disposal and chemicals, thus requiring proactive responses to environmental issues, and they were selected in consideration of the importance and transaction size in the supply chain.

Supplier Status in 2023-2024¹⁾

| Category ²⁾ | Significant suppliers (%) | Others (%) | Total (%) |
|--------------------------------|---------------------------|------------|-----------|
| Tier 1 (1st-tier) | 61 | 16 | 77 |
| Non-tier 1 (2nd-tier and more) | 4 | - | 4 |
| Total | 65 | 16 | 81 |

¹⁾ Based on materials partners

²⁾ Tier 1 (1st-tier) = Direct transaction, Non-tier 1 (2nd-tier and mor) = Indirect transaction

3 Clauses in the Procurement Regulations for the Ethical Practice of Partners (Articles 24-26)



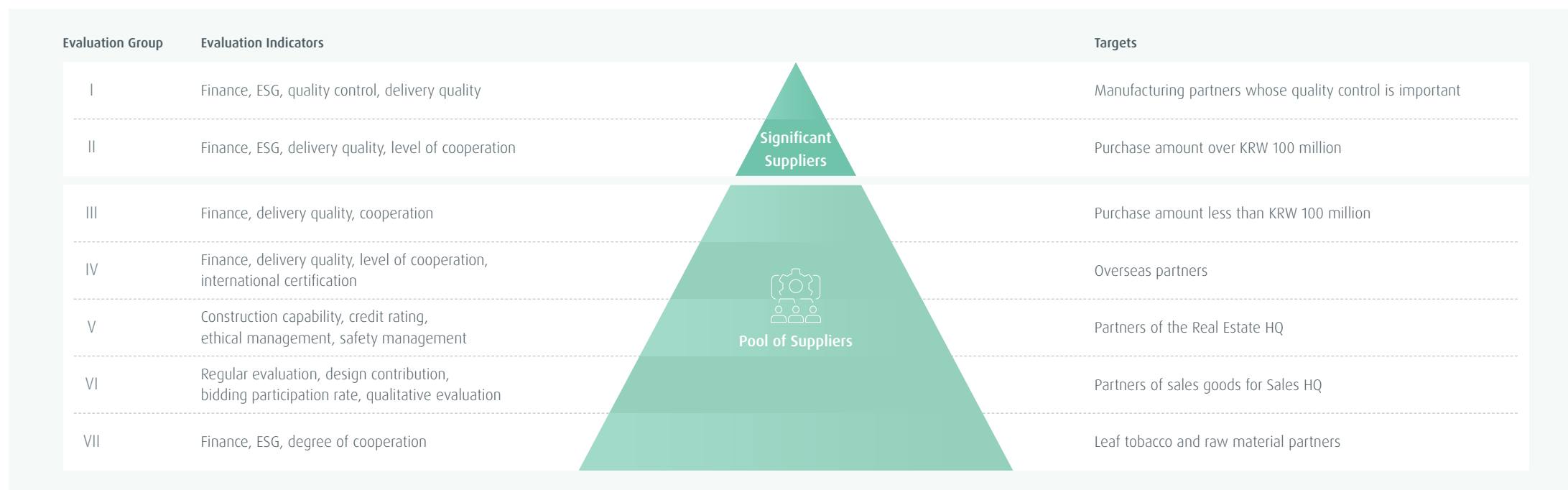
We shall maintain business relationships with partners that comply with laws and regulations on ethics, human rights, labor, environmental safety, and occupational health.



We shall comply with the Fair Trade Act, the Subcontracting Act, and the Act on the Promotion of Mutually Beneficial Cooperation Between Large Enterprises And Small And Medium Enterprises



We shall comply with the practices presented by the Fair Trade Commission.



SUPPLY CHAIN SUSTAINABILITY

Supply Chain ESG Evaluation/Due Diligence and Monitoring

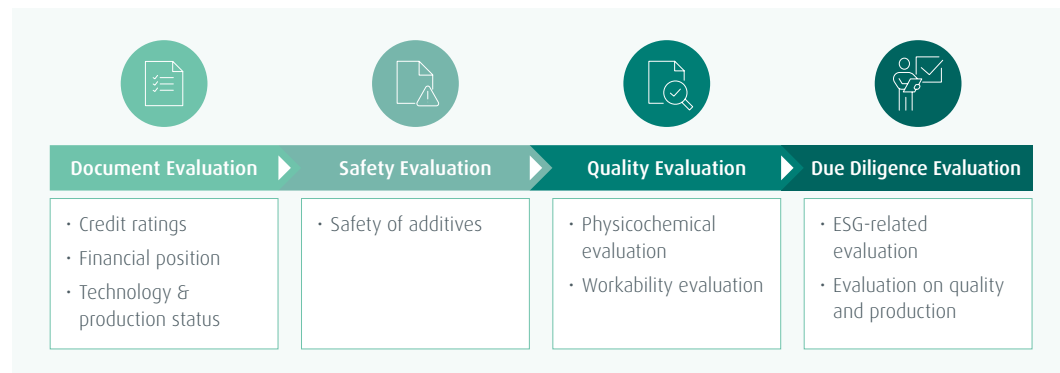
Supplier Pre-screening (SQ: Supplier Quality) Our partner evaluation and management aim to enhance the overall competitiveness of the supply chain by ensuring purchasing objectivity and improving partners' contract performance capabilities. When selecting new partners, KT&G conducts pre-screening based on various ESG factors, such as labor rights and occupational health and safety, environmental impact, ethical and legal compliance, and management systems – a process that allows us to identify potential ESG risks. Furthermore, if they cannot meet our ESG requirements, we exclude them from new contracts list. As the majority of our material suppliers are located in Korea, there are fewer national risks. After selecting new partners, we conduct regular annual ESG evaluations to examine their ESG risks and assess both their policies and their implementation of the relevant programs.

Since 2011, KT&G has been conducting assessments through its supplier quality (SQ) system for a total of 98 companies during the pre-screening phase of operational supply chain management for new partners. Whenever any deficiencies are identified, they are communicated to the partner, and we may require to make improvements and undergo re-assessment. Evaluation teams, comprising staff with experience in partner audit assessments or relevant certifications, conduct on-site inspections.

Criteria for Pre-screening of Supplier Quality

| Category | Issues to identify |
|-------------------------------|-----------------------------------------------------------------------------------|
| Country risk | Business site location (domestic/overseas) |
| Industrial raw materials risk | Conflict minerals |
| Commodity risk | Type |
| ESG risk | Labor and human rights, safety and health, environment, ethics, management system |

Process of Pre-screening of Supplier Quality



Pre-screening Factors of Supplier Quality

| Evaluation Item | Status | | |
|-----------------------|-------------------------|----------------------------------------------------------------------------------------------------------------------|-----------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|
| Society | Human rights | Medium | The risk level of violating the Labor Standards Act and labor practices, such as working hours, wages, and discrimination, and workplace safety regulations is low. However, there is room for improvements in SME's management system. |
| | Working conditions | | |
| | Safety & health | | |
| | Grievance handling | | |
| Environment | Pollution prevention | Low | The regulation level of domestic environmental laws is high. However, there is room for improvements in the established of regulated policies and some part of internalization process. |
| | Resource use | | |
| | Chemical substance | | |
| Ethics and Governance | Corporate ethics | Medium | It is required to establish regulated policies and provide to support the program operation in order to prevent corruption such as bribery and conflict of interest |
| | Pre-and post-management | | |
| Business management | Human resources | Medium | With regard to SMEs, there is room for improvements in the overall business management system for sustainable management. |
| | Supply chain management | | |
| | Product & service | | |
| | Local communities | | |
| Country risk | Medium | Most of the business sites are located in Korea, but some headquarters and core business sites are located overseas. | |
| Raw material risk | Low | The risk of conflict minerals is low. | |

SUPPLY CHAIN SUSTAINABILITY

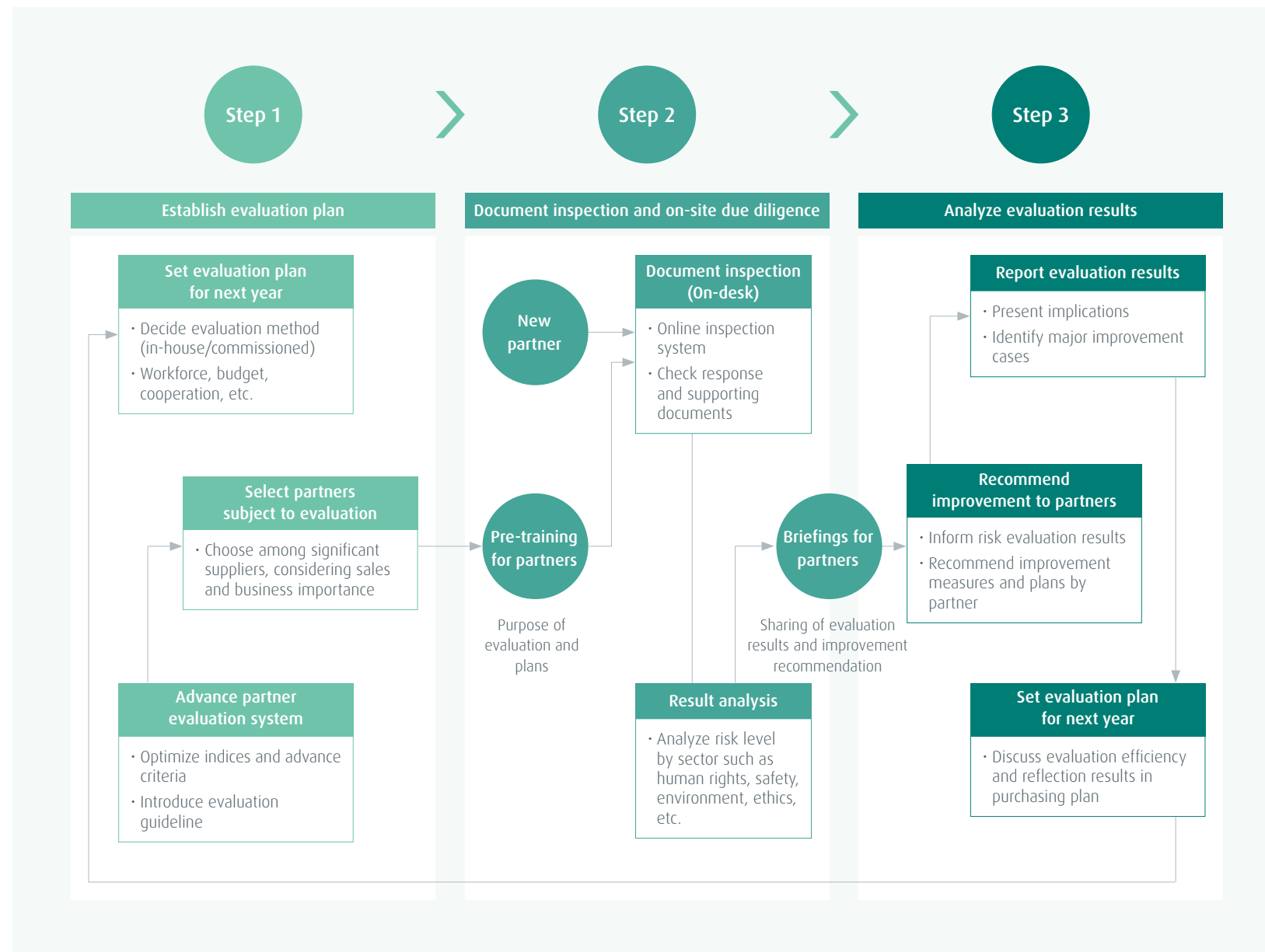
Regular Comprehensive Evaluation of Partners In the first half of 2024, KT&G enhanced the effectiveness of risk identification by improving the regular ESG evaluation of partners' performance. Expert analysis of the results of the evaluation has been utilized to refine the operational systems. Furthermore, assessments and on-site inspections of our partners have been conducted by third-party organizations composed of specialists in various fields, including labor and human rights, health and safety, environment and energy, climate change, and ethical and legal compliance, which may include lawyers and labor specialists. KT&G has conducted evaluations of 153 major partners trading with three institutions according to the partner evaluation process. This included 77 suppliers of non-tobacco materials (NTM) and NGP (Next-Generation Products) materials, 64 real facility construction partners of Real Estate HQ, and 12 suppliers of business items for business units.

For suppliers of NTM and NGP materials, KT&G conducts online self-assessments of its top partners in terms of manufacturing and trade volume. Based on the results, partners are selected for on-site inspections, considering legal risks and stable introduction of evaluation. Since 2021, KT&G has been expanding participation in partner evaluations to enhance its ESG management and ESG capabilities. Areas for improvement thus identified are presented based on the evaluation results, and consultancy is provided to partners with deficient scores in specific areas so as to enhance their ESG capabilities.

Regular ESG Evaluation of Partners We operate an evaluation system within our supply chain to identify and mitigate potential or actual ESG risks encompassing labor rights, human rights, environment, and industrial safety. Regular ESG evaluations are conducted to ensure objectivity and professionalism in the results, while legal risks are minimized through third-party verification. The Purchasing Management Team, which is dedicated to partner management, receives relevant training and learning to support our supply chain ESG program.

Starting in 2024, KT&G has enhanced the ESG evaluation metrics to accurately pinpoint areas needing improvement. Reflecting international norms and global standards such as the OECD Guidelines for Multinational Enterprises, the UN Guiding Principles on Business and Human Rights, the ILO standards, the RBA's code of conduct, self-assessment questionnaires, the MSCI's ESG metrics, DJSI, S&P Global's Corporate Sustainability Assessment, the KCGS criteria, STP, and GRI disclosures, the revised evaluation criteria now include additional indicators beyond legal compliance, which are crucial for evaluating and improving ESG risks among KT&G's partners. The evaluation criteria are divided into five areas - labor and human rights, environment, health and safety, ethics and compliance, management systems - and comprise 214 items for manufacturers and 152 for non-manufacturers.

Process of Regular Comprehensive Evaluation of Partners



I. SUPPLY CHAIN SUSTAINABILITY

KT&G conducts online self-assessments and on-site inspections of its partners, integrating the results of the ESG evaluation into comprehensive partner assessments to enhance their ESG management. As of 2024, an online platform system supports diagnosing current ESG status and collaboration with partners and third-party evaluators for improvement initiatives. Our partners utilize this platform for self-assessment, which is followed by evaluations, audits, consultations, and recommendations by third-party ESG experts.

Result of Regular ESG Evaluation | KT&G conducts regular ESG evaluations on partners in five areas – labor and human rights, environment, health and safety, ethics and compliance, management systems. In addition, a third-party evaluation agency also visits the site to ensure the expertise, objectivity, and reliability of the ESG evaluation to increase significant partners’ awareness and capabilities of ESG management. The potential risks are inspected by the agency, and the results are reflected in the comprehensive evaluation. In addition, a third-party conducts due diligence targeting the partners with identified potential risks considering the legal risks and ESG evaluation results, and the results are provided as a result report. Partners establish improvement plans based on the result reports and control potential and risk factors.

The recent average score obtained in the ESG evaluation of our partners was 79.2, with health and safety showing the highest score at 90.2, while environment showed the lowest score at 59.2, indicating a need for relative improvement. Despite a general decline in partners’ ESG scores compared to the previous year, which is attributable to the enhanced evaluation criteria, no violations of the partner codes of conduct were found. In particular, additional ESG items, such as biodiversity, have been added to the environmental section. KT&G remains committed to enhancing supply chain ESG risk management through advanced evaluations and proactive support.

Status of Regular ESG Evaluation of Partners

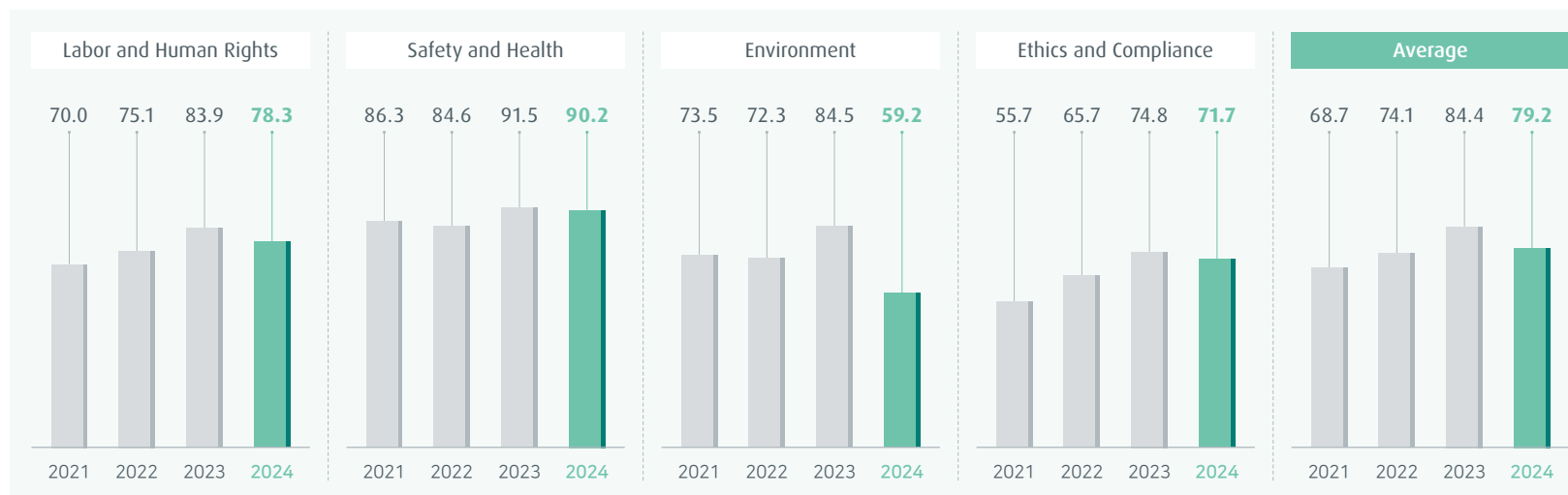
| Category | 2022-023 |
|-----------------------------------------------------------------------------------------------------------------------------|------------------------------------------|
| Number of partners received written/on-site due diligence ¹⁾ | 65 companies (Purchasing ratio 97.6%) |
| Ratio of the significant suppliers evaluated ²⁾ | 100% |
| Number of partners assessed to have significant actual and potential adverse impacts | 17 companies |
| Ratio of partners with significant actual and potential adverse impacts that have corrective measures and improvement plans | 100% |
| Number of partners terminated contracts due to significant actual and potential adverse impacts | - |
| Number of partners that received support for the implementation of corrective measures plans | 17 companies |
| Ratio of significant suppliers that received support for the implementation of corrective measures plans | 100% |
| Number of partners participating in the win-win growth program | 22 companies |
| Ratio of significant suppliers participating in the win-win growth program | 36.1% |

¹⁾ Total number of partners received the ESG evaluation

²⁾ Proportion of significant suppliers among the total number of partners received the ESG evaluation

Result of Regular Partner ESG Evaluation for 4 Years

(Unit: Point)



* Additional points are given for the management system.

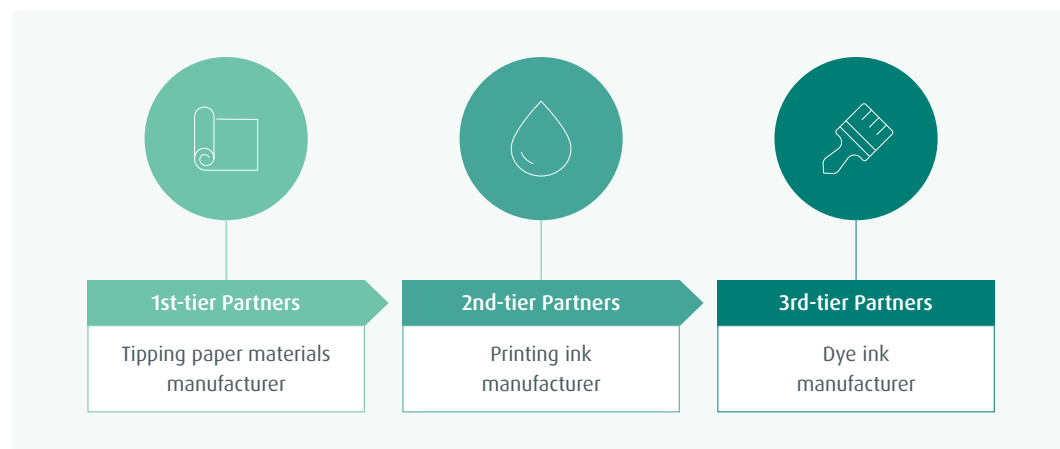
SUPPLY CHAIN SUSTAINABILITY

ESG Risk Assessment of Non-tier Partners | KT&G has been operating partner ESG evaluations conducted by independent third-party organizations since 2021 to spread the KT&G sustainability management policy to trading partners and improve the standard for managing supply chain sustainability. In the first half of 2023, we conducted ESG risk assessments on non-tier partners (2nd-tier and 3rd-tier partners) to expand the scope of responsibility for supply chain management. The manufacturing partners that produce goods require proactive responses to environmental issues, such as waste and chemicals of high social interest, were selected in consideration of their importance and the scale of transactions within the supply chain. Two companies were selected for in-depth assessments following their ESG self-assessments in order to identify gaps between their results and actual operational standards. Standard guide-based on-site consultations addressed deficiencies in specific areas. These evaluations were conducted by KT&G’s highly experienced evaluation team, and moving forward, we aim to continue our risk management activities related to sustainability, targeting secondary and tertiary trading partners with a particular focus on main materials.

Helping Partners Manage and Make Improvements

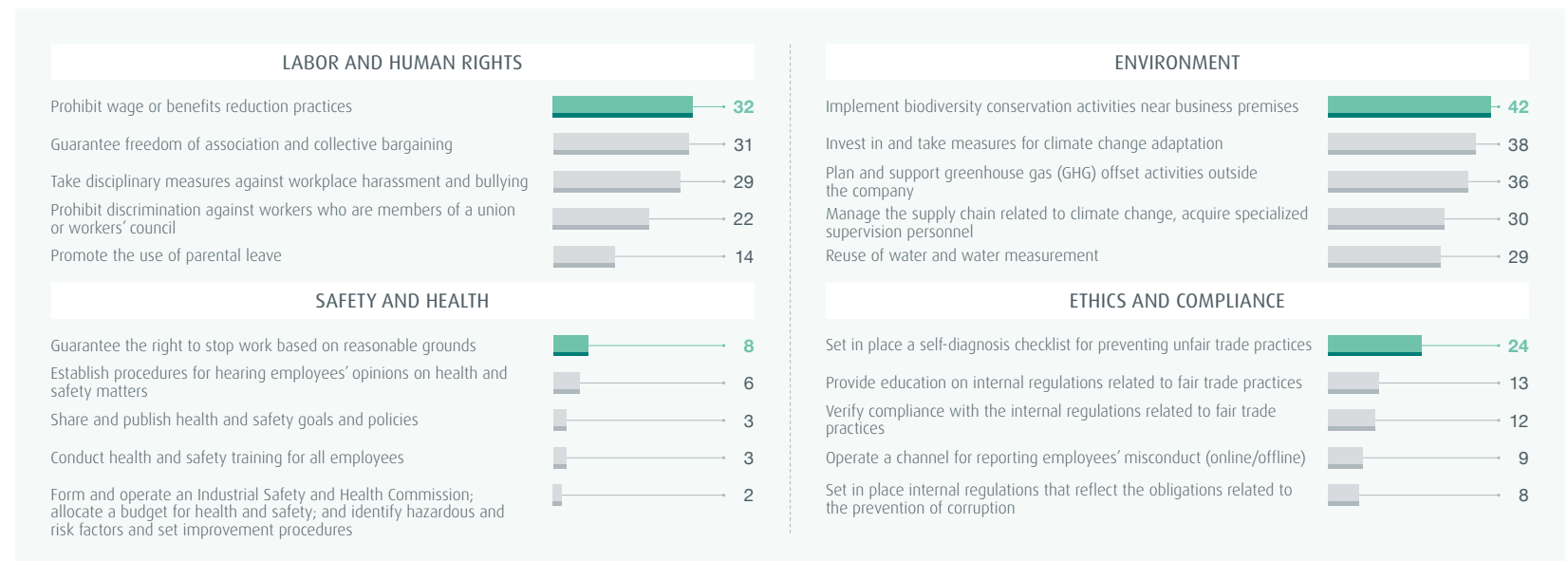
Improvement Tasks | KT&G conducted ESG evaluations of its partners and identified several improvement tasks. Overall, our partners showed higher compliance rates in health and safety than in other ESG areas. However, several areas for improvement were identified in the areas of environment, labor and human rights, and ethics and compliance. Common challenges for both manufacturers and service providers included prohibiting wage or benefit reduction practices, ensuring freedom of association and collective bargaining, and providing self-assessment checklists to prevent unfair trade practices. Manufacturers specifically need to enhance activities such as biodiversity conservation, invest in climate adaptation measures, and support external greenhouse gas offsetting activities, whereas service providers need to make overall improvements across various issues within their respective fields.

Conducting ESG Risk Assessment of Non-tier Partners



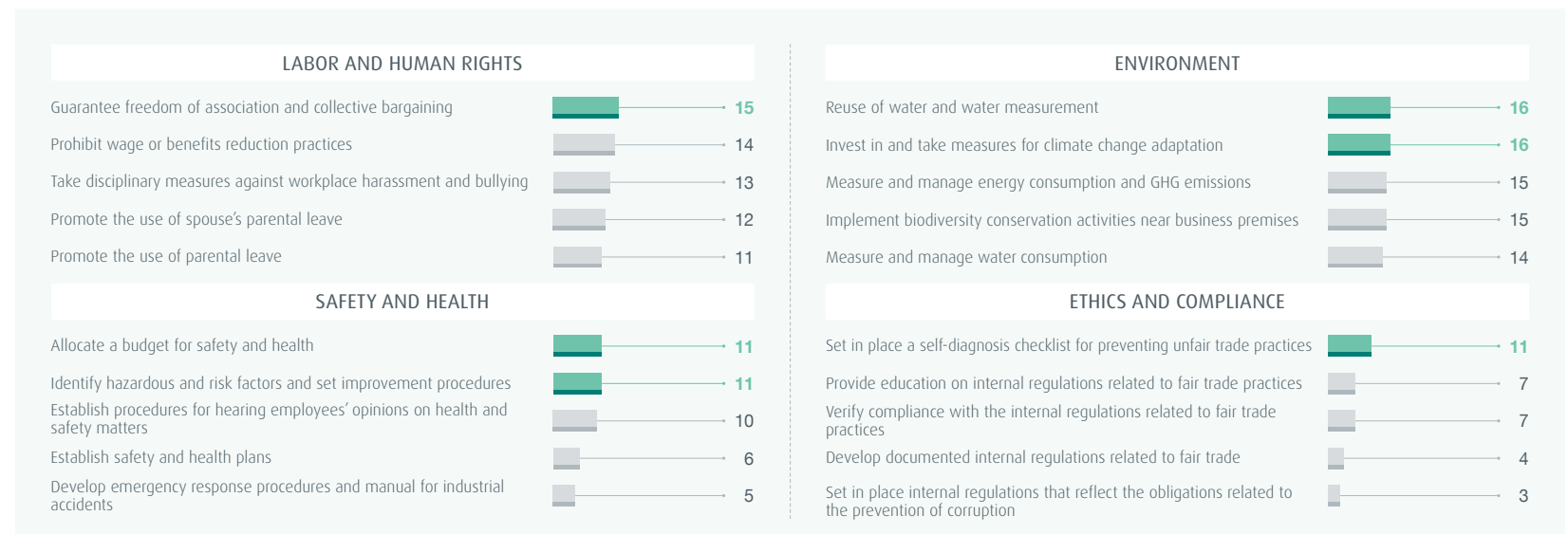
Top 5 Improvement Tasks for Manufacturing Partners by Sector

(Unit: Companies)



Top 5 Improvement Tasks for Non-manufacturing Partners by Sector

(Unit: Companies)



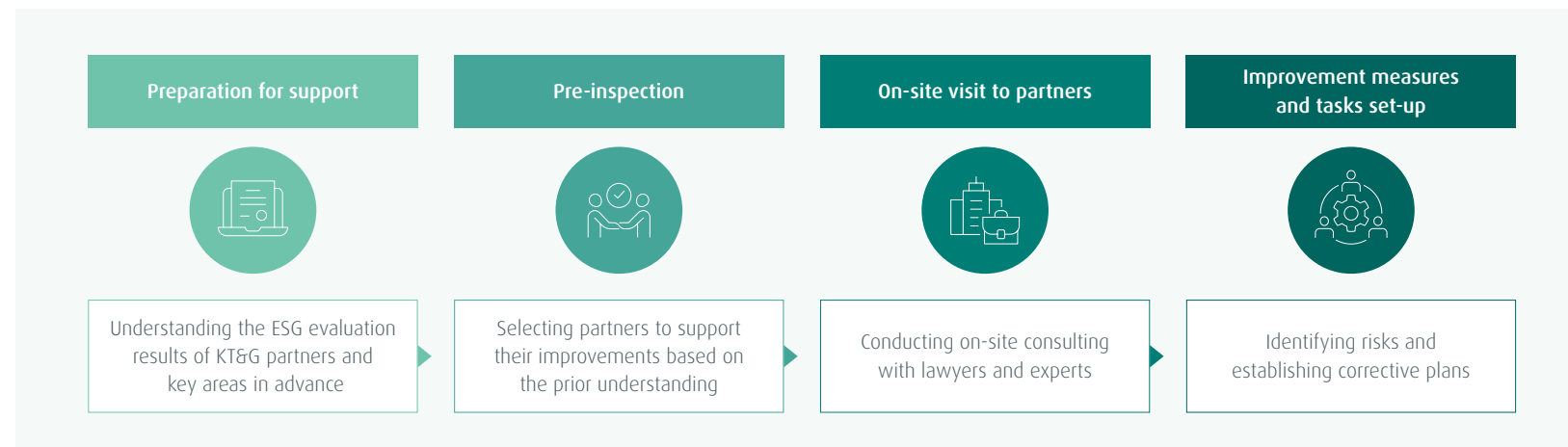
I. SUPPLY CHAIN SUSTAINABILITY

Support for Partners' ESG Risk Improvement Plans | KT&G has conducted ESG evaluations of its partner companies while also supporting improvement plans based on comprehensive assessments across various sectors. We identified high-risk partners based on the results of their self-assessment that indicated substantial actual or potential negative impacts, and selected 13 partners judged to be vulnerable in three or more areas or to require on-site verification for other reasons. Expert evaluations by a third-party evaluation agency were conducted to identify areas for improvement, recommend enhancements, provide benchmark data from similar industries, and offer on-site advice, consulting, and education. These activities were conducted along with precise checks by field experts to mitigate potential risks and propose improvement strategies aimed at strengthening partners' ESG capabilities, thereby providing them with practical support.

In addition, KT&G selected four companies that had fewer than five regular employees or were categorized as small businesses, and whose annual ESG evaluation results consistently showed insufficient improvement. As such, separate improvement plans have been developed for these companies, and they are also receiving support in the form of education, consulting, and guidance.

Moving forward, KT&G plans to continue enhancing its partners' ESG capabilities and implementing substantial risk mitigation measures through on-site verifications in labor and human rights, health and safety, environment, and ethics. This ongoing effort aims to increase our partners' understanding of ESG by executing improvement tasks tailored to their respective ESG management levels.

Improvement Support Process for Partners



Major Consulting on Supporting Partner's Improvements

| Area | Labor and Human Rights | Safety and health | Environment | Ethical Management |
|---------------------|--------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|-------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|--------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|---------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|
| Consulting contents | <ul style="list-style-type: none"> Support for compliance with the legal limits on working hours and compensation for overtime work Support for enhancing the operation of the grievance handling systems Support for improving mandatory items such as employment rules, labor contracts, and wage statements Support for enhancing policies on voluntary labor and employment of seniors Support for establishing ethical guidelines to eliminate discrimination without reasonable grounds | <ul style="list-style-type: none"> Support for developing health and safety goals and management policies Support for establishing risk assessment procedures Support for establishing procedures for employee feedback Support for developing health and safety management regulations Support for developing manuals on emergency response to industrial accidents | <ul style="list-style-type: none"> Guidance on improvement measures and actions for preventing violations of the environmental laws Support for environmental education for all employees Guidance on checking and updating business waste discharge permits Support for developing regulations and plans for energy and GHG management Support for measuring and managing water usage and wastewater discharge | <ul style="list-style-type: none"> Guidance on establishing ethical policies and conducting ethics education Guidance on auditing and preemptive monitoring of corrupt practices by employees Guidance on conducting anti-corruption education Guidance on establishing a manual on fair-trade compliance and the provision of fair trade education Guidance on intellectual property rights security measures Enhancement of the formats and regulations related to the employees' consent to the collection of their personal information |

SUPPLY CHAIN SUSTAINABILITY

Supply Chain ESG Joint Growth

Partner Collaboration System Since 2021, KT&G has been organizing partner workshops to enhance sustainability across its value chain. We strive to create positive value by jointly setting goals with our partners and pursuing them effectively. The collaborative targets include 16 partners that account for approximately 90% of our purchasing. In the short term, KT&G is focusing on initiatives such as setting GHG reduction targets and creating roadmaps, providing education on ISO certification, and offering consulting services. Looking ahead in the medium to long term, we aim to foster collaboration in the environmental capability of products and sustainability improvements to achieve tangible outcomes.

Regular ESG Training for Partners KT&G conducted its 4th Core Partner ESG Workshop with the aim of supporting its partners, who account for approximately 90% of our non-tobacco materials (NTM) purchases, in achieving carbon neutrality by 2045 and promoting sustainable management. Since the latter half of 2022, we have been helping our core partners to build GHG inventories and conducting energy diagnostics. During this workshop, discussions were held on sharing partners' GHG emission profiles and reduction outcomes, as well as setting the 2030 reduction targets and roadmaps based on the guidelines of the Science-Based Target Initiative (SBTi). Furthermore, KT&G provided small and medium-sized enterprises (SMEs) with education on ESG standards, encompassing environmental management, human rights practices, labor practices, and ethical norms, with the aim of enhancing their understanding of ESG management. The workshop also included sharing the results of partners' ESG evaluations from the past four years and outlining future direction for management. In 2023, KT&G provided education on establishing GHG management systems, introduction of new and renewable energy, and offered ESG and labor consulting to selected partners. We also allocated approximately KRW 1 billion in educational support to 20 companies during the year, underscoring our commitment to ongoing educational assistance tailored to partners' needs.

Creating Common ESG Output

ECO-cargo Program | KT&G is continuing to enhance its ESG management capabilities through the ongoing operation of the ECO-Cargo Program (ECO Mileage, ECO Change, ECO Hydrogen) in order to meet societal demands for low-carbon green growth and the transition to an eco-friendly supply chain. Moving forward, we will strive to foster eco-friendly growth and practice symbiotic management with our partners through various ECO programs.

ECO Mileage Introduced in 2021, the ECO Mileage program aims to reduce carbon emissions and fuel usage through eco-friendly driving practices. KT&G has applied this program to 89 vehicles from five partner companies under transport contracts. Starting in 2024, the introduction of the digital tachograph (DTG) monitoring system enables the measurement of driving scores, provides feedback on economic driving, and encourages improvements in driving habits in order to contribute to reducing carbon emissions from freight vehicles.



ECO Change In its pursuit of eco-friendly and symbiotic management practices, KT&G supports the replacement of old (over 10 years) freight vehicles of partners with whom it has had trading relationships for over seven years. This program supports KRW 10 million for new car replacements and KRW 5 million for used car replacements within the last three years. Recently, support has been completed for seven vehicles over the past three years.

ECO Hydrogen Energy To create a pleasant atmospheric environment and reduce GHG emissions, KT&G plans to operate two hydrogen fuel cell electric trucks in collaboration with Daehan Express starting in September 2024. This initiative is expected to reduce annual carbon emissions by 144 tons compared to diesel freight vehicles. KT&G plans to expand the operation of hydrogen fuel cell electric trucks continuously.

Supporting Supply Chain Win-win Growth KT&G has utilized KRW 7.7 billion (accumulated from 2020 to the first half of 2024) from its win-win cooperation fund to strengthen capabilities and foster mutual growth with its partners through improvements in quality, productivity, and technological advances. Utilizing the cooperation, we have completed projects for 22 companies or are currently conducting projects as of the first half of 2024. Analyses of post-project effectiveness will guide further support initiatives.

KT&G operates various win-win growth programs, not only to support leaf tobacco farmers but also to alleviate the financial difficulties of its partners. Monthly payments for raw materials are made entirely in cash, and we actively encourage our tier 1 partners to extend this method of payment to our tier 2 partners. In 2023, approximately KRW 158 billion was disbursed early before the holidays. In response to fluctuating raw material prices, KT&G adjusts the amounts of its purchase contracts upwards in order to relieve partners' financial difficulties caused by price increases that occur after signing a contract, thus ensuring that effective win-win activities can continue uninterrupted.

ESG Capability-Building Programs for Partners

| Program | Laying the foundation for reducing GHG | ESG standard for SMEs |
|--------------|-------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|-------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|
| |  |  |
| Main content | <ul style="list-style-type: none"> • Implementation progress and the progress of GHG inventory establishment at significant partners • Discussing mid-to long-term GHG reduction target and roadmap (draft) of significant partners | <ul style="list-style-type: none"> • Analyzing the ESG evaluation results of KT&G partners from 2021 to 2024 and future direction • ESG standards (environmental, labor practices, ethical standards, etc.) that must be understood by SMEs |

Goals of the Green Impact Alliance, KT&G Partner Collaboration System

Short-term

Support education/consulting/certification aligned with international standards

KT&G supports establishing environmental goals for partners, implementation strategies for improvement, and plans to support the participation of international initiatives, including ISO certification.

Mid-to long-term

Collaboration of R&D/development for environmental capability of a product

The Green Impact will be implemented by developing ecofriendly materials with less environmental impact and recyclable materials as a common goal under collaboration and support.

I. SUPPLY CHAIN SUSTAINABILITY

II. Sustainable Agriculture

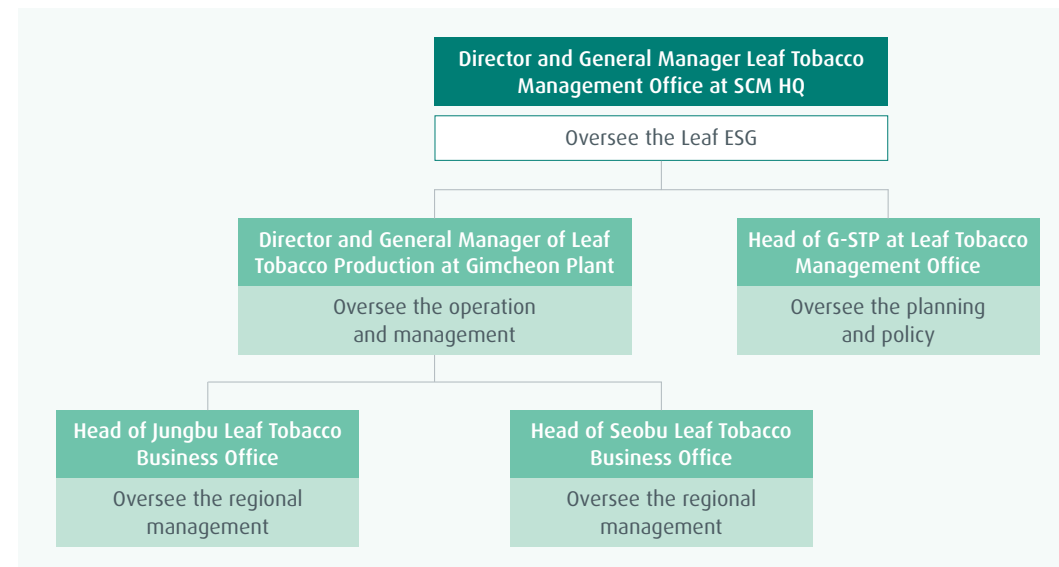
Promoting STP for Leaf Tobacco Production KT&G supplies leaf tobacco, one of the most important raw materials, not only in Korea but also in various countries of the world. In order to contribute to sustainable agriculture and establish a systematic supply chain, we participate in the Sustainable Tobacco Program (STP), which is a global industry initiative. STP is a joint evaluation platform performing general risk assessment, supply chain assessment, third-party in-depth assessment, and improving activities by countries with the cooperation of global tobacco manufacturers and third-party consulting agencies. It aims to strengthen corporate environmental and social responsibilities and move on from existing cultivation management focusing on quantity and quality to produce tobacco ethically and sustainably. Through STP, we strive to improve negative issues by collecting data in the leaf tobacco supply chain and identify the status and problems. KT&G is also accelerating the introduction of STP in Korea and gradually expanding the scope of its application, through which raw material procurement farmers included in our supply chain and partners manage social and environmental impact and ethical responsibility so that they can contribute to creating a sustainable agricultural ecosystem with KT&G.

KT&G Leaf ESG Approach

Mid-to-Long-Term Goal KT&G is planning to introduce STP for overseas leaf tobacco suppliers and domestic leaf tobacco farms with the aim of ensuring that all farms that supply leaf tobacco to us participate in sustainable agriculture programs.

Implementation Governance KT&G is promoting sustainable raw material procurement and efficient supply chain management, centered around the STP Operation Committee, composed of five members including the Director and General Manager of Leaf Tobacco Management Office at SCM HQ, Head of G-STP Leaf Tobacco Team at Leaf Tobacco Management Office, Director and General Manager of Leaf Tobacco Production Office at Gimcheon Plant, Head of Jungbu Leaf Tobacco Business Office, and Head of Seobu Leaf Tobacco Business Office. The Committee oversees the provision of guidelines and manuals, efficient allocation of human and material resources, identifying and solving issues that occur during management, communication among external stakeholders, etc. It also administers decisions on important matters regarding program management with the enactment, revision, and operation of related guidelines and regulations. In addition, we are establishing a code of conduct and plans by reflecting the opinions of domestic and foreign stakeholders such as the Korea Tobacco Growers Organization(KTGO), the Tobacco Production Cooperatives and the Tobacco Production Stabilizing Federation, and we are working with external stakeholders where necessary to solve related problems.

Composition of the STP Operation Committee



STP Operation Committee's Main Resolutions

-  Enactment and revision of all guidelines and regulations related to STP such as manuals, Manual establishment
-  Changes in the management committee composition
-  Changes in important matters or procedures regarding operation and management
-  Emergency resolution by presentation of agenda items by at least one committee member

Sustainable Agriculture Policy



I. SUPPLY CHAIN SUSTAINABILITY

II. Leaf ESG Implementation System

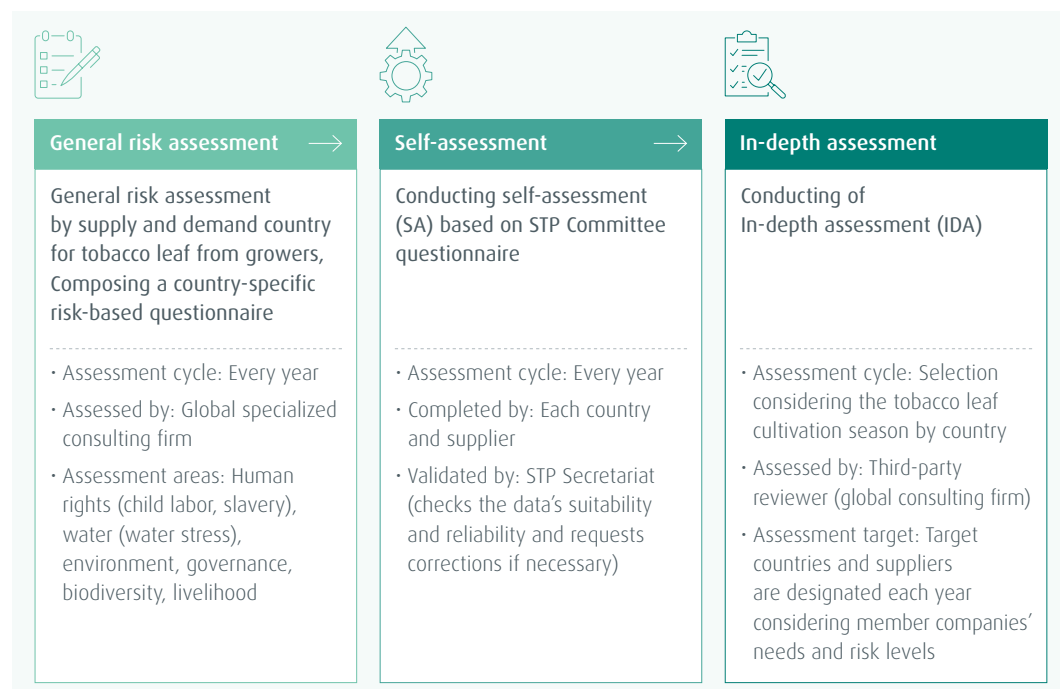
Participating in Global STP Global tobacco manufacturers have developed and operate the STP platform so that leaf tobacco, an important raw material in the tobacco industry, can be cultivated in a sustainable agricultural environment and procured stably. A total of eight STP member companies including KT&G are conducting supplier’s annual self-assessment based on risk analysis by country about nine sectors (climate change, water, crop, soil health, human rights, livelihoods, governance, etc.), and proceeding in-the-spot inspection by priority after selecting third-party evaluation agency.

KT&G is realizing the improvement of the health of the supply chain of sustainable leaf tobacco by accelerating the introduction of STP starting with purchasing leaf tobacco from GAPC (Good Agricultural Practices Connection program)¹⁾-certified cultivator in 2022. Through engagement, we aim to improve the sustainability of our leaf tobacco supply chain by going beyond traditional quantity- and quality-oriented cultivation management to include supply chain assessments of social and environmental impacts, third-party in-depth assessment, and the development and implementation of improvement plans.

¹⁾ A Tennessee-based service company that conducts a third-party audit on the cultivation, environment, and labor of U.S. growers.

As of 2023, KT&G purchased approximately 99.4% of the foreign leaf tobacco from suppliers that have joined the STP, and by May 2024, we conducted an in-depth assessment (IDA) for 11 suppliers in total, from six countries (two in 2023 and four in 2024). In 2024, we plan to further refine our supply chain management direction by quantifying risks in ESG areas and countries in the supply chain and establishing core management risks, and in the mid-to-long-term, we plan to enhance the impact assessment of core risks in the supply chain and implement risk improvement programs.

Global STP Operational Process



CASE STUDY

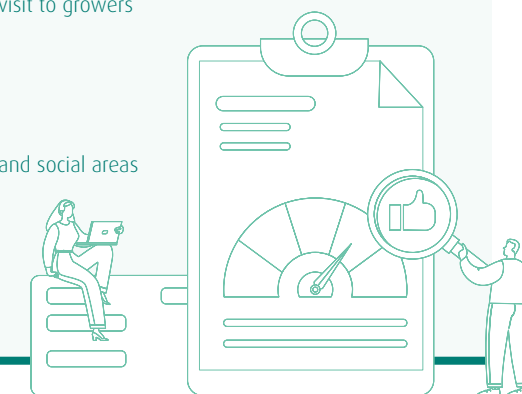
2023 In-Depth Assessment (IDA) Results

KT&G conducted an IDA of four suppliers in two countries (Malawi and the Philippines) selected as a result of the 2022 general risk assessment and self-assessment, and has established and implemented improvement plans based on the results of the assessment.

- **Assessed by:** Twentyfifty (UK global supply chain consulting company)
- **Assessment Target:** 4 suppliers in 2 countries (Malawi, Philippines) selected as a result of general risk assessment and self-assessment
- **Assessment Method:** Review of supplier policies and self-assessment, interview with supplier representatives, and field visit to growers
- **Assessment Areas:** ESG management process related to leaf tobacco cultivation (policy, issue identification, actions, monitoring, reporting, and improvement activities)

Key Findings from the Assessment

- Evidence for action plans in Malawi (3 suppliers) and the Philippines (1 supplier), IDA implementation in environmental and social areas
- Environment: Expansion of drying facilities, water quality improvement activities in partnership with NGOs (water testing and development of new pipelines), distribution of purification chemicals, etc.
- Social: Support for school facilities, activation of grievance redressal system by production area, support for after-school activities (play, games), and training on PPE



I. SUPPLY CHAIN SUSTAINABILITY

II.

III.

IV.

Domestic Leaf Tobacco Supply Chain Management As domestic leaf tobacco also requires production management that meets global standards including environment, labor, and human rights, KT&G has created our own management program, the Domestic Leaf Tobacco Production STP Guidelines, to monitor farmers at key stages (seedling, transplanting, bagging, and harvesting), educate and communicate with farmers, and is striving to strengthen the sustainable production base of domestic leaf tobacco farmhouses. In 2023, we produced the STP Monitoring Index for Domestic Leaf Tobacco Production and joined the efforts to realize sustainable production of domestic leaf tobacco under core management indicators in the areas of governance, environment, human rights, and labor. We are also creating initiatives to reduce carbon emissions in the mid-to-long term through collaboration with external research institutes and technical advice.

In 2024, we plan to expand the scale of monitoring by selecting new farms in addition to those already being monitored and conduct intensive training (KT&G regular training, collective training targeting farmers in Korea Tobacco Growers Organization, etc.) In addition, in the mid-to-long term, we plan to provide professional consulting advice and improvement activities, including upgrading the standard cultivation method of leaf tobacco for our direct contract farmers through strategic projects such as domestic cultivation management and raw material improvement research for sustainable raw leaf tobacco production based on collaboration with the R&D HQ.



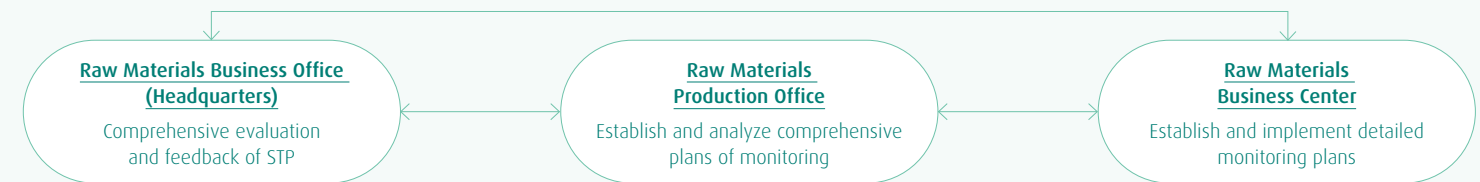
CASE STUDY

2023 Domestic STP Monitoring Results

In 2023, KT&G monitored 680 farms to understand the status of STP implementation in Korea, covering 340 items in four areas – Governance, Crops, Environment, and People (labor, human rights). Based on the results of the monitoring in 2023, we established improvement plans for shortcomings and are implementing related activities in 2024.

- **Monitoring Target:** 680 farms (selected by major domestic leaf tobacco production regions)
- **Monitored Areas**
 - STP assessment indicators: 340 in four areas of Governance, Crops, Environment, and People (labor, human rights)
 - Survey items: 267 (206 for growers, 61 for confirmation and evaluation by the person in charge)

• R&R by Department



- **Monitoring Results**
 - Good points: Environment (separate waste collection), labor and human rights (child and forced labor)
 - Improvements: Cultivation (record keeping of material use), Understanding of laws related to employees (farms)

• Solutions and Plan for 2024

- Expansion of monitoring (both surveys and spot checks)
 - ▶ Promote monitoring of approximately 40% of total contract farmhouses by 2024
 - ▶ Focus on large growers
 - ▶ Avoid simple surveys and provide immediate feedback on-site if any shortcomings are found
- Leaf tobacco cultivator education (education focusing on weak areas in 2023 and promotion)
 - ▶ Educate more than 50% of all cultivators in 2024 (in collaboration with producer organizations)

I. SUPPLY CHAIN SUSTAINABILITY

Supporting the Life of Leaf Tobacco Farmers

Win-win Growth with Leaf Tobacco Farmers in Korea | In order to help leaf tobacco farmers stabilize their livelihoods, KT&G continues to promote local win-win activities through various support programs. Although the obligation to purchase domestic leaf tobacco was removed in 2001 when the manufacturing monopoly of tobacco manufacturers was abolished, we are the only domestic tobacco company to purchase all leaf cigarettes every year and use them in our products for stable economic activity and livelihood of domestic leaf tobacco farms. We purchased 6,240 tons of domestic leaf cigarettes worth KRW 65.5 billion in 2023 and plan to purchase about 7,200 tons of domestic leaf cigarettes in 2024.

KT&G also promotes the financial stabilization of tobacco farmers by implementing the Haearin Project that support tobacco farmers in cultivating and selling red peppers by utilizing resources such as farmland and technology owned by tobacco farms so that farms can generate additional income other than leaf tobacco. In 2023, we purchased 9,810 kg of dried chili peppers worth KRW 210 million for 20 growers. We also contribute to the fund of the Tobacco Production Stabilizing Foundation to increase the economic and social stability and productivity of domestic leaf tobacco farms and strive to stabilize the domestic leaf tobacco production base. From 2002 to 2023, cumulatively, KT&G contributed KRW 437.18 billion, and other manufacturers contributed KRW 106.13 billion. In addition, 30% of the estimated purchase price of leaf tobacco is paid in advance from April to May without interest so that it can be used for farming expenses such as purchasing equipment or labor costs.

Two-way Communication with Farmers | KT&G is identifying difficulties in the field and solving them together through smooth communication with leaf tobacco direct-contract farmhouses. In order to solve the labor shortage of farms, employees have actively participated in volunteer activities during the leaf tobacco transplanting and harvesting seasons every year, and in 2023, we delivered KRW 75 million in consolation money for quick recovery to leaf tobacco farms which suffered from weather-related disasters. In addition, we continue to strive to improve the welfare of farmers by supporting annual health checkup expenses and scholarships for their children. From 2013 until now, a total of KRW 3,665 billion has been delivered to leaf tobacco farmers. In addition, 84 leaf tobacco dryer fuel reduction devices were distributed to farmers in 2022 (approximately 76 million won) to improve farm income and reduce greenhouse gases by reducing fuel costs, and in 2023, we expanded the scale to support 100 units (approximately KRW 116 million).

In addition, as part of our ESG management, we have been exploring change in packaging materials for leaf tobacco (PP bags → C48 cartons) with farmers since 2022 to promote de-plasticization, and purchased 514 tons of leaf tobacco in 2022 and 2,757 tons in 2023 by switching to C48 cartons. In 2024, we plan to expand the program to approximately 6,258 tons.



Harvest volunteering for leaf tobacco farms



Support for health check-up costs for leaf tobacco farms

Activities and Performance of Supporting Leaf Tobacco Farms in 2023

Purchasing all domestic leaf tobacco

2,365 persons | 6,240 tons
(based on the number of cultivators)

KRW 65.5 billion

Support through the Haearin project

20 persons | 9,810 kg | KRW 210 million

Fund raising

| | |
|--------------------------------|--------------------|
| KT&G | Other manufactures |
| KRW 437.18 billion | KRW 106.13 billion |
| (cumulative from 2002 to 2023) | |

Support for farms in the event of weather-related disasters

KRW 75 million

Support for health check-up fees and scholarships for farmers' children

KRW 3,665 million
(cumulative from 2013 to 2023)

Support for fuel reduction devices for dryers to reduce fuel costs and GHG emissions for farms

184 units | KRW 191 million
(cumulative as of 2023)

SUPPLY CHAIN SUSTAINABILITY

Responsible Sourcing of Minerals

Conflict Minerals Management

Conflict Minerals Management Policy | KT&G recognizes the negative social and environmental impacts of mineral mining, production, and distribution in the Democratic Republic of the Congo and neighboring regions, including human rights abuses and environmental destruction. In order to avoid using conflict minerals (tin, tantalum, tungsten, and gold) that are illegally or unethically mined in conflict zones, KT&G manages conflict minerals in accordance with the OECD Due Diligence Guidance for Responsible Supply Chains of Minerals from Conflict-Affected and High-Risk Areas and conducts due diligence on conflict minerals according to the five-step framework set forth in the OECD Due Diligence Guidance. We will continue to upgrade our conflict minerals management system to meet international standards, including the OECD Due Diligence Guidance, and consider participating in a global consultative body for the management of disputed minerals, including the Responsible Minerals Initiative (RMI). In addition, we require our partners to comply with the Supply Code of Conduct, which includes the Responsible Procurement of Raw Materials, to promote responsible mineral management. We will continue to strive to prevent and resolve conflict mineral-related risks for our partners.

Conflict Minerals Management System

Conflict Minerals Management Organization | In order to conduct effective due diligence, KT&G conducts regular comprehensive evaluations of 1-3 major partners, including annual conflict mineral management, under the leadership of the Purchasing Management Team. The Purchasing Management Team and the ESG Management Office are collaborating to ensure the ability to respond to increasingly stringent global norms and ESG regulations. In addition, the evaluation results based on due diligence are reported to the executive director of SCM HQ, and the Purchasing Management Team and ESG Management Office discuss the management system and manage dispute minerals under the supervision of the Chief of SCM HQ.

Communication with Partners and Gathering of Relevant Information | We monitor our partners' use and management of conflict minerals by communicating with them in various ways, including in writing and in person, on an annual basis and an ongoing basis if needed. In addition, we request specific information about the smelter from our partners for us to collect and manage.

Training for Partners | KT&G has been conducting ESG workshops for key partners every year since 2022, where we discuss the need to manage conflict minerals or require partners to provide the necessary resources.

Survey on Partners' Conflict Minerals Management | We regularly review our supply chain ESG risks through partner's ESG assessments, which include verifying that the raw materials we source are produced in a responsible manner. KT&G receives the Conflict Minerals Reporting Template (CMRT) and the conflict minerals use status table from three partners that manufacture NGP (Next Generation Products) devices to check the status of conflict minerals management. We also conduct in-depth interviews with our partners to check their internal conflict minerals management organizations and systems.

Moving forward, we will expand our management to other responsible minerals, and we will continue to expand the scope of our management to check the detailed location of smelters and refiners in the supply chain.

Managing and Improving Conflict Minerals Risk | KT&G shares the results of our partners' ESG assessments and conflict mineral management surveys with them, along with suggestions for improvement, including a review of the source of raw materials and production processes. We also conduct in-depth interviews with our partners to understand their conflict mineral management status.

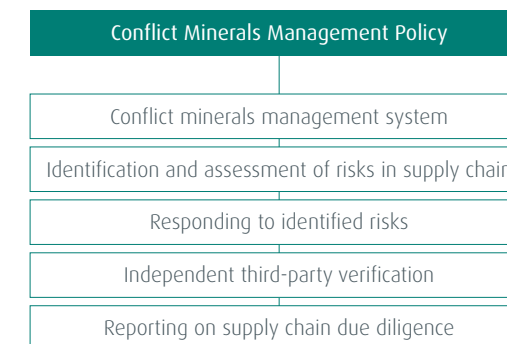
Identification and Assessment of Risks in Supply Chain | Once a year, KT&G receives data on smelters from our partners, and we compile and manage information on smelters (name of the smelter, country of the smelter, secondary suppliers, tertiary suppliers, etc.). We also receive direct and indirect CMRT from our partners to check the status of conflict mineral management. KT&G conducts in-depth interviews with our partners to verify the authenticity of the data submitted and the status of conflict mineral management. We also separately check the use of conflict minerals based on the information on smelters received from partners, and in particular, we check whether the smelters are RMAP-certified.

Responding to Identified Risks | KT&G reports our assessment of partners to our management supervisors, including the Chief of SCM HQ, and we ask our partners to submit data and explanations to complement the information in the submitted data or to provide in-depth interviews if the details of the data are not enough or no data is submitted. We will continue to monitor whether conflict minerals are being managed appropriately and respond appropriately to identified risks.

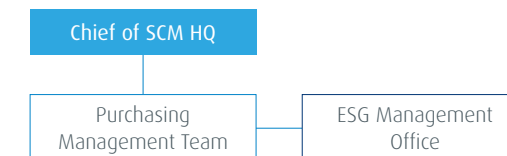
Independent Third-Party Verification | KT&G checks whether the conflict minerals have been used, to the extent possible, based on the information submitted by the partner company. In addition, through in-depth interviews with the partner company, we are checking the RMAP certification of the relevant smelters. Going forward, we plan to take necessary measures to ensure that only minerals from RMAP-certified smelters in RMI are used.

Reporting on Supply Chain Due Diligence | KT&G actively discloses relevant information to increase transparency regarding the management of conflict minerals and discloses an integrated report including due diligence on conflict minerals on the KT&G website.

Conflict Minerals Management System



Supply Chain ESG Risk Management Organization



I. HUMAN RIGHTS MANAGEMENT

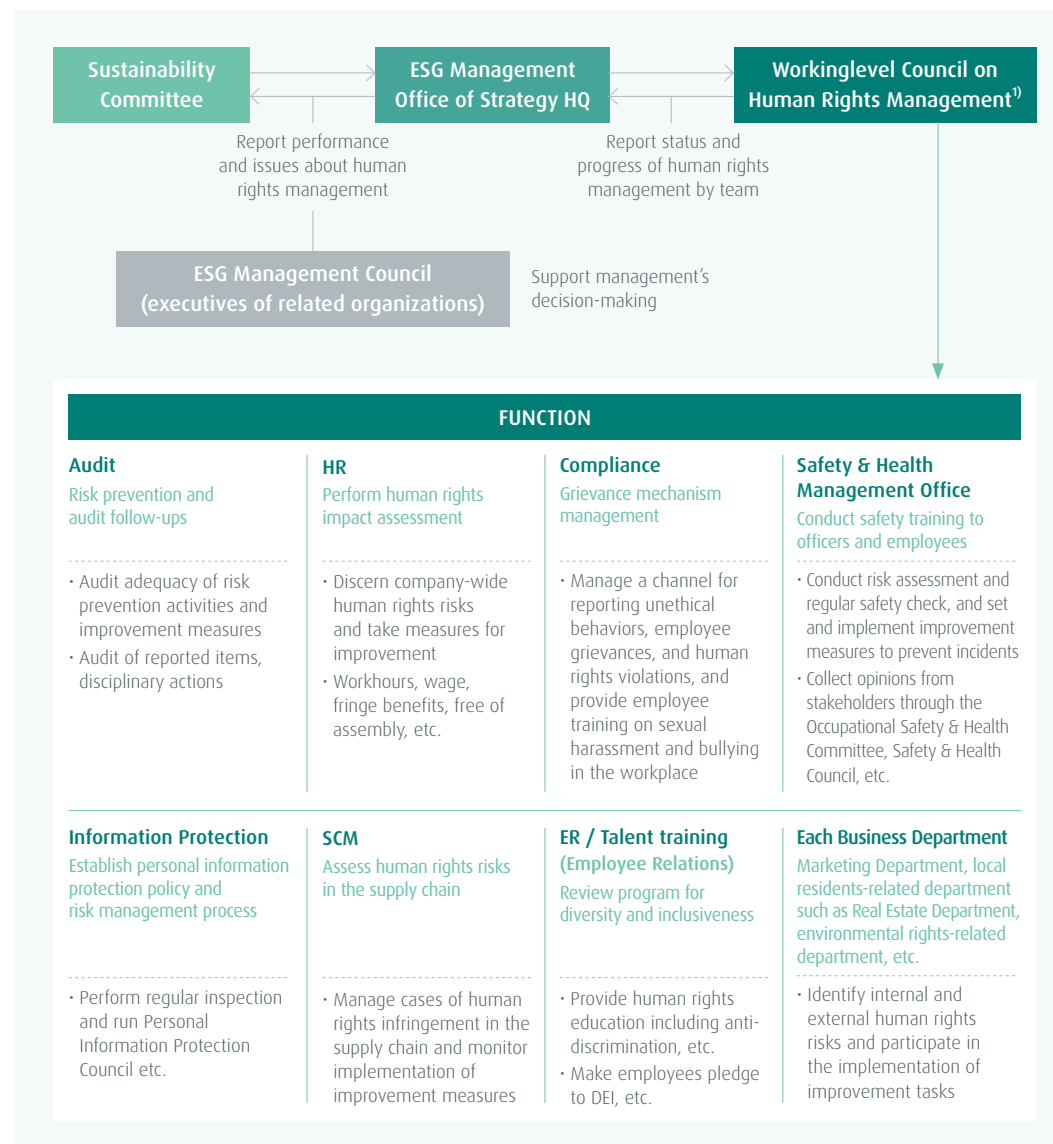
II. Human Rights Management System

KT&G has established a human rights management system to respect human rights and protect the human rights of all stakeholders in the course of its business operations. To identify human rights risks and prevent/mitigate them, we conduct regular human rights impact assessments every year, with the goal of conducting human rights impact assessments at all of domestic and overseas business sites by 2025 and all the Group subsidiaries by 2030. Our core supply chain, including leaf tobacco farms and ingredient partners, is also strengthening risk management through continuous improvement of policies and procedures, sustainability diagnostics and evaluations, and communication activities to establish a culture of respect for human rights.

Human Rights Management Policy KT&G has enforced the KT&G Group Ethics Charter to announce its commitment to human rights management and to present basic guidelines of action for the protection of human rights to stakeholders. The Charter applies to all employees of KT&G as well as our domestic and foreign subsidiaries and affiliates, and it encourages stakeholders such as joint ventures and partners to adopt the ethics charter. We also respect and comply with the Universal Declaration of Human Rights, the International Bill of Human Rights, key UN declarations including the UN Guiding Principles on Business and Human Rights and the Ten Principles of the UN Global Compact, OECD Guidelines for Multinational Enterprises, International Labour Organization Conventions, and labor standards set forth by the Corporate Human Rights Benchmark. We have established and are constantly updating human rights management policies based on various human rights initiatives adopted and announced by international organizations. Accordingly, KT&G's Human Rights Management Policy includes key elements for respecting human rights, such as prohibition of forced labor and child labor, guarantee of freedom of association, prohibition of discrimination, protection of vulnerable workers such as women with disabilities and foreigners, and protection of safety and health. KT&G, our subsidiaries at home and abroad, overseas production and sales corporations, and partners are all subject to the Human Rights Management Policy, and all employees and stakeholders must perform their duties in accordance with the Policy. Related guidelines such as the Ethics Charter, Human Rights Management Policy, and Supplier Code of Conduct are publicly announced through the intranet and the company website so that all stakeholders including our employees can easily find, clearly understand, and properly implement the human rights management policies.

Human Rights Management Governance KT&G has established a separate human rights management system consisting of the Sustainability Committee-ESG Management Council-ESG Management Office-Working Council centered on the ESG Management Office, an organization dedicated to human rights management. As a control tower for human rights management, the ESG Management Office is in charge of establishing our enterprise-wide human rights management system. It also handles diagnosing human rights risks and implementing a human rights risk management roadmap with the Working Council, which is composed of representatives from related departments. In order to build an executive-level human rights management system, we also operate a council that includes the Sustainability Committee, a committee under the Board of Directors, and executives from related business divisions, and discuss improvement issues from an integrated perspective of the entire company. KT&G is communicating with stakeholders, including employees, partners, customers, communities and NGOs, shareholders and investors, government, media, and outside professional groups. We operate various communication channels and reflect the opinions of stakeholders when drawing up human rights issues and establishing improvements.

Human Rights Management Governance



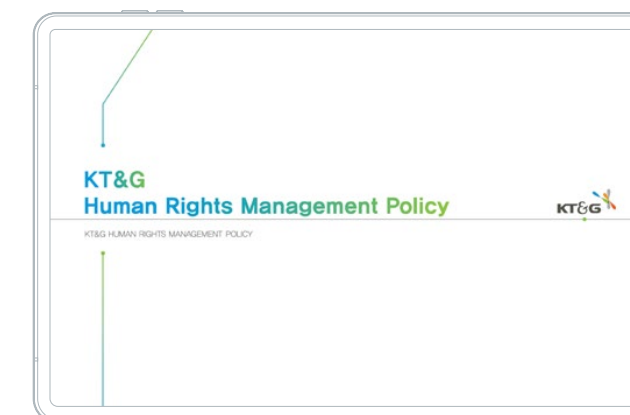
¹⁾ T/F composed of in-charge personnel by team

Principles of Human Rights Management



- Respect for human rights
- Ban on discrimination and harassment
- Ban on human trafficking
- Ban on forced labor
- Ban on child labor
- Workhour compliance
- Guarantee of minimum wage
- Fair compensation
- Guarantee of freedom of assembly
- Guarantee of health and occupational safety
- Protection of consumer rights
- Information protection
- Stronger conflict minerals management

Human Rights Management Policy



I. HUMAN RIGHTS MANAGEMENT

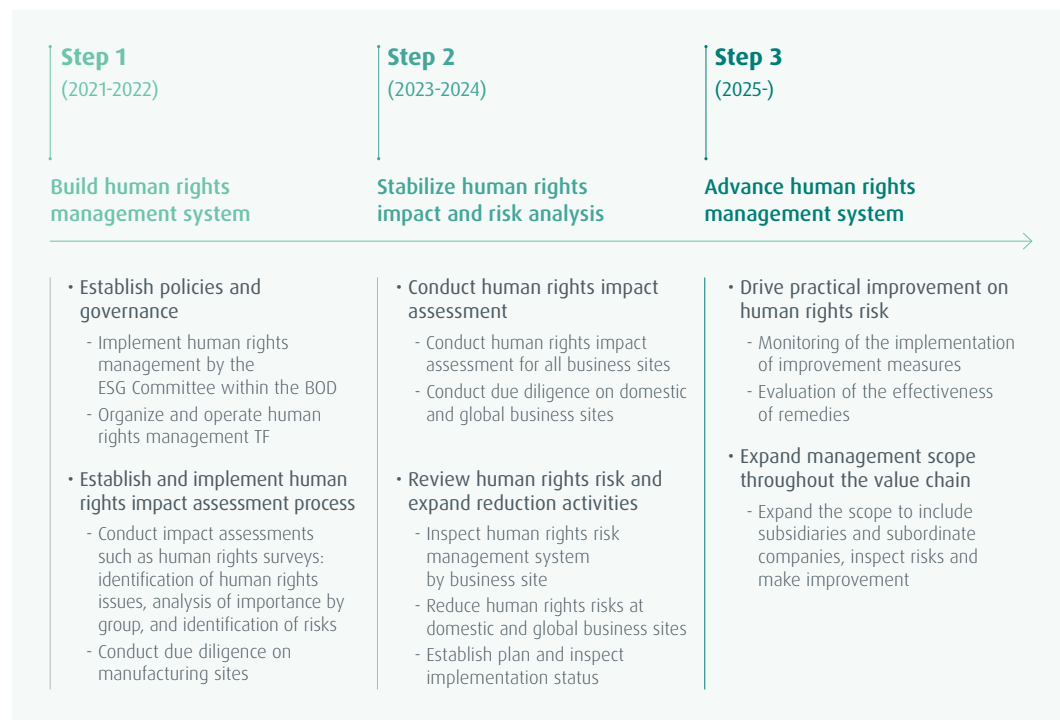
Human Rights Management Roadmap KT&G has established and implements the Human Rights Management Roadmap in three stages to strengthen human rights management and human rights risk management. In 2023, we entered the second stage of the Roadmap – the stage in which we establish a stable human rights impact and risk analysis system – and we are currently upgrading the human rights risk management system by conducting a human rights impact assessment for all business sites in Korea while conducting in-depth due diligence. We plan to establish a regular human rights management system based on the human rights management roadmap and expand human rights risk response throughout the value chain.

Human Rights Impact Management

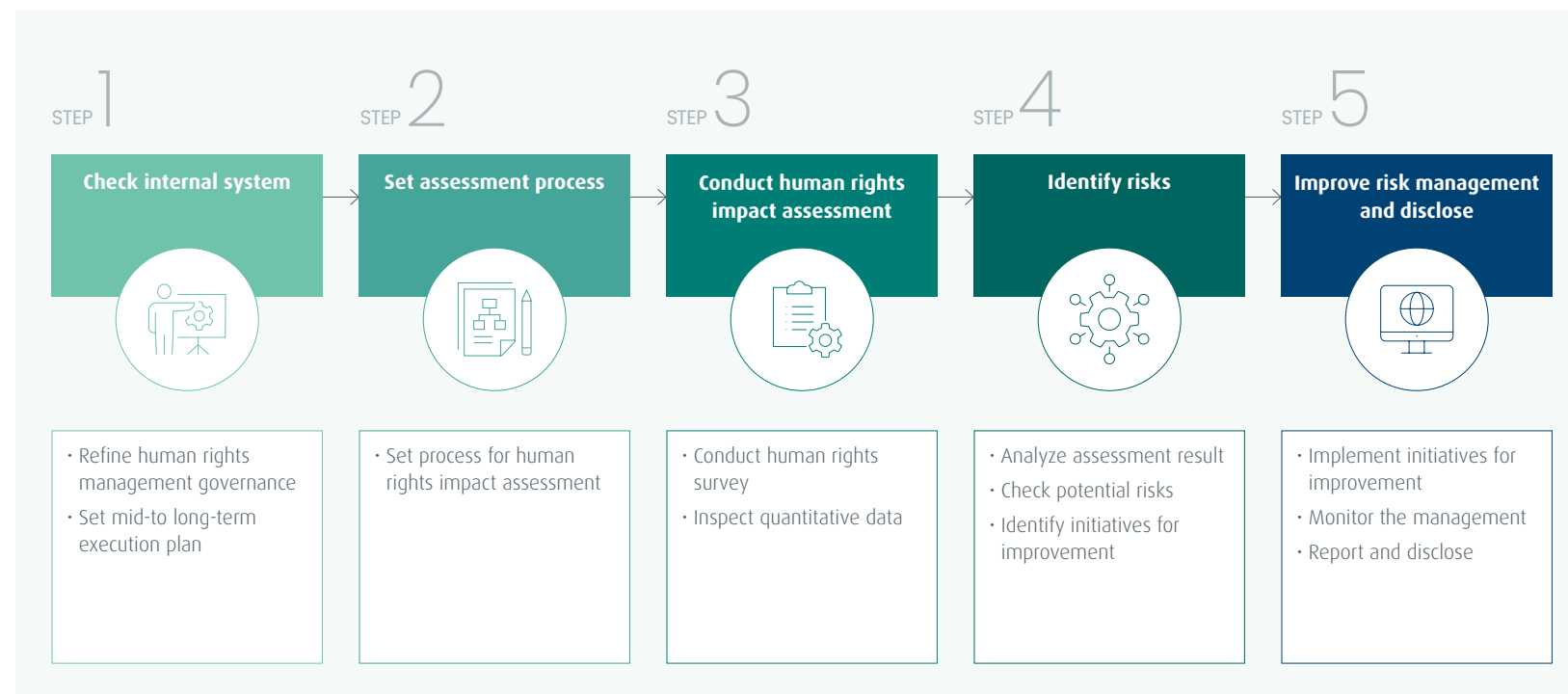
Framework for Human Rights Impact Management KT&G conducts human rights monitoring and due diligence to identify, prevent, mitigate, and improve actual and potential human rights risks throughout the whole value chain, including domestic and overseas business sites, subsidiaries, new businesses, and mergers. Since 2021, human rights impact assessments have been conducted at least once a year to identify potential human rights risks, and in 2023, human rights impact assessments have been conducted at all domestic business sites, targeting all employees.

Additionally, we continue to monitor human rights risks at workplaces by operating unethical behavior reporting channels year-round. As such, human rights risks identified through human rights impact assessment and unethical behavior reporting channels will be immediately investigated and taken, along with efforts to derive improvement tasks and reflect them in human rights management so that similar human rights risks do not recur at our business sites.

Human Rights Management Roadmap



Framework for Human Rights Impact Management



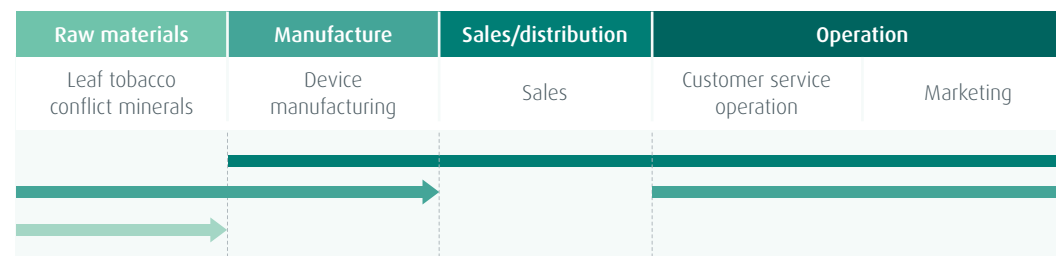
HUMAN RIGHTS MANAGEMENT

Human Rights Risk Assessment Process | KT&G has established and is promoting a human rights risk assessment process to identify potential human rights risks that exist throughout the business operation process, proactively derive problems, and come up with improvement measures. Through external specialized organizations, we conduct in-depth due diligence on human rights risks by conducting in-depth interviews with the people in charge of each department and employees of different genders, ages, and positions as we strive to create a better culture of respect for human rights by setting goals and continuously monitoring corporate human rights issues.

Human Rights Management Areas | KT&G established a human rights impact assessment checklist for regular human rights risk assessment. In the course of conducting the human rights impact assessment in 2023, some details have been revised by reviewing whether the checklist is suitable for the current corporate situation and social changes. Based on this, we have identified the management system for each human rights issue and checked compliance with global standards.

| Category | Items |
|------------------------------------------------------------------|--------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|
| Establishing a human rights management system | <ul style="list-style-type: none"> Declaration on respect for human rights, Policy development Steps to institutionalize human rights management Spreading a culture of respect for human rights |
| Non-discrimination in employment and humane treatment of workers | <ul style="list-style-type: none"> Non-discrimination in employment (gender, religion, age, race, disability, etc.) Non-discrimination of temporary and foreign workers Work-family balance support and maternity protection Fair compensation including gender equality wages |
| Ensuring freedom of association and collective bargaining | <ul style="list-style-type: none"> Ensuring freedom of association Guaranteeing the right to collective bargaining |
| Prohibiting forced and child labor | <ul style="list-style-type: none"> Prohibiting forced labor Eliminating child labor Prohibiting forced and child labor by subsidiaries, partners, etc. |
| Ensuring health and safety | <ul style="list-style-type: none"> Creating a safe and sanitary workplace Supporting victims of industrial accidents |
| Responsible supply chain management | <ul style="list-style-type: none"> Preventing human rights abuses by our partners (including forced and child labor, human trafficking, etc.) Conducting monitoring |
| Prohibiting workplace bullying and sexual harassment | <ul style="list-style-type: none"> Preventing workplace bullying and sexual harassment Building a response system for workplace bullying and sexual harassment |
| Protecting environmental rights | <ul style="list-style-type: none"> Disclosure of environmental information A proactive approach to environmental issues |
| Consumer protection | <ul style="list-style-type: none"> Ensuring consumers' access to company information Protecting consumers' privacy |
| Respecting the rights of local residents | <ul style="list-style-type: none"> Respecting local residents' property rights, etc. |

Defining Vulnerable Groups | KT&G recognizes that women, the disabled, foreign workers, etc. may be relatively vulnerable to human rights risks, and is taking proactive measures to ensure a higher level of human rights protection for vulnerable groups. Furthermore, we plan to expand the scope of stakeholder surveys to subsidiaries and domestic and foreign partners to collect active opinions and strengthen the risk mitigation process by implementing improvements.



| Vulnerable Groups | Areas of Potential Risks | Countermeasures |
|------------------------------------|------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|---------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|
| ● Women | <ul style="list-style-type: none"> Non-discrimination in employment Protecting female workers and supporting work-family balance Prohibiting workplace bullying and sexual harassment | <ul style="list-style-type: none"> Increasing the number of female managers at home and abroad (from an average of 262 over the past three years to 342 in 2023) Implementing a blind-hiring system Revising recruitment guidelines Conducting DEI training for human resources and labor personnel Encouraging the use of maternity and parental leave Operating workplace daycare centers |
| ● Disabilities | <ul style="list-style-type: none"> Non-discrimination in employment and humane treatment of workers Ensuring safety and health | <ul style="list-style-type: none"> Conducting disability awareness training and DEI training for all employees Conducting regular recruitment screenings for people with disabilities Applying additional points by step for hiring the disabled |
| ● Foreigners | <ul style="list-style-type: none"> Non-discrimination in employment and humane treatment of workers | <ul style="list-style-type: none"> Conducting DEI training for all employees Providing training for foreign employees to adapt to the workplace (on-boarding program, etc.) Operating communication programs for foreign employees (Young Motivation, Global Zoom-in, etc.) |
| ● Community | <ul style="list-style-type: none"> Respecting local residents' rights Protecting environmental rights | <ul style="list-style-type: none"> Operating channels to report unethical behavior and protect the property rights of local residents Establishing environmental policies and disclosure of information as well as preventive and preemptive measures |
| ● Supply Chain (Partner companies) | <ul style="list-style-type: none"> Prohibition of Forced and Child Labor Non-discrimination in employment and humane treatment of workers | <ul style="list-style-type: none"> Regular ESG inspection and improvement management activities and support for partners Regularly monitoring labor conditions and labor contracts at our business sites and partners and responding promptly when issues are identified Promoting STP in the leaf tobacco supply chain |

Human Rights Risk Assessment Process



- 01 **Identification of potential human rights issues**
 - Evaluate human rights risks
 - Identify a core issue
- 02 **Definition of vulnerable human rights group**
 - Map out vulnerable groups
 - Analyze human rights issues by group
- 03 **Implementation of the human rights impact assessment**
 - Analyze the current status of risks
 - Conduct a survey
 - Handle grievance process channel
 - Carry out due diligence
- 04 **Establishment of improvement plans**
 - Set a target and objectives
 - Identify improvement plans and responses
- 05 **Sharing of the result**
 - Report internally
 - Disclose publicly

HUMAN RIGHTS MANAGEMENT

Human Rights Impact Assessment KT&G has been conducting human rights impact assessments at least once a year since 2021 to identify potential human rights risks, accurately understand employees’ perceptions of our culture of respect for human rights, and identify improvements. The Human Rights Impact Assessment covers key areas of human rights, including KT&G’s human rights management system, non-discrimination in employment, forced labor (working hours), freedom of association and collective bargaining, workplace bullying and sexual harassment, health and safety, and supply chain management. The human rights impact assessment is conducted by a group of external experts rather than KT&G’s internal departments to ensure objectivity and expertise.

2023 Human Rights Impact Assessment I Prior to the human rights impact assessment in 2023, the checklist was advanced by reflecting the guidelines for human rights management at home and abroad, international human rights initiatives, related laws, industrial characteristics, the status of human rights management of the same company, and the characteristics of each business site and business area of the company. In response, a human rights impact assessment was conducted based on 52 indicators in 14 categories in a total of six areas – establishment of a human rights management system, non-discrimination in employment, freedom of association and collective bargaining, prohibition of forced labor and child labor, guarantee of safety and health, and prevention of workplace harassment and sexual harassment. Additional in-depth surveys were conducted to staff at relevant departments to include such indicators as supply chain management and guarantee of safety and health. KT&G conducted an anonymous human rights impact assessment at all of its business sites in Korea, targeting all workers (including non-regular workers) to identify all human rights risks that may be potential to workers in various fields of work and classes, and some 1,300 workers participated in the assessment, securing highly reliable results.

The assessment showed that employees’ positive perception of KT&G’s human rights status increased in all areas compared to the previous year. The scores for prohibition of forced labor and prevention of workplace harassment and sexual harassment, which were previously highly rated, increased slightly, while the scores for establishing a human rights management system, non-discrimination in employment, freedom of association and collective bargaining, and guarantee of safety and health increased by more than 110% year-on-year.

We analyzed the results of the human rights impact assessment and confirmed that the main human rights areas to be managed are the establishment of a human rights management system, a culture of mutual respect, prevention of workplace bullying and sexual harassment, and non-discrimination in employment. For the main human rights areas, we plan to identify and implement improvement tasks to improve employee awareness, strengthen the human rights protection system, and periodically monitor their effectiveness.

Result of 2023 Human Rights Impact Assessment



Results of the Human Rights Impact Assessment for the Past 3 Years



¹⁾ All business sites in Korea
²⁾ Percentage of areas with negative respondents exceeding 10% (3 areas)
³⁾ Percentage of purchase amount
⁴⁾ Partners with below average ratings in labor/human rights indicators and insufficient improvement in the 2021-2022 ESG evaluations over the past three years, Partners vulnerable in the human rights/labor area according to the new evaluation indicators added in 2023
⁵⁾ Partners that received consulting support related to labor/human rights until 2023

HUMAN RIGHTS MANAGEMENT

Results of Human Rights Impact Assessments for All Domestic Business Sites by Issue



* Statistical analysis of survey results from all domestic business sites, and the in-depth survey areas (supply chain management, respect for local residents' rights, protection of environmental rights, etc.) are not included in the above graph.

HUMAN RIGHTS MANAGEMENT

2023 Human Rights Due Diligence | KT&G conducted a statistical analysis of the 2023 human rights impact assessment results and evaluated the severity based on materiality, scope of impact, and the possibility of remedy for victims. Through this process, we identified key human rights areas that require focused management. We also conducted due diligence to analyze these key human rights areas and derive improvement measures. The due diligence process included in-depth interviews with company employees, review of data, and evaluation by external experts, taking into account the nature of the key human rights areas identified in the human rights impact assessment. The potential human rights impacts identified through the human rights due diligence are reflected in the human rights management system and the human rights due diligence process, and we will strive to mitigate negative impacts by identifying improvements and strengthen positive impacts to ensure that the human rights of all internal and external stakeholders involved in our business operations are respected.

Mitigating and Improving Human Rights Impact

Promoting Human Rights Awareness

KT&G conducts human rights education and prevention programs for its employees every year to foster a culture of respect for human rights in the company and raise the level of awareness of its employees. We provide special compliance training on the KT&G Group Ethics Charter to all employees to raise awareness of respect for human rights and conduct regular compliance training such as workplace harassment prevention and sexual harassment prevention education, improvement of awareness of the disabled, and personal information protection education.





In addition, we provide training on the business ethics and employee's ethics awareness through introductory training for new hires and special compliance training for new executives and managers. In addition to domestic employees, we also provide training to overseas employees to help them understand our Ethics Charter, and we also provide whistleblowing training so that immediate reporting and action can be taken in the event of human rights risks. To improve the awareness of our employees, we have enacted Guidelines for the Prevention and Treatment of Sexual Harassment and Harassment in the Workplace to clarify the processing procedures, and we are obtaining a pledge regarding this matter from our employees.

Human Rights Violation and Remedy | KT&G operates a grievance reporting system to resolve human rights violations such as solicitation and abuse of power. The Compliance Management Center oversees the overall operation of the reporting system, and when a report is received through the reporting channel, the department in charge requests confirmation of facts in accordance with the manual for receiving and processing unethical behavior reports and investigates related matters. Our employees, and internal and external stakeholders can file a report, and reporters are guaranteed anonymity per the Guidelines for the Protection of Unethical Reporters and protected from personnel and other disadvantages and retaliatory actions. We will continue to strive for transparent human rights management by conducting education and campaigns, pledges to prevent bullying in the workplace, and self-diagnosis so that all of our employees can become familiar with our human rights management policies and participate in human rights management.

Analysis of Mitigation Measures and the Effectiveness of Negative Human Rights Impacts in Key Human Rights Areas

| Human Rights Area | Business | Key Issues | Mitigation Measures | Effectiveness | Page |
|-------------------------------------------------------------------|----------------------------------------------------------------------------------------------------------------------------------------------|-------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|-----------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|---------------|-------------------|
| Establishing a human rights management system | <ul style="list-style-type: none"> Headquarters Regional headquarters Manufacturing and raw material plants | <ul style="list-style-type: none"> Reinforcing a culture of mutual respect Conducting efficient and substantive investigations on human rights violations | <ul style="list-style-type: none"> Developing KT&G Culture Index (CI) and conducting organizational culture diagnosis Operating a corporate culture improvement organization Operating a company-wide reporting channel for unethical behavior Conducting internal announcements on major incidents and outcome cases | High | 144-147, 181, 191 |
| Non-discrimination in employment and vulnerable worker protection | <ul style="list-style-type: none"> Headquarters Manufacturing and raw material plants | <ul style="list-style-type: none"> Prohibiting age and disability discrimination Creating an accessible workplace for the disabled | <ul style="list-style-type: none"> Implementing content to create a culture of intergenerational communication (Fun Restaurant, Baek's Café, etc.) Improving the reporting culture and internal titles within the company Conducting disability awareness training and DEI training for all members Conducting regular recruitment screenings for people with disabilities Applying additional step-by-step points to hire the disabled | High | 142-147 |
| Preventing workplace bullying and sexual harassment | <ul style="list-style-type: none"> Headquarters Manufacturing and raw material plants | <ul style="list-style-type: none"> Recognizing reporting methods Effecting measures Making efforts to eradicate workplace bullying and sexual harassment | <ul style="list-style-type: none"> Conducting regular compliance training, induction training for new employees, special compliance training, etc. Improving awareness on the operation of the unethical behavior reporting channel through the website, etc. Providing case-based workplace bullying and sexual harassment prevention education | High | 181, 184 |
| Responsible supply chain management | <ul style="list-style-type: none"> Manufacturing and raw material plants | <ul style="list-style-type: none"> Strengthening supply chain ESG risk management | <ul style="list-style-type: none"> Disseminating and educating partners on the Code of Conduct Conducting regular partner ESG audits and improvement management activities, Green Impact Alliance Implementing STP for leaf tobacco supply chain Increasing the traceability of raw materials through briefings on CMRT (Conflict Minerals Reporting Template) and EMRT (Extended Minerals Reporting Template), etc. Ensuring that device partners work with RMI-certified smelters, and managing them | Medium | 123-135 |

Programs Designed to Enhance Human Rights Awareness

| Human rights impact | Management system and prevention program |
|--------------------------------------------------------------------------------------------------------------------------------------------------------------|----------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|
|  Freedom of assembly and guarantee of collective bargaining rights | <ul style="list-style-type: none"> Conduct collective bargaining every year Hold quarterly Labor-Management Council Notify agreements of collective bargaining via in-house intranet |
|  Ban on discrimination in employment and at work | <ul style="list-style-type: none"> Diversify recruitment method and channel, pre-monitor discriminatory elements that could arise from recruitment procedures Hold 1:1 interview after evaluation and run objection system |
|  Improvement of work conditions | <ul style="list-style-type: none"> Manage by blocking network and PC-off system Run job sharing model operation Run 1-3-5 campaign (5 promises for happy work and life) |
|  Activities to prevent human rights violation (targeting all employees) | <ul style="list-style-type: none"> Establish handling guidelines to prevent office bullying and require written pledge submission by executives and employees Conduct training on preventing office bullying Designate call center operator handling sexual harassment cases and conduct training on prevention of sexual harassment Conduct training on improving awareness on the disabled |

EMPLOYEE DIVERSITY AND INCLUSION

Establishment of DEI Management System

DEI Policy KT&G has incorporated the importance of diversity and inclusion into the basic principles of the KT&G Human Rights Management Policy and the KT&G Group Ethics Charter to ensure that no employee is discriminated against based on gender, race, nationality, religion, or any other reason, and that all employees are afforded fair opportunities and basic rights. This policy is being expanded to increase awareness of diversity, equity, and inclusion (DEI) across domestic branches, subsidiaries, and overseas operations. Additionally, through the establishment of the Board Diversity Policy, KT&G aims to maintain objectivity in the composition of the board by ensuring diversity and not representing the interests of any specific group.

DEI Direction Companies that respect various backgrounds, experiences, values, and ways of thinking can make decisions from a broader range of perspectives, which directly contributes to the long-term competitiveness of our company. KT&G has established a mid-to long-term strategy for the systematic management of internal DEI to cultivate a culture where employees respect and include one another.

The mid-to long-term DEI strategy identifies four core strategic pillars: Gender equality – equal opportunities and fair evaluation (Gender Diversity), Acceptance of cultural diversity (Global Mobility), Intergenerational convergence (Generation Communication), and Consideration for the socially vulnerable (Generosity Protection). We make diverse efforts to internalize these principles.

KT&G is undertaking various initiatives to foster empathy and increase engagement with the millennials and Generation Z, as well as to support smooth communication between labor and management. Through internal communications, we are seeking ways to effectively convey our DEI values and promote generational integration with activities and campaigns that encourage broad participation among employees.

Mid- to Long-term Goals of DEI To become a global top-tier company, we are enhancing the competitiveness of our human capital diversity based on our core DEI directions, with a focus on Gender Diversity and Global Mobility as our mid-to long-term goals. We aim to strengthen the role of female employees and management, as well as actively develop talented local hires within management and leadership roles, to build a competitive foundation for the organization that supports change and innovation by 2030. Ultimately, KT&G aims to establish a solid implementation system through improvements in DEI policies and programs and seeks to gain external recognition for our DEI values through certifications.

DEI Management System

DEI Governance I KT&G continuously manages DEI issues that can impact all aspects of human resources, including recruitment, development and training, job assignments and duties, evaluations, and promotions. For smooth internal communication, KT&G operates a DEI discussion forum composed of our HR Department, Human Resources Development Institute, ER Team, Global HQ, Profit&Loss Management Office, and ESG Management Office, centering around this forum to review improvement tasks for DEI enhancement, set subsequent management indicators, and monitor the progress of long-term goals regularly.

DEI Status Monitoring I KT&G intends to carry out a company-wide systematic monitoring of the progress and awareness changes among employees through DEI internalization programs. Through this, annual management indicator reviews and plans for the next DEI programs will be regularly monitored via management reporting. We also plan to listen to diverse opinions from consumers, shareholders, investors, and other stakeholders to enhance diversity and inclusion and contribute to the promotion of KT&G’s DEI values.

KT&G has been participating in the Equal Salary initiative since 2021, and has been monitoring the status through an annual third-party audit to review the effectiveness of certification achievements. Moving forward, KT&G plans to participate in a variety of global DEI initiatives to objectively review and improve the implementation of DEI enhancements.

4 Core Directions of KT&G DEI

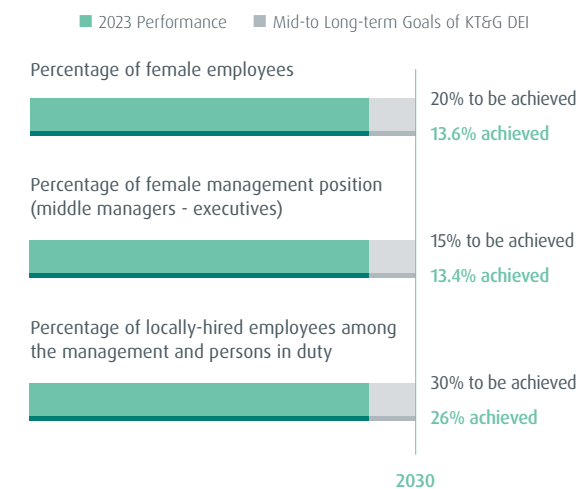
| | |
|--------------------------------------------------------------------------------------|-----------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|
| GENDER DIVERSITY Gender equality – equal opportunities and fair evaluation | In order to strengthen human capital competitiveness by securing various perspectives between genders, KT&G is actively reorganizing systems and operating programs to train female human resources, setting goals from a mid-to-long-term perspective, and establishing a monitoring system. In order to systematically foster female managers and female executives from a mid-to long-term perspective, we plan to actively manage performance by setting goals, establishing a monitoring system, and supplementing systems and programs. |
| GLOBAL MOBILITY Acceptance of cultural diversity | In connection with strengthening KT&G’s overseas market competitiveness and globalization strategy, KT&G is promoting customized programs for each country for the development and management of outstanding local employees. In addition to global business rotation and dispatching managers, we actively select and train experts at local overseas business sites and support them so that they can demonstrate their specialized expertise in the region. |
| GENERATION COMMUNICATION Intergenerational convergence | KT&G is conducting various activities to build a consensus and expand exchanges with employees of millennials and Generation Z, and to ensure smooth communication between labor and management. We seek ways to deliver KT&G DEI values effectively through internal communication and promotes various employee-participating activities and campaigns so that intergenerational convergence can be achieved. |
| GENEROSITY PROTECTION Consideration for the socially vulnerable | KT&G aims to fulfill its responsibility towards local community by creating a society where socially vulnerable groups are not discriminated against and coexist with various stakeholders. We will practice our corporate philosophy of “Inclusive Company” by applying the “People, Community, Planet” model, a new social contribution strategy. |



Code of Conduct Related to Diversity Included in the KT&G Group Ethics Charter

- 8.3 Anti-discrimination and Respect for Diversity
 - KT&G complies with the anti-discrimination laws of each country, considers the diversity of stakeholders, such as employees and partner companies, as an important value, and strives to create an inclusive environment so that different thoughts, perspectives, and beliefs can be respected.
 - KT&G does not unfairly discriminate on grounds of reasons such as personal characteristics, such as gender, race, skin color, nationality, religion, disability, age, pregnancy, military service, social status, political opinions, etc. in all situations related to work, including recruitment, promotion, placement, compensation, and education.

Mid-to Long-term Goals and 2023 Performance of KT&G DEI



* Including domestic and overseas business sites

I. EMPLOYEE DIVERSITY AND INCLUSION

II. DEI Promotion Program

Gender Equality – Equal Opportunities and Fair Evaluation KT&G is committed to improving factors that could lead to gender discrimination across all HR processes including recruitment and hiring, personnel evaluation, promotions, wage systems, education and training placements, and retirement, to ensure equal and non-discriminatory employment between genders. We will continue to provide equal opportunities to all employees and strive for fair evaluations.

Gender Equality Salary Policy | KT&G ensures that all opportunities are fairly and equally granted based on each employee’s abilities and capacities, and implements a non-discriminatory wage policy for employees with the same qualifications and positions. As a result of efforts to have our wage policy officially recognized according to the professional and objective criteria of global non-profit foundations and independent third-party verification agencies, in August 2021, KT&G became the first listed company in Korea to receive the Equal Salary Certification from the Equal Salary Foundation. We view the acquisition of the Equal Salary Certification as a starting point for the development of sustainable human capital management policies and systems and undergo monitoring verification every August to practice systematic human rights management.

DEI Awareness Training | In a culture where the value of DEI is respected, employees can immerse themselves in their work and grow. KT&G is therefore planning and operating education programs by rank to propagate the DEI culture and establish it as a part of our internal culture, striving to expand the ranks and targets.

In the first half of 2024, KT&G operated education programs for new hires, potential future global leaders, to share our understanding of DEI. We also shared the DEI implementation plans that connect to our strategy, and new executives were offered education courses to understand and manage organizational issues based on ESG. In addition, we have defined DEI as a core competency that managers of KT&G Group should inherently have, and incorporated a separate DEI understanding module into the manager leadership program for the overseas subsidiary in Türkiye in February 2024. As a global top-tier player, we plan to continuously design and operate education programs to encompass and integrate various DEI issues for all employees working both domestically and abroad.

Key DEI Systems and Programs

| | |
|------------------------------------------|----------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|
| Announcement and recruitment | <ul style="list-style-type: none"> Strengthen PR activities focused on attracting more female job applicants Establish a system to root out prejudice against female workforce and culture averse to employing women Increase share of female interviewers for interview-based recruitment Continue with blind recruitment principle and require evaluators to submit written pledge Expand scope of applicants subject to AI interview and further utilize its results Run special program for female workforce management (follow-up course for new hires) |
| HR evaluation and promotion | <ul style="list-style-type: none"> Build training infrastructure to enhance competency of employees on long leave of absence due to childcare leave and to provide work support upon return Operate mutual interview and evaluation objection system to secure evaluation fairness and acceptability Operate the Promotion Review Committee for fair candidate evaluation and transparent promotion process |
| Compensation management (wage structure) | <ul style="list-style-type: none"> Obtain 2021 Equal Salary certificate |
| Training | <ul style="list-style-type: none"> Provide DEI awareness training by tier to all employees Provide introductory training to new hires Assign female employees as operating staff who provide general consulting on new employees’ future career development plan, job competency improvement and grievances in workplace, etc. |
| Work-Life Balance | <ul style="list-style-type: none"> Support for infertility treatment leave and cost for in vitro fertilization for employees with infertility Support for maternity leave during pregnancy (the date of confirmation of pregnancy - before childbirth) and maternity leave subsidy Support for postpartum care center expenses and childbirth congratulatory gifts after childbirth Automatic transition to parental leave for prenatal and postpartum leave (maternity leave) users Support for subsidies for parental leave up to the second year of parental leave Support for childcare subsidies for children under the age of 6 to reduce the financial burden of childcare Installation and operation of workplace daycare centers (Seoul office building, Sintanjin Plant) Provide a congratulatory gift worth KRW 100,000, upon the pregnancy or childbirth of employees themselves or the childbirth of their spouses, through the “Celebration/Cheering/Care” program |



Reacquisition of the Family-Friendly Company Certification

I. EMPLOYEE DIVERSITY AND INCLUSION

Work-Family Balance I To prevent career disruptions for female employees due to childbirth or childcare, KT&G operates systems and programs related to childbirth and childcare. When an employee or their spouse gives birth, we provide a congratulatory gift worth KRW 100,000 through the “Celebration/Cheering/Care” program, fostering a family-friendly environment within the organization. Particularly for female employees, parental leave automatically converts to childcare leave after maternity leave without a separate application. Any employee with children under eight years old can take up to two years of childcare leave, with support of KRW 1 million in the first year and KRW 2 million in the second year. In addition to operating an on-site daycare center, KT&G provides childcare allowances (KRW 200,000 for the first and second children, KRW 300,000 for the third), a maternity leave system available from early pregnancy (supporting KRW 1 million per month), fertility treatment cost support, reduced working hours for pregnant employees, and up to 10 days of family care leave per year, actively supporting employees to focus more on their work by finding a balance between work and life. In doing so, KT&G is sparing no effort in supporting female employees to maintain a healthy work-life balance and maximize their abilities by operating maternity protection systems and various other supports.

As a result of these initiatives, the average tenure of female employees (based on regular employees) has reached 16.0 years, which is above the average for the top 100 companies. In 2023, KT&G was selected as an exemplary company by the Ministry of Gender Equality and Family for supporting and operating family-friendly culture and related systems, and we obtained the Family-Friendly Company Certification. We have also been recognized for our excellent organizational culture by various external organizations, including the reacquisition of the Leisure-Friendly Certification and the Excellent Workplace for Reading Management Certification from the Ministry of Culture, Sports and Tourism.



Workplace childcare facility at the Seoul Office Building

Work-Family Balance Systems

| Category | Item | Description |
|--------------------------------------------|-------------------------------------------------|---------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|
| Work System | Flexible Work System | The company allows employees to use a flexible work system with approval from their department head. This flexible work system permits employees to work without being confined to specific hours, and is operated under the following types defined in the collective agreement: 1. Selective Working Hours: Employees freely choose their start and end work times. 2. Flexible Working Hours: Employees freely adjust their commuting times within the prescribed working hours 3. Staggered Working Hours: Employees can change commuting times (e.g., 8 AM to 5 PM on Fridays). 4. Deemed Working Hours: Work hours are considered to be agreed-upon between labor and management and are not based on actual working hours (e.g., business trip is considered 8 hours of work). |
| | Remote Work System | The company has introduced a remote work system that allows employees to work from home or other locations based on a mutual agreement between labor and management, available upon department head approval. The company has replaced all desktop PCs with laptops, established a virtual work environment, and prepared a remote work manual. |
| Encouraging Childbirth | Fertility Leave | The company grants up to 3 days of leave per year for employees undergoing fertility treatments such as artificial insemination or in vitro fertilization, with the first day paid. |
| | Support for IVF Expenses for Couples | The company supports costs incurred for IVF treatments by employees up to three times during employment, with an annual cap of KRW 15 million. |
| | Postnatal Care Center Support | The company supports up to KRW 2 million for postnatal care center expenses when an employee or their spouse gives birth. |
| Maternity Protection and Childcare Support | Maternity Leave (Before Birth) | The company grants maternity leave to pregnant employees to protect maternity before childbirth. |
| | Automatic Childcare Leave System | To reduce the burden of using childcare leave and encourage its use, the company automatically transitions to childcare leave after the use of pre- and post-natal leave for female employees. |
| | Childcare Leave Support Payments | The company provides specific childcare leave support payments during the leave period, agreed upon with the labor union (1st year: KRW1 million/month, 2nd year: KRW 2 million/month). |
| | Reduction of Work Hours for Childcare/Pregnancy | The company permits employees eligible for childcare leave to apply for reduced working hours instead (minimum 15 to maximum 35 hours per week after reduction, with wages paid proportionally to working hours). |
| | Workplace Daycare Installation and Operation | The company operates workplace childcare facilities necessary for nursing and childcare as required by law in workplaces with an obligation to install them (Seoul Office Building, Daejeon Plant). |
| | Childcare Support Payments | The company provides childcare support payments to employees raising young children: KRW 200,000 per month for each of the first and second children, and KRW 300,000 per month for the third child and any additional children. |
| | Maternity Leave | The company grants 90 days of maternity leave (120 days for multiple births at once) to pregnant female employees. |
| | Spousal Birth Leave | The company provides 10 days of spousal birth leave when an employee's spouse gives birth. |
| | Treatment of Employees on Childcare Leave | The company does not take any adverse actions regarding evaluation, length of service, or job assignments for employees on childcare leave and does everything possible to protect maternity. |
| | Family-Friendly | Refresh Leave |
| Refresh Leave Cost Support | | The company supports refresh leave costs for employees using refresh leave, starting at KRW 1.6 million at 5 years of service and increasing by KRW 200,000 every five years up to 30 years. |
| Family Care Leave | | The company grants up to 10 days of unpaid leave per year as needed for family care. |
| Reduction of Working Hours for Family Care | | The company allows employees to request reduced working hours to care for elderly family members or those suffering from illnesses or injuries. The working hours must be at least 15 but not exceed 30 per week, and wages are adjusted proportionally based on the hours worked. |
| Others | Summer Vacation Cost Support | The company encourages time off for employees by providing KRW 800,000 for summer vacation expenses to all employees every July. |
| | Health Leave | The company grants 1 day of unpaid leave per month for female employees who find it difficult to work on menstruation days, upon request. |
| | Health Care and Support | The company conducts annual health screenings for employees and their families (spouses or parents). To encourage participation, we subsidize the cost of the screenings and provide one day of paid health screening leave each year. |

I. EMPLOYEE DIVERSITY AND INCLUSION

Maternity Protection and Childcare Support To protect workers who are pregnant or expecting childbirth, KT&G operates a life-cycle-customized maternity protection program. During pregnancy, this program provides maternity leave (from the confirmation of pregnancy until just before childbirth), maternity leave support payments, fertility treatment leave, and subsidies for IVF procedures for couples. For childbirth, it includes leave before and after delivery, leave for spouses, subsidies for postnatal care centers, and childbirth congratulatory gifts. Once an employee's pregnancy becomes known, KT&G provides breastfeeding supplies and childbirth supplies. Since introducing our automatic childcare leave system in 2015, employees are automatically transitioned to childcare leave after maternity leave without the need for an additional application process. Childcare leave support payments are provided for up to the second year of leave. To alleviate the financial burden of child-rearing, KT&G provides a monthly childcare support payment for children under the age of six, with additional benefits for families with multiple children. Additionally, workplace daycare centers have been established and are operated at the Daejeon Plant and the Seoul Office Building in the Gangnam District, supporting employees in balancing their work and family responsibilities.

Employee Health Management and Support To ensure the health of our employees, KT&G conducts annual health screenings for employees and their immediate family members (spouses or parents). To encourage participation, we subsidize the costs of these screenings and grant a one-day paid leave for health check-ups each year. We also run fitness centers and support a variety of medical expenses including medical costs for employees and their families, cancer diagnostic fees, and fertility treatment expenses for couples undergoing IVF.

Intergenerational Convergence

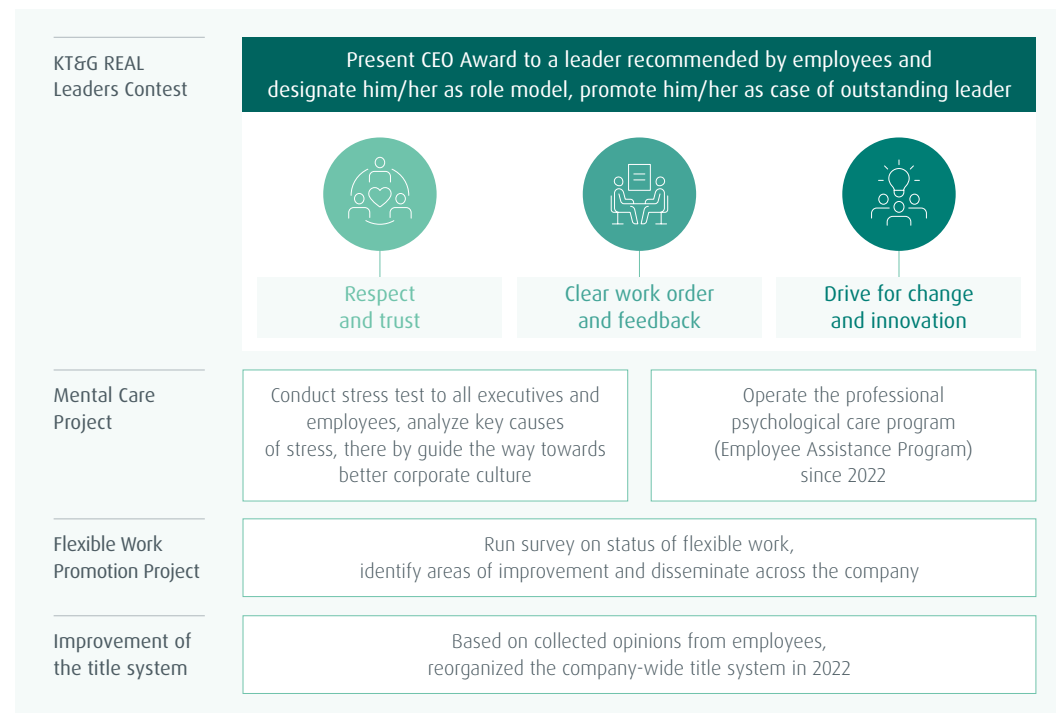
Global Jr. Committee I In May 2021, we reorganized our existing organizational culture improvement body, the SangSang Realization Committee, to launch the first iteration of the SangSang Junior Board, primarily composed of employees in their 20s and 30s. As a layer of next-generation leaders, the SangSang Junior Board represents the younger generation and is instrumental in building a horizontal organizational culture by facilitating communication with the management. We are dedicated to establishing our unique DEI framework, centered around the SangSang Junior Board. We are exploring programs that cultivate an inclusive culture, embracing diverse employee backgrounds such as gender, race, experience, and age. We promote campaigns to develop a culture that respects diversity and inclusion, foster dynamism and innovation, and directly propose improvements in organizational culture to the management. From 2023, based on employee votes, we selected "DEI: Imagine a Better Tomorrow" as our DEI slogan and are conducting an annual DEI pledge for all employees. Furthermore, as part of our efforts to strengthen communication to reach the global top-tier, KT&G reorganized the SangSang Junior Board into the Global Jr. Committee in 2024. In doing so, we're aiming to enhance global employees' engagement at work through bidirectional and strategic communication.

A Culture of Mutual Respect and Communication between Labor and Management I KT&G respects our employees' freedom of association as stipulated by the International Labor Organization (ILO) agreements and domestic labor laws, and guarantees the free activities of labor unions. The labor union of the National Tobacco and Ginseng Corporation is an industrial union¹⁾ under the Federation of Korean Trade Unions established in 1958 following the formation standards of the Monopoly Bureau Labor Union Federation. As of the end of December 2023, all eligible employees at KT&G sites, totaling 3,698, are members of this union.

Every year, the union engages in collective bargaining with the company, negotiating on a variety of topics including employee salaries, performance compensation, working conditions, welfare benefits, system improvements, industrial safety, and social contributions. These negotiations aim to create plans for improvement. Additionally, KT&G conducts regular issue briefings and management understanding courses for union executives. Through these sessions, we share our mid-to-long-term strategies, including insights into the management environment and strategic directions. These efforts foster a consensus between labor and management aimed at shaping a better future. Moreover, through regular and ad-hoc labor-management councils held each quarter, professional association council, and ad-hoc union member meetings, KT&G seeks to explore various supportive measures for our employees and directions for constructive improvements.

In addition, KT&G established Employment Security Committee, which is equally represented by the management and labor union as part of the collective bargaining. The Committee ensures smooth discussions and agreements on major issues such as institutional consolidation, manpower adjustments, and relocations according to changes in the business environment. As the two pillars of KT&G, labor union and management have created an exemplary labor-management culture based on mutual understanding, trust and harmony, which has enabled us to stay strike-free since 1989 when we changed the company name to Korea Ginseng & Tobacco Institute.

SangSang Junior Board Organizational Culture Campaign



Average Female Employee Tenure



16.0 years

* Based on full-time employees and as of 2023

Status of Labor Union Membership



No. of members

3,698 persons

Membership rate

100%

* As of December 31, 2022, based on the subjects to membership²⁾

²⁾ Full-time employees, excluding those who are subject to exclusion under the Labor Union and Labor Relations Adjustment Act (executives and managers who work for the employer regarding matters concerning the employer, managers of the business, or workers of the business, and those who work in the departments of human resources, audit, business management, legal affairs, etc.)

¹⁾ Unlike company unions established on a single business or workplace basis, a nation-wide trade union unites workers in the same industry across the country

EMPLOYEE DIVERSITY AND INCLUSION

Cultural Diversity Operating multiple overseas subsidiaries and branches, KT&G embraces cultural diversity as a global company to pursue the successful glocalization. We provide opportunities for our employees to grow into leadership roles at local subsidiaries and offer programs focused on capacity building and cultural adaptation.

Nurturing Core Talent for Global Mobility I Since 2016, KT&G has invited highly skilled employees from our overseas subsidiaries to Korea and has run educational programs to deepen their understanding of global business and culture while enhancing key skills in production, sales, marketing, global leadership, and loyalty. One notable activity is our Young Motivation program, which has been increasing retention among new employees in the Indonesian subsidiary. In 2023, the focus shifted from short-term invitation training to a strategic Global Mobility approach, aiming to develop the next generation of global leaders and specialized experts. Additionally, with the introduction of the ERP system to enhance the efficiency of enterprise resource management, core locally hired personnel were invited to Korea to conduct training programs for successful system implementation.

All overseas subsidiaries run onboarding programs that help new hires develop job skills, adapt to our company culture, and understand KT&G Group's business operations. These include training in sales, marketing, negotiation, communication, and the KT&G Way of organizational conduct. Our headquarters has established the overseas subsidiary LMS (Learning Management System)¹⁾, G-KISS, to develop and provide key training content. Additionally, to align training at overseas subsidiaries with the organization's vision and strategic direction, training managers from each subsidiary and headquarters collaborate closely through monthly video meetings

"Global Zoom-in" – Card News to Introduce Global Business and Culture I To enhance the understanding of global markets and business expansion among all employees and establish a global mindset, KT&G has been expanding related communications. Since 2023, KT&G has been operating the new Global Zoom-In content, sharing card news format information about the culture and related business of countries with local subsidiaries and branches to our employees. Video content, such as talk shows featuring employees with expatriate experience, shares real cases of encountering cultural diversity locally. Through this, not only is the understanding of the business enhanced, but also the understanding of colleagues and cultural regions, aiming to create an inclusive culture that works together with colleagues from various cultural backgrounds.

Consideration for the Socially Vulnerable KT&G strives to fulfill its social responsibility by providing fair opportunities to employment-vulnerable groups without discrimination and contributing to solving unemployment issues. We recognize conflicts that may arise in the employment expansion process for socially vulnerable groups as a company-wide issue, not an individual one, and promote integration among employees through on-the-job mentoring systems.

To expand employment for socially vulnerable groups, KT&G operates systems for hiring high school graduates and rehiring retirees while actively working to increase employment opportunities for disabled persons and beneficiaries of veteran affairs, including their families. Open recruitment allows these individuals and their family employees to apply at any time, and when there is a recruitment need, these candidates are recommended to the respective business departments to facilitate their employment. This initiative reflects our company's commitment to providing stable jobs for disabled persons and veterans, including their families and enhancing their social participation. Additionally, a bonus point system is operated for disabled persons and veterans, including their families, throughout the recruitment process. From document screening to interviewing, their information is processed blindly to eliminate biases from evaluators, and bonus points are added to their scores. This aims to provide fair opportunities to disabled persons and veterans, including their families, and create an environment where they can demonstrate their capabilities.

Moving forward, KT&G will continue to strive to promote employment for employment-vulnerable groups as a socially responsible corporation. Through non-discriminatory hiring, providing fair opportunities, and continuous support, we do our utmost to help more employment-vulnerable groups realize their dreams.

Support and Education for Prospective Retirees I To help employees plan their second life after retirement, KT&G supports them in preparing for entrepreneurship or job changes through the "job change support" system during their tenure and conducts education once every half year for retirees scheduled for that year as part of our continuing tailored support for our employees.

Re-employment Status of Retirees

| 2021 | 2022 | 2023 |
|------------|------------|------------|
| 41 persons | 33 persons | 15 persons |



"Global Zoom-in" card news



Young Motivation

¹⁾ A system that manages attendance, progress, results, etc. online

I. EMPLOYEE DIVERSITY AND INCLUSION

II. Strengthening Employee Communication

Improvement of Organizational Culture

KT&G CI (Culture Index) Diagnosis | KT&G strives to create an advanced global organizational culture by listening to our employees' opinions and reflecting them in management. In 2020, to systematically manage the organizational culture, KT&G developed the KT&G Culture Index (CI), which consists of four areas - corporate vision, leadership, work methods, and employee relationships. A diagnosis of the organizational culture status was conducted, and based on the feedback received, various programs have been planned and implemented. Based on the initially designed CI, KT&G plans to continuously update the CI to reflect global trends and internal issues, aiming to conduct an effective organizational culture diagnosis. Through this, we continuously analyze the current perception levels of our employees related to our internal organizational culture and its changes, thus driving systematic improvements in organizational culture.

Organizational Culture and DEI Integrated Diagnosis Design | To raise internal awareness about DEI, in 2022, KT&G expanded and restructured the "Employee Relations" area of the existing KT&G CI into the "DEI" area. The organizational culture diagnosis now includes elements such as job satisfaction, goals, happiness, stress, trust, and DEI. The results of the diagnosis not only pinpointed the current DEI status and areas for improvement within the organization but also served as a catalyst to propagate the DEI culture within the organization through the diagnostic survey itself. DEI slogan selection and employee pledges were also conducted, taking into account both internal and external interest in DEI. Based on these CI updates and subsequent activities, KT&G is committed to continuously developing our organizational culture by incorporating DEI.

Employee Communication Programs

Employee Relations | In April 2021, we reorganized our dedicated internal communication department, which had been operational since 2015, into the Employee Relations (ER) Team to foster an advanced global organizational culture. The ER Team is dedicated to creating a conducive work environment where each employee can develop positive relationships with their work, colleagues, and the company. The Team drives initiatives like family-friendly management, the application of smart work methods, and the development of integrative content for employees. Particularly from 2023, they have initiated a CEO town hall and casual meetings based on a culture of horizontal communication between management and employees, aiming to enhance our organizational culture.

Inter-generational Communication Culture | To foster understanding across generations and organizational levels, KT&G has been hosting engaging internal competitions with content accessible to all employees, aiming to cultivate an "All Together" organizational culture. Since 2022, the Funstaurant cooking competition has been promoting interaction and engagement among employees. The winning dishes from Funstaurant are featured as special items in our company cafeteria, enhancing communication with employees who did not participate in the competition. In 2023, KT&G also launched "Vision! Golden Bell," a quiz-based event focused on understanding future visions and generational differences. Furthermore, KT&G actively produces and shares various content like Baek's Café that allows employees to appreciate the diversity of their colleagues naturally. We also continue to find opportunities to directly engage with our employees' voices through offline engagement programs like ER Day. Looking ahead, KT&G is committed to creating spaces for harmonious interaction and developing a flexible organizational culture by introducing a diverse array of content in a timely manner.

Employee Cheer-up Programs

| | | |
|--|------------------------------------------------------------------------------------------------------|------------------------------------------------------------------------------------------------------------------------------------------------------------|
| | "Celebration/Cheering/Care" program considering the times and diversity into consideration | In order to take care of employees and their families by life cycle, we operate a family-friendly program. |
| | "ER Day" program to visit and cheer employees in person | Along with food trucks and minigames, we run ER Day, a program that directly visits and cheers employees across the country in person. |
| | "KT&G Fun Restaurant" program aimed at employee convergence | We operate the KT&G Fun Restaurant, a cooking contest that aims to improve the company atmosphere by getting employees together and providing attractions. |



Results of the KT&G CI Diagnosis in 2023

The 2023 KT&G CI diagnosis was conducted by an external professional firm, ensuring the reliability of the CI structure and its result analysis, and yielded meaningful KT&G CI diagnosis outcomes. Based on the CI diagnosis results, responsible departments have been devising and implementing plans for various organizational culture improvement activities. For example, to enhance internal information flow, KT&G has launched the KT&G WIKI platform, an aggregation of various types of information including department-specific FAQs and company PR content. To improve the reporting and meeting culture, unnecessary meetings are being streamlined, and reporting materials are being focused on core content, aligning with the CEO's management directives and spreading a company-wide message. Smart TVs have also been introduced in pilot agencies. Additionally, efforts such as campaigns to improve our company dining culture and enhancements to the welcome kit for the onboarding program of experienced hires are among the ways organizational culture is being refined based on employee feedback. Moving forward, KT&G aims to continuously create a better workplace culture through effective follow-up activities based on the results of regular organizational culture diagnostics.

ATTRACTION OF TALENTS AND CAPACITY BUILDING

Core Talent Attraction and Development Strategy

Talent Attraction and Development Philosophy

Directions and Strategy for Talent Attraction | KT&G is establishing effective talent acquisition and maintenance strategy according to talent type and scale needed to acquire talents corresponding to the talent concept represented by "I am C.E.O(Challenge, Execute, Optimize)," based on which the company conducts customized screening for each recruitment position and field. We are strengthening our job and competency-based recruitment strategy by shifting from regular recruitment-oriented recruitment to occasional or career-oriented recruitment, and we are conducting more objective and fair recruitment based on comprehensive results on the applicant's competency and suitability for the application field through the introduction of AI interviews. Also, when we proceed screening, we are preventing unreasonable discrimination by introducing and managing blind recruitment process in which evaluators are not provided with the information that can work as discriminating factors not related to jobs in recruitment process, such as applicant's gender, age, or region, evaluating and hiring talents based on the applicant's job suitability. Moreover, we are strengthening rationality and effectiveness of our recruitment system by continuously collecting opinions regarding recruitment improvements from applicants and successful applicants and actively reflecting the feedback.

In order to achieve the mid-to long-term global vision along with the growth of its core business, KT&G established the HR Innovation Department, G-HRM Team, and G-HRD Team under the HR Office of the Management Support HQ to help its employees secure the highest level of global expertise and mindset. We are advancing global HR policies and processes in line with the company's global business expansion and driving the balanced growth of the global business through the establishment and operation of systematic HR governance based on "One Company."

CDP-based Talent Cultivation and Evaluation | KT&G manages and fosters human resources in accordance with career development program (CDP) plans for its employees and is conducting performance and competency evaluations with a focus on jobs. We encourage our employees to create synergy by aligning their growth goals with the company's HR nurturing plan to achieve the company vision. By supporting each employee to set and implement goals for his or her career development, we are striving to increase the growth and organizational value of employees at the same time.

Employee Evaluation and Compensation System

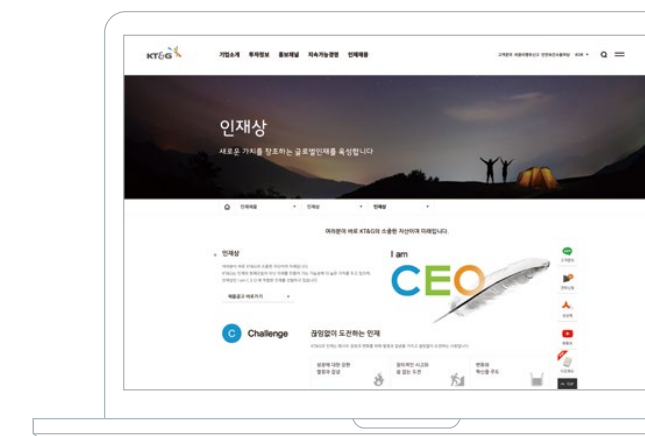
Fair Performance Evaluation | In order to conduct objective and fair work evaluation, KT&G is operating an absolute evaluation system that does not place restrictions on top scorers. Rather than measuring the performance of employees competitively, the absolute evaluation system promotes mutual collaboration and employee growth, thereby enhancing the performance of the entire organization and promoting a cooperative work culture. In addition, we operate an evaluation committee to prevent biased evaluation by a small number of evaluators, and we are working to ensure that the evaluated subject can accurately recognize and accept the evaluation results through an objection system.

The performance and competency evaluation requires employees to take the initiative in setting their own goals, encourages frequent coaching and interviews applying agile approaches to performance management and job coaching to allow flexible performance assessment and makes the team managers provide feedback at least quarterly. In addition to conducting individual evaluations of employees, we are conducting performance assessments on the team level and conducting fair evaluations and compensation in terms of organizational and individual performance in connection with the compensation system. Based on this system, performance and competency evaluations are conducted every year for all employees in Level 1 or lower, and all employees subject to the evaluation have completed the evaluation for four consecutive years as of 2023.

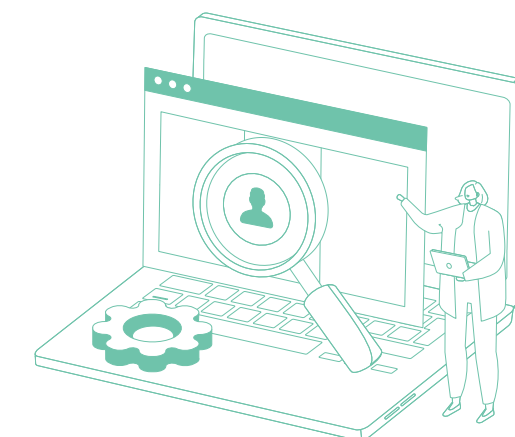
KT&G conducts multidimensional evaluation for managers and middle managers. We are striving for a more objective and fairer evaluation through 360-degree feedback by collecting opinions on the evaluated subject from various employees such as colleagues and subordinates as well as the evaluation of the supervisor. Through multidimensional evaluation, we identify individual strengths and weaknesses, and use them as an opportunity to supplement and develop deficiencies, and we support mutual understanding through smooth and flexible communication between employees, away from each other's positions. Through the operation of this system, consequently, we are promoting the growth and development of both individual employees and the company.

Fair Compensation | KT&G is operating a fair compensation system based on job value and job performance. Job grade is classified by degree of complexity and competency level is match based on job skill level by grade to determine wage based on job function. Individual incentive rate is set based on work performance of the previous year, which is then used to calculate performance payment for an improvement in the compensation structure.

Profit Sharing System | KT&G has set in place a profit-sharing system in which a certain portion of the company's profits are shared with its employees under labor-management agreements. The system is aimed at enabling our employees to have a sense of pride and helping them contributing to creating corporate performance with great work engagement towards a common direction.



Model People of KT&G
KT&G Recruiting Guide



I. ATTRACTION OF TALENTS AND CAPACITY BUILDING

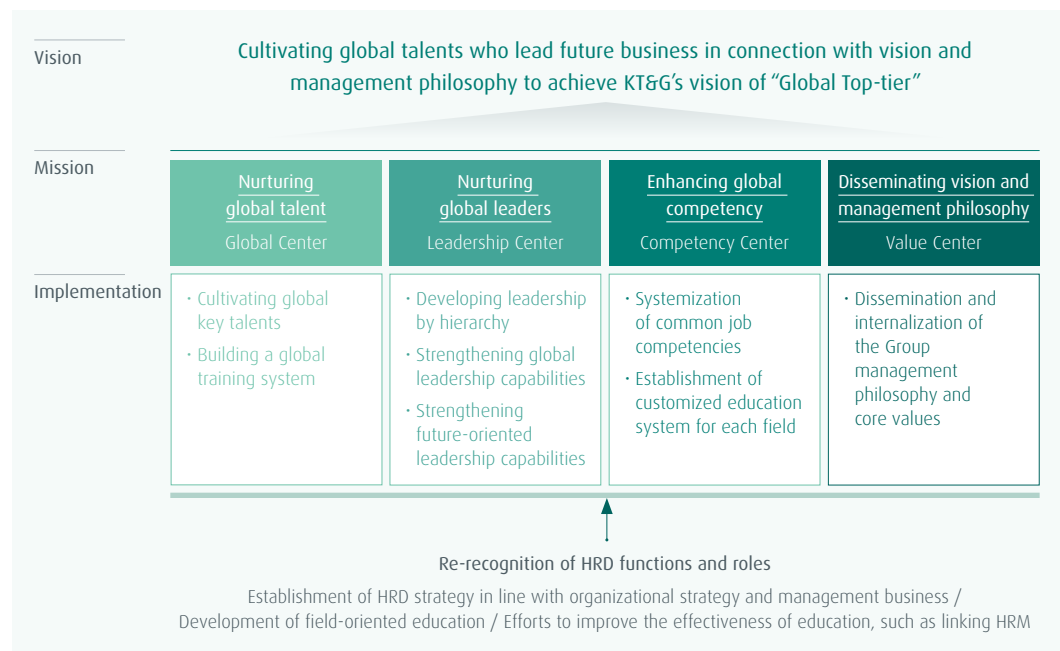
II. Programs to Attract and Nurture Core Talents

Talent Nurturing Aligned with the Company Strategy KT&G is focused on fostering experts to implement its main strategy of the advancement of the overseas tobacco business to realize its vision of becoming a global top-tier player. In addition, we are reorganizing and strengthening the education system to allow its employees to strengthen their expertise and understand and develop insights into the global market at the same time. To this end, we endeavor to nurture human resources required for global business by planning and running education programs designed to strengthen the competencies required for each stage and area of global business.

Employee Education System KT&G's education system is divided into common training, leadership training, and job training. Common training, which includes KT&G Way training and common job competency training, allows employees to learn more about organizational values and build basic competency needed to do his/her job.

Leadership training is based on role and responsibilities (R&R) by hierarchy with the goal to bolster leadership competency and cultivate future leaders. Job training offers customized courses by area and diverse learning contents with the goal to strengthen job expertise. KT&G also develops and operates separate training programs for expatriates and local employees of its overseas subsidiaries to customized HR cultivation for global business.

KT&G Talent Nurturing Strategy



Common Training



Core Value Training

Training on KT&G Way, which is the corporate value structure, and core values are provided by grade. KT&G runs value internalization and practical courses for new employees and a core value refresher course for all its employees.

Business Management Training

KT&G develops and operates its training system that links strategic thinking and business communication to improve the strategic planning ability of group employees. This training program is subdivided into beginner, intermediate, and advanced courses, each of which is linked to help trainees understand the Group's strategy and strengthen their strategic way of thinking.

Leadership Training



KT&G is building a global leadership model based on its position to flexibly respond to different organizational cultures in other regions and countries and to train people who can actively respond to changes in the global business environment in KT&G's unique corporate culture.

To this end, we have established a two-way leadership model and a business-oriented leadership system for communication between leaders and employees, and are operating new manager leadership, junior leadership, and core leadership programs for managers. Regarding global business, we are promoting a leadership development program for expatriates considering the business environment of the local market. In addition, in order to enhance the adaptation of new employees, including experienced employees, we are supporting the development of leadership of employees by organizing new employee training so that they can understand the vision and management strategy of the organization.

Job Training



KT&G provides job competency development guide to each HQ in order to clearly define competency required for job based on which to set and execute job training in an organized manner. Based on this, Human Resources Development Institute provides customized in-depth job training programs for each headquarters. Recently, we have planned and operated a global manufacturing master course and a global marketing master course to strengthen our global expertise in line with the strategic direction of the company focusing on the global business. In addition, we operate an Expert (Audit, Leaf) program, a job expert course, to continuously strengthen our work capabilities.

Global Training



Expatriate training

KT&G broadly separates expatriates into candidate groups and dispatch groups, classifies the necessary training for each group, and provides training designed to help them prepare for their work in advance. The training program for candidate groups is composed of language study, understanding global business, and strengthening global job competencies so that they can develop the necessary skills as persons who will lead global business for 6-24 months. For dispatch groups whose dispatch to overseas subsidiaries has been confirmed, the training program is linked to practical business training to help them adapt quickly to their work once they are dispatched.

Training for local employees of overseas subsidiaries

As its global business is expanding, KT&G strives to support the local employees of each overseas subsidiary by organizing training programs with a focus on core values and common competencies so that they can understand KT&G and acquire the basic competencies required to perform their jobs. KT&G also invites key employees at overseas subsidiaries to Korea and gives them an opportunity to increase their loyalty to the organization and establish a vision.

ATTRACTION OF TALENTS AND CAPACITY BUILDING

Business-linked Training

| Category | Global Business Expansion Training | R&D Patent Week |
|--------------------|-------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|----------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|
| Training | <ul style="list-style-type: none"> KT&G is conducting various overseas business competency training programs with the aim of expanding and accelerating its global business. CoE Training - In promoting global business, we operate language learning and global business education programs so that the CoE (Center of Excellence) of each functional organization can generate results. Expatriate Training - We operate pre-dispatch training consisting of language and culture so that the expatriates who are scheduled to be dispatched can be quickly optimized. For returning expatriates who have been dispatched, we are supporting them to adapt to their return work, while also capitalizing on the knowledge acquired during dispatch assignments through interviews, etc. Local Employees Training - KT&G is conducting core values and basic competency training of Global KT&G by running an on-boarding program for new local employees. In addition, we are striving to strengthen the capabilities of local personnel by running the Young Motivation Program, an invitational training program for Korea, on a yearly basis to continuously secure local key personnel and strengthen their capabilities. | <ul style="list-style-type: none"> KT&G is actively conducting patent development as well as product research and development to build a leading position in the industry and enter the global market, and encourages its employees to invent their jobs through the training operation of the R&D Patent Week every year. R&D Patent Week - In order to encourage employees to invent creative jobs and strengthen their capabilities on intellectual property rights, we have been operating 'R&D Patent Week' since 2021. In order to specify fresh ideas of employees, we will conduct education on intellectual property theory, invention strategy, and education on the status of disputes and R&D trends of other companies, and select excellent inventions through the research and discussion process. In addition, we support additional consulting and concrete processes so that employees' invention capabilities can be strengthened, and ideas can be applied for patents. |
| Goal | <ul style="list-style-type: none"> KT&G is promoting the expansion of global education to foster CoE, a management control tower for overseas subsidiaries, and strengthen the capabilities of overseas subsidiaries for the growth of its global business, one of the core businesses for its 2027 New Vision. | <ul style="list-style-type: none"> KT&G aims to strengthen corporate competitiveness, create technological advantages, and create business opportunities by providing training on the creation and protection of intellectual property rights for the company and its employees. |
| Business Impacts | <ul style="list-style-type: none"> Based on intensive employee training for overseas business capabilities, the company achieved sales of KRW 1,139.4 billion in overseas tobacco business in 2023 (KRW 110.6 billion increased from the previous year). Established a foundation to achieve the KT&G DEI mid-to long-term goal by recording 26.0% in locally-hired employees among the management and persons in duty in 2023. | <ul style="list-style-type: none"> 112 cases of patent applications completed through the R&D Patent Week from 2021 (49 cases in 2023) Secured technology related to conventional cigarettes, NGP-related technology and new platforms, smart farms, etc. |
| Number of Trainees | <ul style="list-style-type: none"> 20 people for the 2nd Class of Young Motivation Program More than 100 people in total participated in the onboarding program | <ul style="list-style-type: none"> Approximately 70 people in total |

Self-directed Competency Development

KT&G flexibly employs diverse teaching methods to provide customized learning for its employees, such as face-to-face/non-face-to-face, outsourced education, regular e-learning, and micro-learning, etc., depending on the purpose and characteristics of the education. We also provide tools for diagnosing employees' competency for each job in order to strengthen their self-directed competency, and designs and implements a competency development roadmap and learning process according to the results of the diagnosis. Our regular e-learning program consists of about 1,200 courses, such as reading communication and telephone English, to help individual employees develop their competencies, and employees are allowed to apply for and study up to two courses every month. KT&G also supports employees in their efforts to improve their competencies by continuously identifying their needs and providing the necessary training, as a way to organize customized training programs based on the company's management policies and employees' needs.

Understanding ESG Management

KT&G aims to increase its sustainability by providing education on the concept and trends of ESG to help employees understand the essence of ESG management, and by realizing a society centered on "people," "future" and "happiness" so as to keep pace with the company-wide policy of promoting and enhancing ESG management. KT&G also plans ESG training for local employees at its overseas subsidiaries.

Employee Training Satisfaction

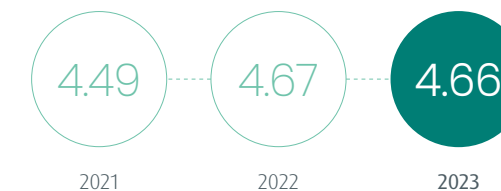
KT&G conducts a survey of its employees' satisfaction with education and training every year, and continuously supplements and improves the training programs based on the results.

Training to Improve the Competencies of Employees of the Group Subsidiaries

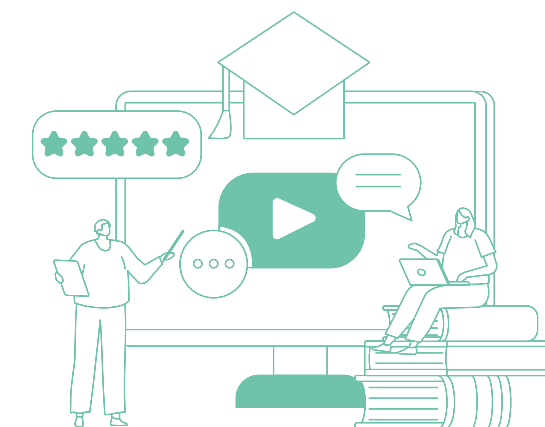
KT&G has been running the Group Business Competency Reinforcement Course for the employees of the Group subsidiaries since April 2023 in a bid to enhance the Group's business synergy and to manage and nurture core talents at the group level. This training course aims to help key talents to identify and establish action strategies necessary for securing future growth engines for the Group, by understanding the current status of each group business and the comprehensive mid-to-long-term strategic direction. KT&G provides a three-step learning course (common education, specialized education, and task execution) to effectively operate the program, and enhances trainees' participation and immersion in their learning activities by organizing training contents centered on internal/external professional instructors.

Employee Survey on Training Satisfaction

(Unit: Point)



* Based on a 5-point scale



WORKPLACE SAFETY AND HEALTH

Safety and Health Management System

Safety and Health Management Principles and Goals KT&G establishes an incident rate target and strives to achieve it in order to ensure the safety of all employees and stakeholders and reduce incident occurrence. To this end, we manage the average incident rate including minor incidents; this is more stringent than the government's incident rate index, which is calculated based on the approval of industrial incidents. In addition, we are promoting continuous risk factors and risk reduction activities aimed at zero major disasters.

KT&G Safety & Health Management Principles

KT&G Corporation pledges and acts as follows in order to preserve health and happiness of all executives and employees and maximize values of the Company and every member of the Company by deeply recognizing that safety and health is the basic element of business management, rooting down business management system around safety and health and engaging in continuous improvement and preventive activities, thereby rise into the leading global company.

1. KT&G strives to prevent incident and health hazards by providing safe and pleasant environment to all executives, employees and stakeholders.
2. KT&G establishes and implements internal regulations that satisfy laws related to safety and health and other requirements in good faith.
3. KT&G provides appropriate resources to improve safety and health and nurtures safety mindset of executives and employees and their capabilities in acting in safe behavior through training, thereby encourage their proactive engagement.
4. KT&G continuously engages in activities to reduce hazards and risks by evaluating impact on safety and health in advance, establishing goals and implementing action plans.

Mid-to Long-term Safety and Health Strategy

| Category | 2024 | 2025 | 2026 |
|------------------------------------------------------------|--------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|---------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|
| Prevention of Industrial Accident and Fire Risk | <ul style="list-style-type: none"> Improve legal hazardous mechanical equipment protection system Update fire protection system and establish standards for each management target Establish management system of overseas subsidiaries | <ul style="list-style-type: none"> Review the on-site application of foolproof systems for high-risk facilities to prevent major accident Establish fire prevention standards for fire hazard facilities and places Establish support and collaboration system for overseas subsidiaries | <ul style="list-style-type: none"> Establish LOTO (Lock Out Tag Out) system Establish smart fire management system Advance to globally integrated management, etc. |
| Promotion of Countermeasures against Occupational Diseases | <ul style="list-style-type: none"> Establish an occupational disease response system and review the working environment improvement | <ul style="list-style-type: none"> Review the establishment of health promotion and occupational disease prevention system | <ul style="list-style-type: none"> Health care activities for workers using JEM (Job Expansion Matrix) |
| Safety and Health Empowerment | <ul style="list-style-type: none"> Review safety culture diagnosis and improvement plan Establish SHE IT system (prioritized places such as plants) | <ul style="list-style-type: none"> Review the safety culture settlement plan Expand SHE IT system (general business areas such as sales) | <ul style="list-style-type: none"> Re-evaluate the status of establishment of safety culture Review the application of SHE IT system to overseas subsidiaries (global integrated system) |

Safety and Health Incident Rate Target



Plan to reduce incident rate from 2024

6.4% reduction every year

Plan to achieve the lowest incident rate in the same industry (based on the Korean Standard Industrial Classification)

0.35% by 2033

* Established new accident rate targets by expanding accident identification coverage, including minor industrial accidents, and enhancing accident criteria. To be applied from 2024.

Safety & Health Management Policy



WORKPLACE SAFETY AND HEALTH

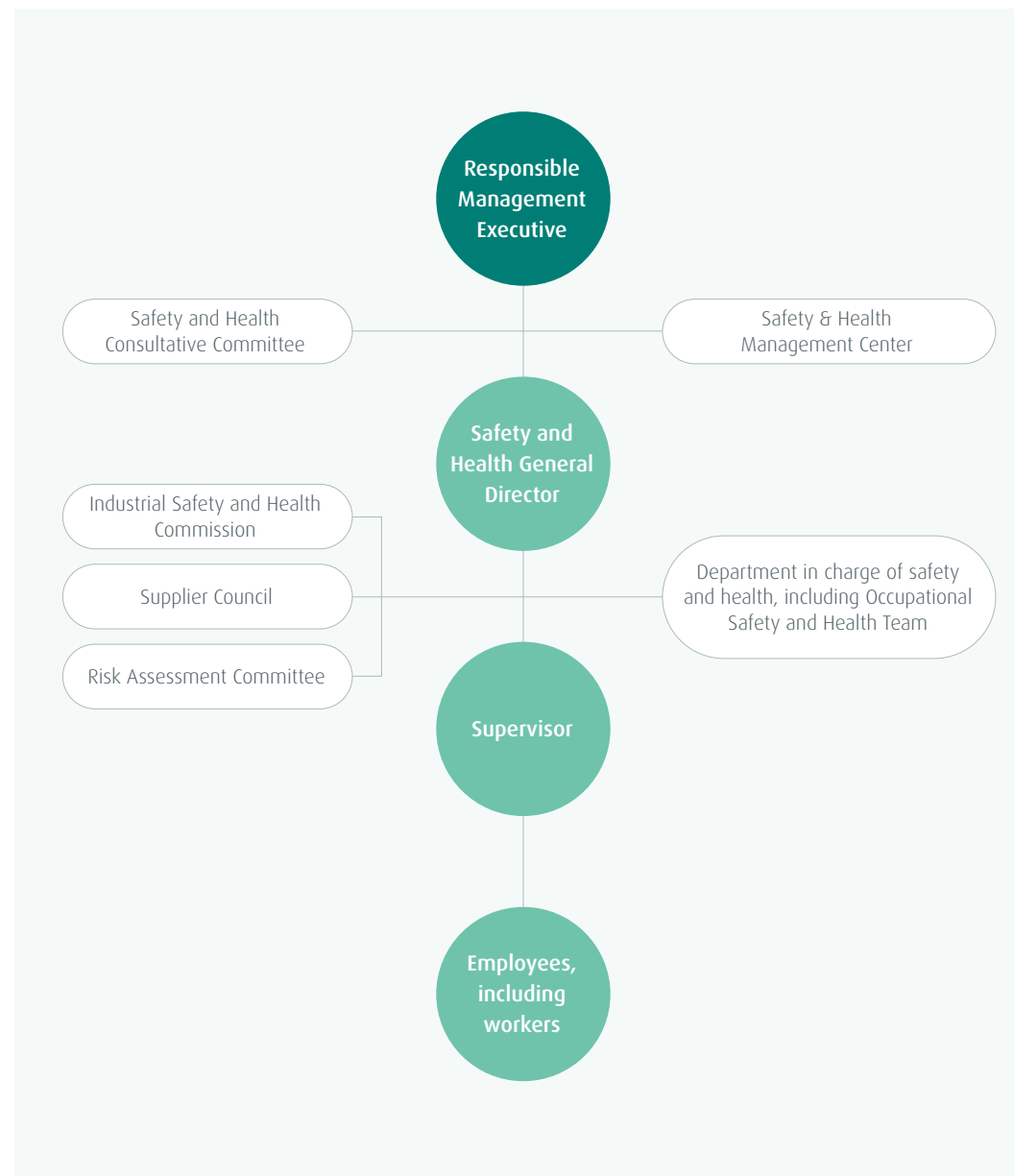
Safety and Health Organization and Roles KT&G reorganized the safety and health management system for each organization (HQs in head office, plants, regional sales offices, etc.) under the management executive (Overall Control Division) and newly established the Safety & Health Management Center¹⁾ as a company-wide exclusive organization in 2021. Safety and health governance was efficiently operated through the operation of Line/Staff organization to ensure speed of communication and organizational expertise. In addition, as a result of recruiting four professionals in 2023, a total of 36 professionals and 29 safety and health managers are currently active, and organizations such as plants, R&D HQ, and Regional Sales Offices with high risk of disasters have implemented measures to strengthen management such as the organization of the occupational safety and health team and consignment management of specialized companies to ensure disaster prevention activities.

In addition, the Industrial Safety and Health Commission (business sites with more than 100 regular workers, once a quarter) and the Supplier Safety and Health Consultative Body (such as contractors and service contract sites, once a month) participated by subcontractor workers are established and operated to listen to workers' opinions and deliberate and decide on major safety and health agendas. Furthermore, in order to listen to and improve the opinions of ordinary citizens, we are operating a bulletin board for safety and health communication on our website, verifying the safety and health management system through expert advice from the Safety and Health Consultative Committee, preventing potential disaster risks in advance, and actively communicating with various stakeholders such as securing expertise and reliability in safety and health prevention activities, and reflecting the opinions derived in our policies.

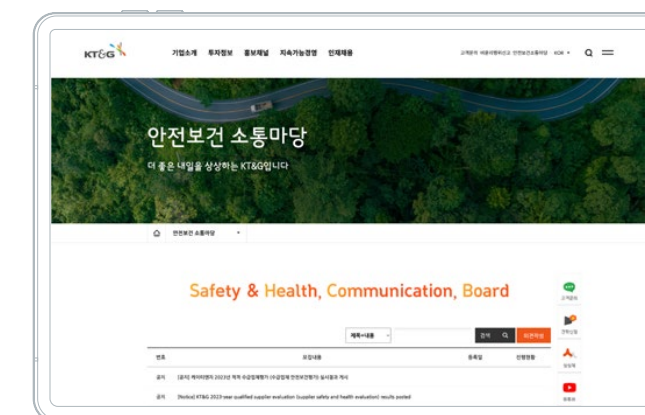
KT&G's major operational status and plan for the safety and health management system formalizes the management's commitment through reporting and approval by the board of directors every year, and actively conducts activities to identify and improve harmful risk factors to protect the safety and health of workers and stakeholders related to the company, and strives to ensure the safety of management activities by complying with safety and health related laws such as the Serious Accidents Punishment Act.

| Category | HQs and Groups in Head Office | Plants | Regional Business HQ |
|----------------------------------|-------------------------------------------|--------------------------------------------------------------------------|-----------------------------------------------------------------------------------|
| Responsible Management Executive | Responsible Management Executive | | |
| Line | Safety and Health General Director | HQ Head, Head of Group | Head of Plant |
| | Supervisor | Director, Team Leader, Head of a Research Institute, Head of a Center | HQ Head |
| | Department in Charge of Safety and Health | Head of Safety and Health Management Center | Director of Sales, Branch/Shop Manager, SangSang Team Leader, DPS Center Director |
| Staff | Safety and Health Manager | Person in Charge for Real Estate, Sustainability, Manufacturing, R&D HQs | Occupational Safety and Health Team |
| | Safety and Health Personnel | Personnel by HQ | Personnel by HQ |

Safety and Health Organization Chart



Safety, Health, Communication, Board



¹⁾ In March 2024, organization name has been changed from Safety & Health Management Office to Safety & Health Management Center.

I. WORKPLACE SAFETY AND HEALTH

Safety and Health Risk Management KT&G manages safety and health according to a safety and health management system that is subdivided into 13 items based on relevant laws and regulations and is composed of the P-D-C-A cycle. Moreover, in order to systemize the management standards, we are operating 15 private regulations by enacting and revising them, and we plan to upgrade the safety and health management system through additional enactment and revision.

The Safety and Health Management Center has been conducting company-wide safety and health management system implementation inspections once every half-year since 2022 to diagnose the implementation status of the safety and health management system. These inspections verify the proper implementation of the safety and health management system, compliance with safety and health-related laws and regulations, and accident prevention activities. The results are reflected in the organizational performance evaluation. In the case of five plants (Daejeon, Yeongju, Gwangju, Cheonan, and Gimcheon), ISO 45001 certification for the safety and health management system was obtained in 2021 and has been continuously maintained since then, and efforts are being made for external verification and system settlement.

ISO 45001 Certification



- ➔ Targets (Plant) Daejeon, Yeongju, Gwangju, Cheonan, Gimcheon
- ➔ Initial certification May 26, 2021
- ➔ Expiration date May 25, 2027

Safety and Health Management System

Plan
(4 items)

- Establishing safety & health goals and management policies
- Forming an organization and experts dedicated to safety & health
- Establishing procedures for improving harmful risk factors
- Compiling safety and health budgets

Do
(6 items)

- Establishing and implementing measures to prevent recurrence
- Developing manuals and providing training to respond to urgent risks
- Evaluating legal manager's performance
- Securing safety & health when contracting with a third-party
- Listening to workers' opinions
- Implementing safety & health training

Check
(2 items)

- Fulfilling the obligations stipulated in safety & health-related laws and regulations
- Checking the implementation of the safety & health management system

Action
(1 items)

- Implementing improvement and corrective measures instructed by the administrative agency

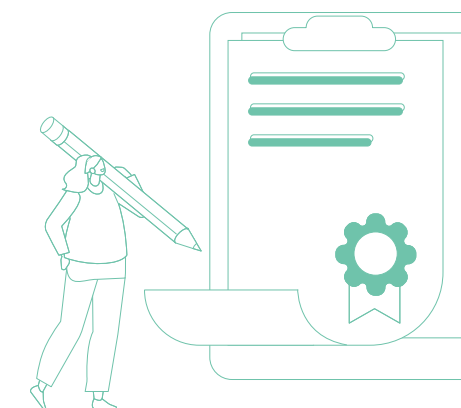
Status of Company Regulation as of 2023

| Category | Company regulation name |
|-----------------|-------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|
| Regulation (1) | Safety & health management regulations |
| Guidelines (12) | Guidelines for managing disaster reporting and reoccurrence prevention measures, Guidelines for identifying and improving hazard risk factors, Guidelines for safety work permit, Guidelines for complying with safety and health-related laws, Guidelines for safety and health (general) manager and management supervisor work, Guidelines for fire management, Guidelines for prior safety/regulation evaluation, Guidelines for managing confined space, Guidelines for managing materials for Material Safety Data Sheet, Guidelines for safety and health management upon contract, Guidelines for machinery/facility safety protection, Guidelines for urgent risk response |
| Manuals (2) | Overseas resident's manual for infectious disease prevention and management, Manual for payment of medical expenses and non-benefit amount in the event of an occupational accident |

Inspection on Implementation of Safety & Health Management System

| Category | Target | Period | Inspection items |
|---------------------|-----------------------------------------------------------------------------------------------------------|-------------------------|------------------------------------------------------------------------|
| First half of 2023 | Entire organization (HQs in head office, plants, regional sales offices, subordinate organizations, etc.) | Apr. 24 - May 17, 2023 | • Safety and health management system and compliance with related laws |
| Second half of 2023 | | Oct. 30 - Dec. 01, 2023 | • On-site safety and health management |

* Currently conducting the safety and health management system implementation inspection for the first half of 2024



I. WORKPLACE SAFETY AND HEALTH

II. Safety & Health Activities and Performance

III. Securing Facility and Work Safety

Measures to Ensure Facility and Work Safety | In order to ensure safety in advance and prevent omission of legal licensing matters, KT&G has established and operated a preliminary safety regulation evaluation guideline consisting of 20 areas, including safety, health, and firefighting, in order to prevent changes in the workplace environment due to dangerous facilities such as installation of facilities and buildings. In addition, measures are being taken to protect workers from dangers of facilities by enacting safety protection guidelines for machinery and facilities. In 2024, we plan to reassess the safety of protective devices through inspections of legally hazardous and dangerous machinery, equipment, and high-risk facilities.

Safe Work Permit System | KT&G operates a permit system through the “guidelines for safety work permit” for safety measures to be checked during hazardous work and is implementing measures to eliminate risks. If there is no permission for safety in the case of fire, sealing, power outages, excavation, radiation, high place work, or heavy equipment work, the work is prohibited to prevent exposure to dangerous work. In addition, as an additional safety measure for contractors, “guidelines for safety and health management upon contract” are established to select eligible contractors and comply with industrial accident prevention measures that contractors and contractors must follow.

Enhancement of Risk Assessment | KT&G is operating a risk assessment system as a business procedure to identify harmful risk factors in the workplace in advance, evaluate the risk, and manage and improve the risk. We evaluate the risk by estimating the likelihood and severity of the occurrence of injury or disease, and we establish an improvement plan to minimize the risk by selecting the target in need of improvement and implement supplementary measures. In addition, after supplementary measures, the appropriateness of measures is reviewed through re-evaluation. Workers are involved in the entire process of identifying and improving harmful risk factors to reflect them in the risk assessment, and approval is being made through the risk assessment committee to see if the risk is properly evaluated and improved.

Implementing Measures to Prevent Recurrence | In the event of work-related accidents and diseases, we are closely investigating the cause of the accident and implementing measures to prevent recurrence along with the management manager's report. In accordance with the “guidelines for managing disaster reporting and reoccurrence prevention measures” established in 2022, we are carrying out fundamental accident prevention activities by identifying the cause through disaster analysis and implementing horizontal deployment measures after delivering disaster cases to prevent the recurrence of similar tasks.

Introduction of the Health and Safety IT System | KT&G is responding more systematically to related risks by establishing an integrated management system based on the safety and health IT system, improving and simplifying the efficiency and simplifying safety and health management work, and checking and checking the current status of the company.

Incentives to Encourage Health and Safety Risk Management | As a result of double materiality assessment conducted in 2023, the issue of “safety and health across the value chain” has been identified as a negative impact in social and environmental aspects and a financial risk factor for the company. In response, KT&G proactively included the “safety and health management” in the performance evaluation indicators for each organization since 2022 to provide a safe and healthy working environment for its employees and to promote a culture of safety and health risk management. The results of the “safety and health management” organizational performance evaluation are reflected in determining the size of incentives for each organization, and this is also linked to the incentives for executives and employees. In addition, we are striving to encourage management activities by operating an additional reward system for organizations and employees with excellent industrial accident prevention activities.



Status of Health & Safety IT System Management



Safety management
Safety work permit, risk assessment, incident management, emergency training, etc.



Health management
Material Safety Data Sheet registration, personal health management data, etc.



Chemical substance management
Status of chemical substances, review of laws when introducing chemical substances, etc.



Common field
Training plan and result management, data room operation, etc.



I. WORKPLACE SAFETY AND HEALTH

II. Safety and Health Education and Training

To strengthen workers' safety and health capabilities, KT&G conducts company-wide safety and health training on a regular basis, and additionally conducts safety and health training when hiring or changing work content. Furthermore, separate training is provided to legal appointments and special education targets for differentiated training for each target. We conduct training by subdividing topics such as Material Safety Data Sheet (MSDS), firefighting education, and emergency response training, and continue to provide customized training according to industries such as manufacturing and sales. In addition, we are striving to improve education and prevent accidents by introducing a Tool Box Meeting procedure before work, which conducts work after safety training before the start of work.

III. Emergency Response System

KT&G is operating an emergency response system to cope with operational emergencies such as safety accidents, fires, explosions, power outages, and natural disasters such as earthquakes, floods, and typhoons, and is doing its best to ensure the safety of the workplace and its employees. To minimize the loss of human life and property, we are strengthening our ability to respond to emergencies by conducting evacuation and emergency response drills once a half-year, and we have established and operated a situation-specific damage recovery manual at all workplaces to quickly recover damage in the event of a disaster.

IV. Fire Prevention Activities

Establishing Fire Safety Management System | In order to improve the company's fire prevention capabilities and establish an autonomous fire management system for each institution, KT&G has established and operates the "guidelines for fire management" consisting of standards and measures for the management of fire facilities to protect people and property at workplaces, to minimize risks of fire-related laws and regulations, and procedures to respond to fires. Going forward, we plan to establish prevention standards according to the classification of fire hazards such as combustibles and operate optimized prevention standards according to the characteristics of each business site.

Firefighting Consulting for High-Risk Business Sites | As an activity to minimize damage in case of fire in 2023, evacuation simulation consulting was conducted at Busan SangSang Madang (multi-use facility) and Yeongju Plant (high-risk business site). Reflecting the consulting results, we are improving the evacuation environment to minimize casualties even in case of fire.

Improving Facilities according to the Result of Special Firefighting Inspections | Based on the results of the 2022-2023 special fire inspection, KT&G has established an investment plan for firefighting facilities by 2027 and is carrying out improvement activities. In 2024, we are pushing ahead with a plan to install all sprinklers in warehouses and high-risk places for fire.

Composition of Emergency Response System

| Category | Type | Key Control Points |
|-----------------------|----------------------------------------------------|----------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|
| Workrelated emergency | Fire | <ul style="list-style-type: none"> Prevent leak of hazardous substance Put out fire with speed upon leak of hazardous substance Recover with speed after fire is under control |
| | Fire in the nearby region | <ul style="list-style-type: none"> Observe development in the spread of fire and extinguish |
| | Explosion | <ul style="list-style-type: none"> Prevent various disaster risks such as fire and quickly respond in case it breaks out |
| | Chemical leak | <ul style="list-style-type: none"> Establish emergency planning against leak of chemical substance |
| | Power blackout | <ul style="list-style-type: none"> Establish emergency planning against blackout |
| | Emergency situation related to manufacturing plant | <ul style="list-style-type: none"> Take quick measures as per the situation Collaborate with related organizations |
| Natural disaster | Human disaster | <ul style="list-style-type: none"> Rescue, emergency medical services, and evacuation |
| | Flood | <ul style="list-style-type: none"> Check drainage Communicate situation via emergency network Establish measures against short circuit Move vehicles, hazardous substance containers to elevated place Set measures for gas valve lock and complete extinguishing of boiler Set measures against inundation of real estate |
| | Typhoon, earthquake | <ul style="list-style-type: none"> Set measures related to flood Set measures against disasters caused by wind |
| | Earthquake | <ul style="list-style-type: none"> Establish primary measure against collapse of building and facilities Set measures against secondary damage caused by primary damage of earthquake |

I. WORKPLACE SAFETY AND HEALTH

Establishment of Internal/External Cooperation System

Management of Supplier Safety and Health | KT&G operates a qualified contractor safety and health evaluation system that evaluates the degree of accidents, risk assessment, education and emergency management plans, and safety management cost operation plans to reflect the contractor's safety management capabilities in the contract when a contract or contract is needed with the contractor. Through this evaluation, we confirm the safety management capability and strive to prevent accidents by improving the contractor's own safety management capability through guidance and advice on insufficient areas. In addition, we are doing our best to fulfill the contractor's safety and health obligations, such as joint inspections and operation of a contractor consultative body for the safety management of contractors. In 2023, we established a management procedure by enacting safety and health management guidelines for contracts. The status of receipt and processing of contractor workers' agenda through the contractor consultative body is disclosed annually through the company's website safety and health communication yard.

Safety and Health Advisory Committee | KT&G operates an advisory committee once a quarter to derive potential risks and consult on our own safety and health policies. Using the results of the consultation, we are improving deficiencies and strengthening our workplace capabilities through consulting on vulnerable areas.

Liability Insurance on Severe Corporate Incidents | In order to minimize management risks in the event of suspected serious accidents and to come up with measures to compensate for damages for liability, KT&G has subscribed to corporate liability for serious accidents. We will strive to minimize related risks by providing prompt legal support through insurance, such as conducting active acquittal activities based on insurance and securing factors for reducing the Supreme Court.

Employee Health Management

Health Promotion Programs

Healthcare Room | For the health of its employees, KT&G operates an in-house healthcare room where health managers (nurses) reside and plays a role in health checkups, health counseling, first aid, health education, and work environment improvement. We are fully equipped with essential facilities and equipment in the health care room to ensure the safety and health management of our employees, and we are enhancing the convenience of our employees who use the facilities by providing emergency medicines that can be paid without a prescription.

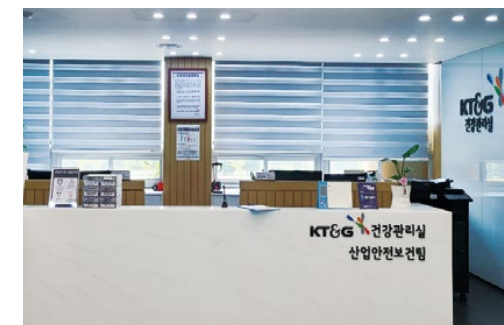
Health Check-up Support | In addition to the health examination under the Occupational Safety and Health Act, KT&G supports the health examination of its employees every year in accordance with the company's welfare guidelines, and strives to manage the safety and health of its employees by conducting special health examinations for workers exposed to harmful factors (noise, night work, hazardous substances, etc.). In addition, after the examination is completed, we analyze the results of individual examinations to educate them on the prevention of occupational diseases, diet, and exercise methods, and focus on the follow-up management of those found. In addition, to strengthen the follow-up management of health check-ups and improve the convenience of employees, we establish a health check-up IT & mobile system and efficiently operate tasks such as real-time reservation, inspection status, and follow-up management results with the IT system to actively promote activities to prevent occupational diseases and promote health of employees.

Improving Health Hazard Factors

Chemical Substances Control | In order to prevent industrial accidents of workers due to exposure to hazardous chemicals, the preliminary safety evaluation system before purchasing chemicals is operated in conjunction with the SHE IT system. In addition, in order to strengthen and operate safety measures during handling, we have established guidelines for the management of substances subject to material safety and health data, which include MSDS management methods, and are carrying out industrial accident prevention activities due to chemical substances through safety standards before purchasing and handling.

Prevention of Cerebrovascular Disease and Control of Occupational Stress | We conduct an annual risk assessment to prevent job stress and cerebrovascular disease. In 2024, we plan to expand the job stress test to all employees to promote occupational disease prevention activities for high-risk groups.

Improvement of Working Condition | The on-site inspection of exhaust systems has been completed for health care such as workers' respiratory organs, and we plan to establish an improvement plan to promote facility supplementation activities to prevent exposure to workers. In addition, we plan to promote noise consulting in 2024 to prevent noise-induced hearing loss, clearly diagnose the source of noise, and use it as basic data for establishing future improvement plans. In addition, we will do our best to prevent the occurrence of occupational diseases of workers by promoting improvement in facilities and management to prevent exposure of workers to fumigants used when fumigating materials.



In-house healthcare room



Healthcare IT system

SOCIAL CONTRIBUTION

Mid-to Long-term Social Contribution Project Strategies

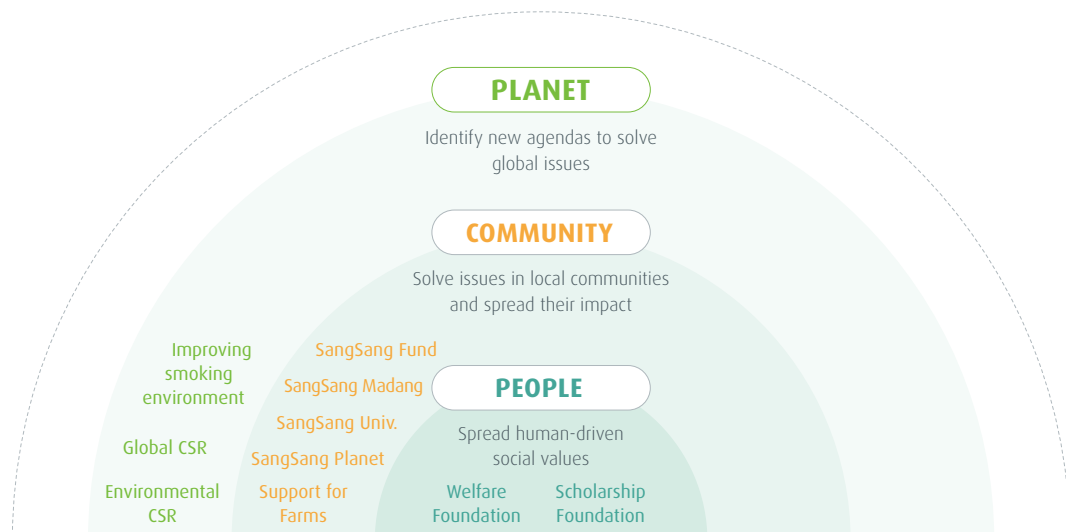
Social Contribution Policy

KT&G's social contribution policy is based on the belief that corporate business activities can grow and be perpetuated through harmony with society, and is implemented to bring about long-term positive changes in society as a whole. KT&G is leading the way in creating sustainable social value by operating community-specific programs based on a sustainable social contribution system and actively supporting and participating in various fields such as culture, arts, welfare, scholarships, youth, and the environment, recognizing and fulfilling its responsibilities and obligations as a member of the community.

Mid-to Long-term Strategies and Goals of Social Contribution

To realize the management philosophy of an "inclusive company," KT&G has established a systematic social contribution strategy, with a team dedicated to social contributions playing a central role. Based on the P-C-P (People-Community-Planet) value system, which is our social contribution strategy, we aim to fulfill the values of People, which means that we support individual growth to lead to social and corporate change and innovation; Community, which means that we strive to discover and solve local community problems so that we can coexist together; and Planet, which means that we are concerned about global issues and seek innovative solutions. Through this, we aim to actively promote social problem-solving activities that encompass all group of people.

Areas of Social Contribution Projects



KT&G Social Contribution Strategies

| | | | |
|--------------------------------|---------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|----------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|---------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|
| Vision | Sustainable Development of Corporate and Society | | |
| Slogan | Imagine a better tomorrow | | |
| Pursuing Value | | | |
| | PEOPLE | COMMUNITY | PLANET |
| | We encourage personal development to facilitate social change and innovation. | We discover and resolve the issues of local community and seek win-win growth. | We are concerned with global issues and seek novel solutions. |
| CSR Platform and Main Projects | <ul style="list-style-type: none"> Welfare Foundation <ul style="list-style-type: none"> Support for low-income group Support for welfare institution Overseas relief Volunteer service Scholarship Foundation <ul style="list-style-type: none"> SangSang Scholarship (middle/high school, university) Arts and sports scholarship Global scholarship | <ul style="list-style-type: none"> SangSang Fund <ul style="list-style-type: none"> Donation market Employee volunteer group SangSang Madang <ul style="list-style-type: none"> Discovering and supporting new artists Performance and exhibition support Art and culture education SangSang Univ. <ul style="list-style-type: none"> Cultural and art support for college students Sang Sang Planet <ul style="list-style-type: none"> Sang Snag Start-up Camp Youth entrepreneurship promotion Support for Farms <ul style="list-style-type: none"> Health checkup support Scholarship program for children | <ul style="list-style-type: none"> Global CSR <ul style="list-style-type: none"> Indonesia SangSang Univ. Global disaster relief Korean Language Institute Value Chain Global CSR CSR <ul style="list-style-type: none"> Improving smoking environment Environmental CSR |

I. SOCIAL CONTRIBUTION

II. Activity Planning for Social Contribution

In order to achieve sustainable development of the company and society and create shared value, KT&G's ESG Management Office, a dedicated organization for win-win cooperation, and related departments work together to plan and continuously implement various social contributions that contribute to value chain-linked activities and local communities through our specific platform.

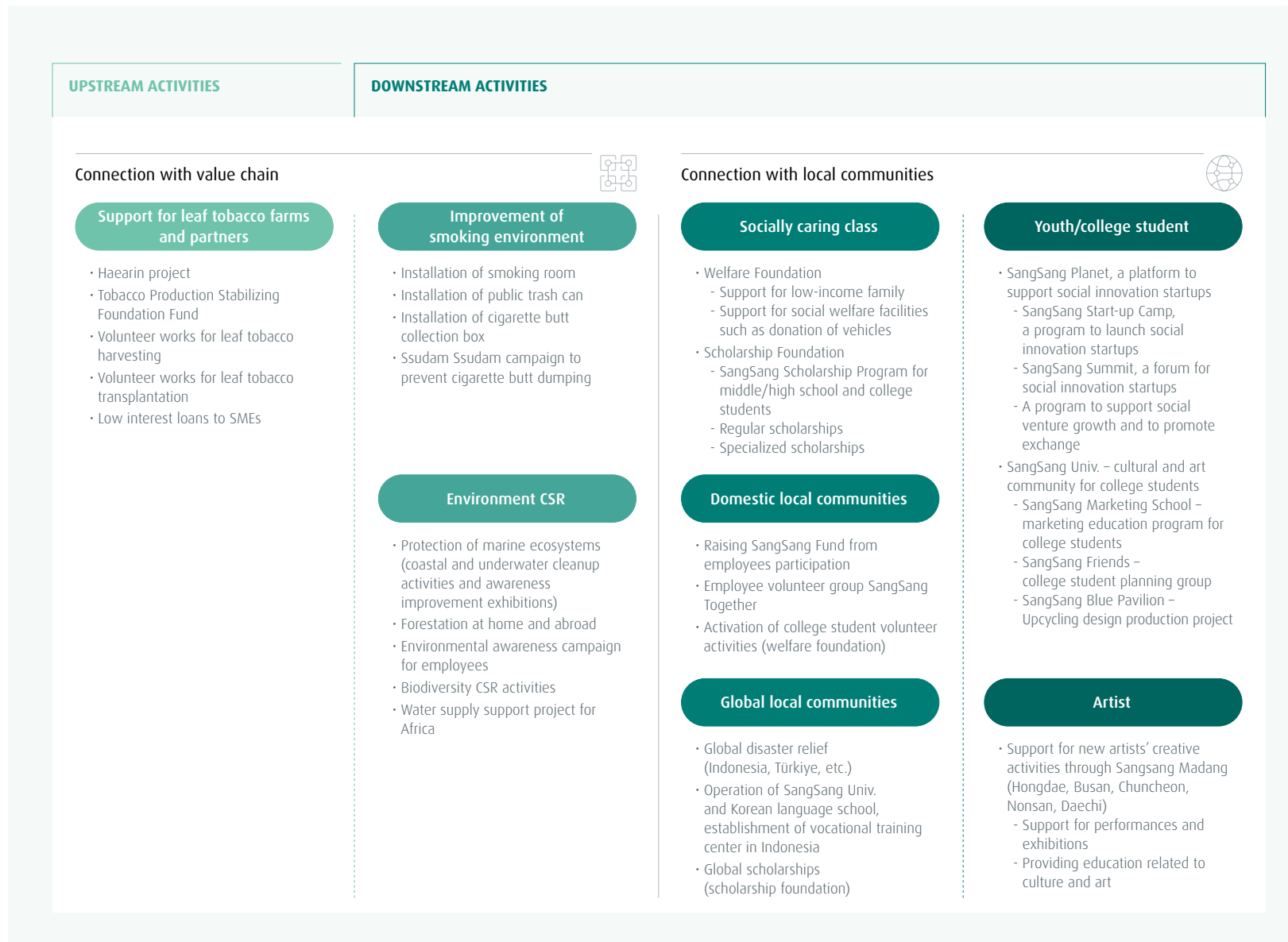
KT&G uses various communication channels such as materiality assessment, stakeholder surveys, and focus group interviews to periodically identify business related issues and levels of interest, based on which, we analyze negative impacts by determining whether such issues can directly or indirectly affect the overall value chain. We are actively seeking a method of alleviating negative impacts and risks that may have on local communities while faithfully carrying out social responsibilities as a corporate citizen. Through collaboration with external partners such as social ventures, we make continuous efforts to develop social contribution business models, discover and implement community participation-based social contribution activities.

KT&G strives to shape a better tomorrow in collaboration with civil society through a diverse range of social responsibility activities linked to its business operations, including support for tobacco farming communities. Additionally, KT&G engages in social welfare initiatives, youth entrepreneurship support, cultural and artistic sponsorship, environmental CSR such as marine environment cleanup and forestation, and global CSR efforts in major overseas markets and developing countries.

We monitor and communicate in various ways the progress of social contributions, their performance in relation to the beneficiaries, and their effectiveness, including the calculation of impact value, and disclose related information through the S-Report. Moving forward, KT&G will continue to do its best to thrive with local communities by proactively identifying and continuously monitoring any negative impacts on local communities and value chains.

Examples of potential risk factors and activities collected from stakeholder communication channels

- Increased waste inflow to local communities and marine ecosystem due to illegal dumping of consumer products
- Need for creating a smoking environment that considers non-smokers and disadvantaged social groups
- Corporate efforts to reduce plastic when producing products

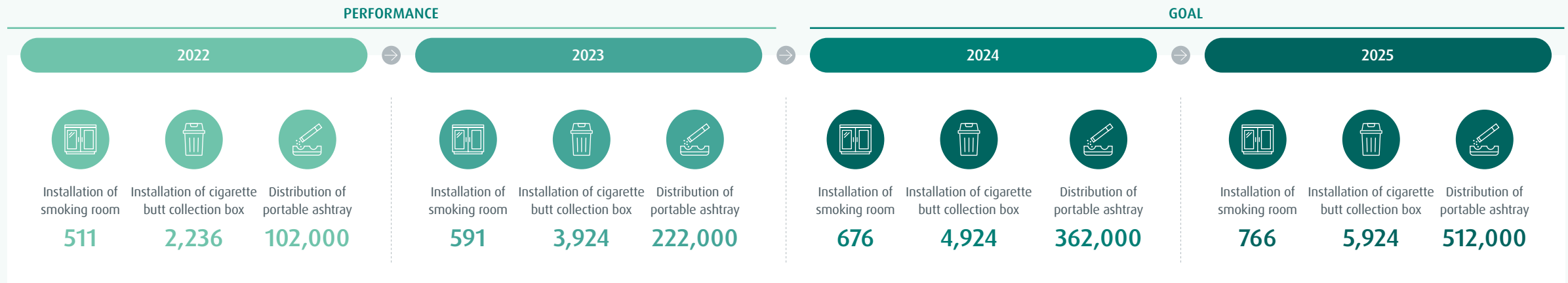


SOCIAL CONTRIBUTION

Major CSR Activities Linked with Value Chain

Mid-to Long-term Goals of Value Chain-linked CSR Activities

Improving smoking environment



* cumulative

Environmental CSR

- Marine environment protection project
 - Began the "Adopt-A-Beach" Program (4)
- Forestation at home and abroad
 - Forestation in Daegwallyeong, Korea
 - Forestation to prevent desertification in Mongolia
- Completion of the water purification device support project in Tanzania

- Marine environment protection project
 - Expand the scope of the "Adopt-A-Beach" Program (4 → 6)
- Forestation at home and abroad
 - Wildfire recovery in Bonghwa-gun, Korea
 - Forestation to prevent desertification in Mongolia
- CSR activities to preserve biodiversity in collaboration with the National Institute of Ecology
 - Implementing the 1st year project (Janggu catfish wetland protection)

- Marine environment protection project
 - Expand the scope of the "Adopt-A-Beach" Program (6 → 7)
- Continued forestation at home and abroad
 - At least one domestic and one overseas case, each
- CSR activities to preserve biodiversity in collaboration with the National Institute of Ecology
 - Study on measuring 1st year project effectiveness
 - Implementing the 2nd year project (Restoration project for the natural monument black stork)
- Completion of the water purification device support project in Uganda

- Marine environment protection project
 - Continue the operation of the "Adopt-A-Beach" Program nationwide
- Continued forestation at home and abroad
 - At least one domestic and one overseas case, each
- CSR activities to preserve biodiversity in collaboration with the National Institute of Ecology
 - Study on measuring 1st and 2nd year project effectiveness
 - Implementing the 3rd year project

SOCIAL CONTRIBUTION

Improving Smoking Environment

Support for Smoking Infrastructure | In order to actively fulfill its social responsibilities in areas related to its business, KT&G has been carrying out the smoking environment improvement project for more than 10 years, providing related infrastructure (smoking room, collection box, portable ashtray) at major multi-use facilities such as airports, train stations, and large public facilities to prevent consumers from littering cigarette butts, thereby creating a cleaner street environment and addressing environmental issues. As a result, a total of 591 smoking rooms have been installed nationwide, including 80 smoking rooms installed in 2023.

We are also supporting the installation of cigarette butt collection boxes in places where it is difficult to install smoking rooms, such as narrow alleys, to more effectively prevent littering of cigarette butts. Starting with a pilot project in 2021, we installed a total of 3,924 cigarette butt collection boxes in major cities across the country, including Seoul and Busan, by the end of 2023. In addition, we have produced and distributed portable ashtrays that consumers can carry themselves. Starting in 2022 and continuing through 2023, we distributed approximately 220,000 ashtrays in partnership with local governments and environmental NGOs, which we expect to improve consumer awareness and smoking habits.

Ssudam Ssudam Campaign | KT&G, which has been promoting smoking environment improvement projects by building infrastructure to prevent littering, including cigarette butts, has been implementing the “Ssudam Ssudam” (meaning throw away your cigarette butts in the trash can) campaign based on the recommendations of the SangSang Junior Board, an organizational culture improvement organization, to improve consumer awareness. Since May 2021, we have applied the Ssudam Ssudam pictogram to all products (70 types) sold in Korea, emphasizes good smoking manners. We have also installed Ssudam Ssudam campaign signs at convenience stores nationwide (approximately 46,000 locations), and nearly 1,200 business vehicles have been equipped with the campaign wording.

Environmental CSR

Projects to Support Water Purification in Africa | Following the support of gravity-type water purifiers in Tanzania, where KT&G imports leaf tobacco raw materials (2022), KT&G is currently supporting a project to supply 400 gravity-type water purifiers worth about KRW 100 million to Uganda, where KT&G imports leaf tobacco, with the goal of completing the supply in the first half of 2024. The gravity-type filter water purifiers, which do not require additional energy to replace the water purification method of heating water by burning fossil fuels and high-carbon emission fuels such as wood, can help solve both drinking water shortages and waterborne diseases in Africa. With this support, local people are expected to have access to approximately 40 million liters¹⁾ of clean, purified water per year. In addition, by eliminating the use of traditional fossil fuels used to boil water, we expect to reduce greenhouse gas emissions by an average of about 3,500 tCO₂e¹⁾ per year.

Environmental CSR Activities in Indonesia | KT&G is engaged in various social contribution activities to address environmental issues and protect the natural environment in Indonesia. In Indonesia, the growing problem of garbage disposal has become a national issue, so we organized the “Ssudam Ssudam Green Run,” a plogging event where university students and citizens run through the city center of Jakarta together to pick up trash.

Meanwhile, Indonesia has been experiencing a surge in greenhouse gas emissions due to excessive use of air conditioners as the dry season has expanded and heat waves have persisted due to recent environmental changes. In response, KT&G launched the “SangSang BeCool Campaign” to reduce indoor temperatures by applying sunlight-reflective heat-reducing paint on the roofs of vulnerable residential buildings. In addition, KT&G will further strive to create a sustainable environment in Indonesia by promoting various volunteer and contribution activities such as planting mangrove trees.

Marine Ecosystem Protection | In order to address marine pollution caused by marine debris, KT&G has been implementing the Marine Ecosystem Conservation Project with Korea Marine Environment Management Corporation (KOEM) since 2021. In 2023, as part of the project, KT&G conducted beach cleanup activities, as well as the “Adopt-A-Beach” organized by KOEM. Adopt-A-Beach is an activity in which companies adopt beaches in need of environmental protection and conduct regular cleanup activities. We expanded the scope of the activity from Busan, Incheon, and Chungnam, and adopted a total of six beaches in Daegu, Gangwon, and Jeju.

A total of 919 people, including employees and NGOs, participated in the marine environment conservation project. About 17 tons of waste were collected in the beach cleanup activities, and about 3 tons of underwater waste were collected in the national underwater cleanup activities with professional divers, contributing to marine conservation. In addition to addressing environmental issues through marine waste collection, we also held an exhibition of junk art made from garbage to raise awareness of the destruction of the marine environment among the general public. About 1,536 visitors gathered at the junk art exhibition held at SangSang Madang Hongdae and Daechi Gallery to share their concerns about marine environmental issues.

“Ssudam Ssudam Green Run” Plogging Activities in Indonesia | To practice environmental management in Indonesia, KT&G organized the “Ssudam Ssudam Green Run,” a plogging activity where runners pick up trash while running around the GBK Stadium in Jakarta. About 1,000 people, including SangSang Univ. students and employees in Indonesia, participated in this urban cleanup activity and had the opportunity to recognize the importance of environment-related activities.

Outline of Ssudam Ssudam Green Run

- ➔ Time September 24, 2023
- ➔ Place GBK Stadium area, Jakarta, Indonesia
- ➔ Participants Approximately 1,000 people, including employees, students, and Korean community members
- ➔ Major programs City running and cleanup activities, performances, cultural experience programs, etc.



Performance of Smoking Environment Improvement Projects



2011-2023 Installation of smoking room

591 smoking rooms, KRW 8,020 million

2011-2023 Installation of cigarette butt collection box

3,924 boxes, KRW 760 million

2022-2023 Distribution of portable ashtray

222,000 ashtrays, KRW 1,550 million

Performance of Marine Ecosystem Protection Projects in 2023



Waste collected: Approximately 21 tons

Participating volunteers: 919 persons

Visitors of junk art exhibitions: 1,536 persons

¹⁾ Estimates from Water & Life, our partner organization

I. SOCIAL CONTRIBUTION

Global CSR Activities KT&G is fulfilling its role as a corporate citizen by actively promoting global CSR activities in various countries where it operates, including Indonesia, Kazakhstan, and Türkiye.

Indonesia is one of KT&G's major business markets, and we have been conducting various CSR activities to fulfill our responsibilities as a corporate citizen operating in Indonesia. For example, in order to enhance the cultural awareness of university students and help them grow, we operate the SangSang Univ. in Jakarta, providing them with various experiences and exchange opportunities that are difficult to access outside of their major classes, such as cultural arts, hobbies, and career development contents.

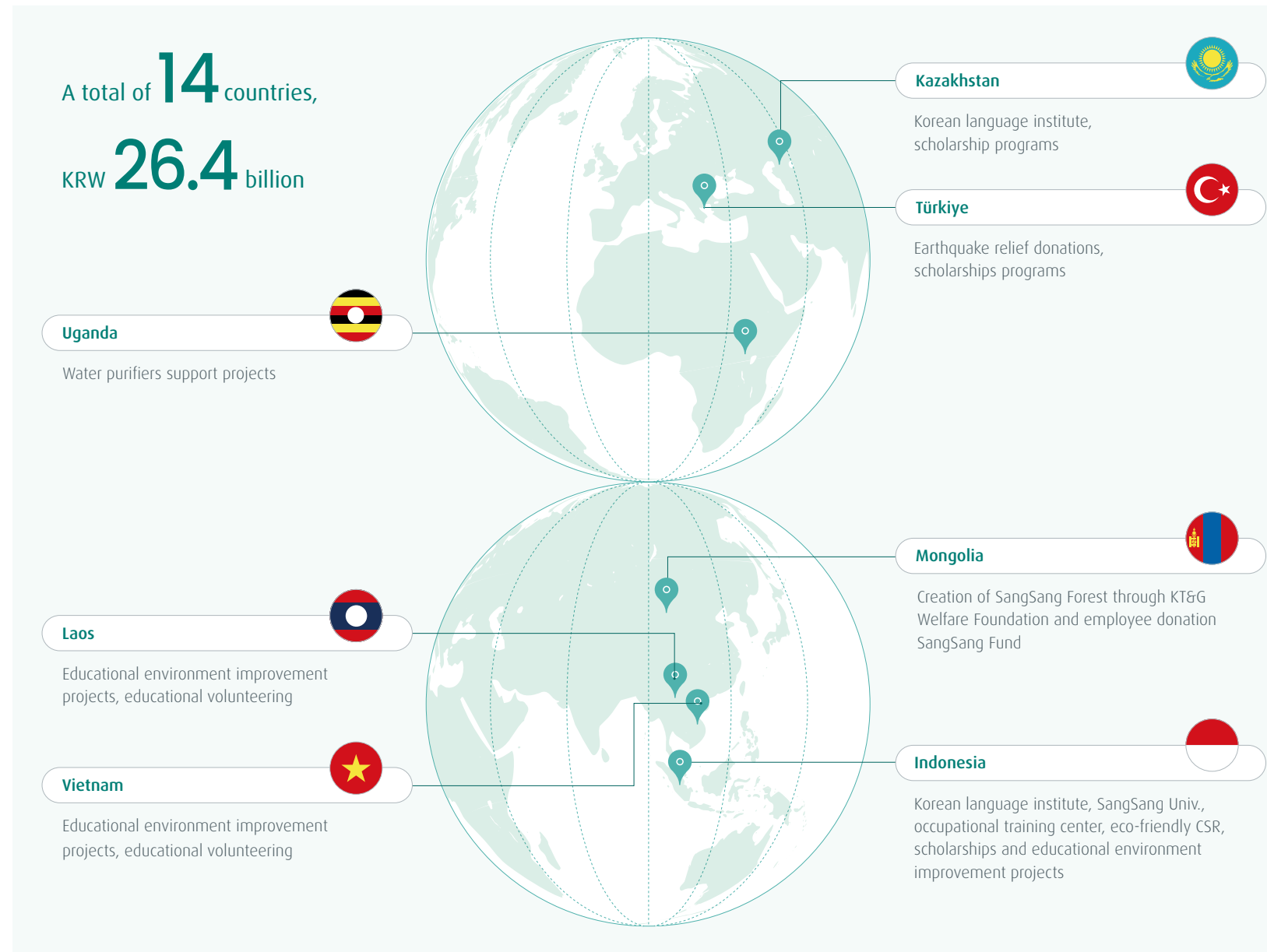
In particular, in 2023, we held various events to commemorate the 50th anniversary of diplomatic relations between Korea and Indonesia. We organized the SangSang Festa, a university student festival where students who have completed their classes presented their achievements, set up booths, and had famous singers perform; the SangSang Startup School, which educates and supports university students who have dreams of starting their own business; and the Ssudam Ssudam Green Run, where Indonesians and Koreans ran around the city together to pick up trash. Through these activities, about 40,000 people participated in SangSang Univ. programs in 2023 alone.

KT&G is also engaged in CSR activities outside of Jakarta. In Surabaya, KT&G operates a Korean language institute and conducts Korean language classes for university students and locals, and some 1,700 students have completed the course to date. In Malang, we established a vocational training center to provide vocational training in sewing and computers to support the economic independence of local vulnerable groups.



SangSang Festa in Indonesia

Key Activities and Achievements of Global CSR



* As of the end of 2023, cumulative total

I. CONSUMER-CENTERED MANAGEMENT

II. Management System for Consumer Rights Protection

Consumer Rights Protection Policy In order to realize our core value of “valuing customers,” KT&G actively listens to the voices of our customers, and based on this, we aim to improve the quality of our products and services from a consumer perspective and strengthen our external competitiveness. In addition to establishing a company-wide management culture that empathizes with consumer issues, we are continuously striving to promote consumer rights and improve their convenience. The KT&G Group Ethics Charter and the Responsible Marketing Policy are publicly available to confirm KT&G’s policies for protecting consumer rights, including ensuring reasonable choices for consumers, providing product information, and listening to consumer opinions through various channels.

In particular, KT&G is exploring various strategic implementation measures for mutual growth with consumers, moving away from a passive perspective of protecting consumers, and is preparing to obtain CCM (Consumer Centered Management) certification to secure global CS competitiveness. Based on KT&G’s unique response strategy to promote consumer rights and interests, we plan to actively communicate with consumers and further promote consumer-centered management. In particular, we will do our best to fulfill our responsibilities and obligations to consumers by developing products and services in a way that maximizes consumer value and by sincerely complying with the Principles to Promote Rights and Interests of Consumers

Consumer Rights Risk Management KT&G has established a risk management process to protect consumer rights, and operates a risk management system from collecting risk factors through voice of customers (VOCs) and regular consultation satisfaction surveys to taking mitigation measures against risks and monitoring and analyzing their effectiveness. In 2023, through the risk management process, we monitored abnormal distribution channels and implemented measures to prevent infringement of consumer rights due to products sold by online distribution networks that are not officially authorized by the company, products sold at a price increase compared to the normal price, and sales of refurbished products as new products. As such, we categorize the risk factors collected by channel by type and department in charge, and continue to implement planned activities to improve product and service quality in collaboration with relevant departments.

Risk Management Process for Consumer Rights

| Item | Description |
|-----------------------------------------------|------------------------------------------------------------------------|
| 1. Define risk factors | Define customer inquiry and claim types |
| 2. Collect and analyze risk factors | Receive CS and AS, collect VOC collection, conduct satisfaction survey |
| 3. Establish mitigation plans and take action | Devise improvement plans for each risk factor |
| 4. Monitoring and effectiveness analysis | Monitoring satisfaction with CS, AS, VOC |

Principles to Promote Rights and Interests of Consumers

-  KT&G will give priority to customer satisfaction and act from the customer's point of view.
-  KT&G will establish and implement processes that can quickly respond to valuable customer feedback.
-  KT&G will make efforts to monitor customer complaints in advance.
-  KT&G will actively respond to the requirements of strengthening rights and interests of consumers when consumers use our products and services.

Consumer-centered Management Strategy System



I. CONSUMER-CENTERED MANAGEMENT

II. Consumer Value Enhancement Activities

III. VOC Management

VOC Management Process | The customer C/S center (call center) and online customer service center (1:1 inquiry, chat consultation, etc.) are the primary channels for general inquiries and consultations, and we support customers to resolve problems with lil products that are not resolved through the primary channels by visiting the nearest after-sales service center or branch office. In addition, to provide convenience to our customers, we have a system that allows them to receive A/S without visiting us in person, such as home delivery A/S and on-site A/S.

Receiving and Handling VOCs | KT&G receives and manages VOC through various channels by type. In addition, we are continuously improving customer accessibility and convenience by introducing a search engine (FAQ), chat consultation, and segmenting ARS services. Some of the customer opinions we receive are reflected in product development and management activities to enhance product competitiveness, and we take appropriate follow-up measures to improve customer satisfaction.

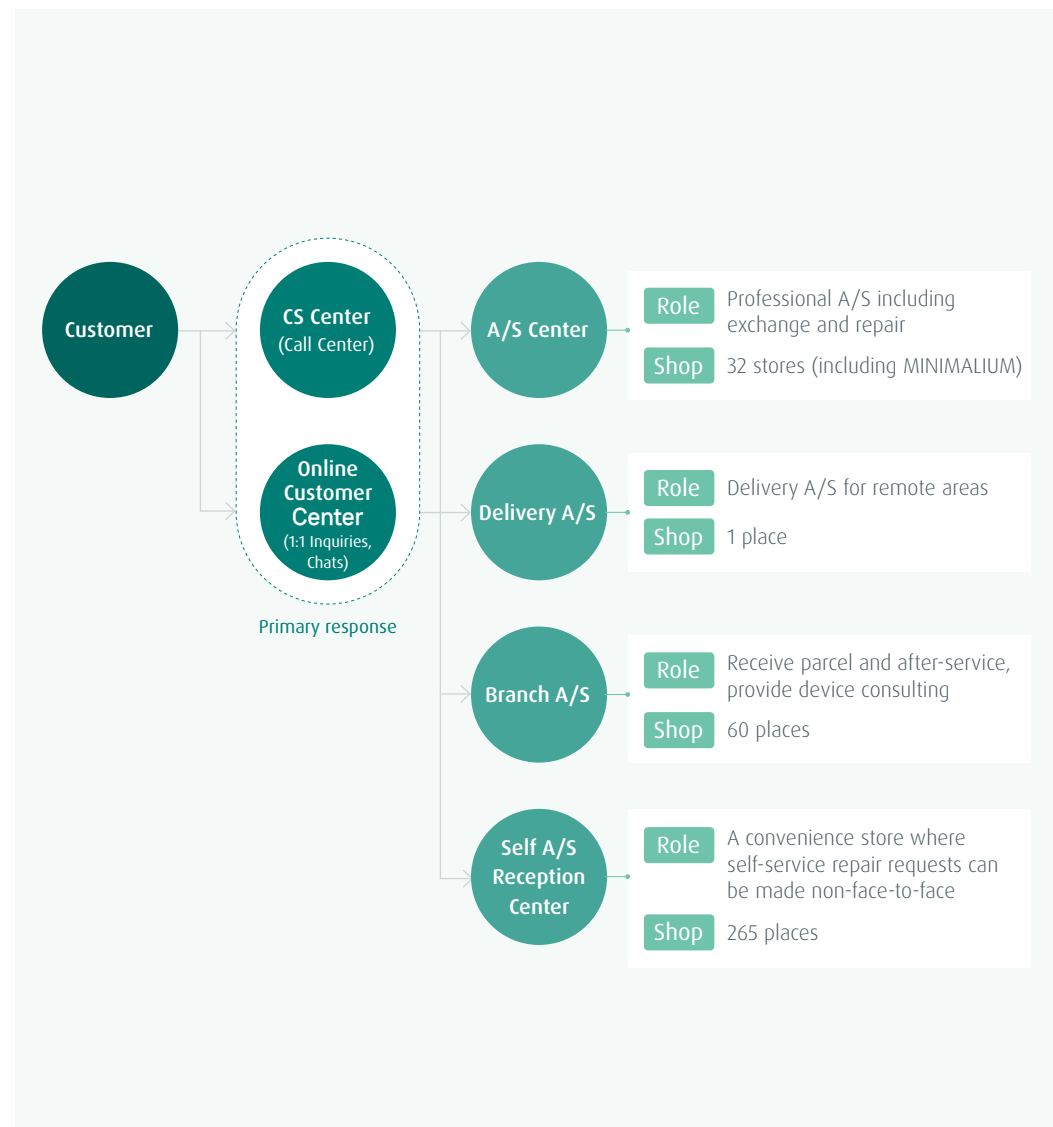
Improvement Activities based on Customer Satisfaction Survey Results | KT&G has been collecting agent satisfaction surveys and voice of customers using our CS center since July 2020 to improve the quality of consultation services and improve products and services. In January 2023, we changed the survey from texting 10,000 customers every quarter to the info-push method, which allows us to collect customer satisfaction and opinions through mobile pop-ups immediately after the customer's consultation ends, thereby improving the response rate and accuracy. We are also striving to improve products and services based on the results of customer satisfaction surveys and customer opinions. As a major improvement activity in 2023, we have expanded the scope of trade-in programs to include new products and improved factors that hinder barcode recognition, thereby increasing the barcode reading rate during distribution and consumption processes. As such, we are implementing programs and measures to enhance customer satisfaction.

Receiving VOCs by Channel

(Unit: %)

| Category | 2021 | | 2022 | | 2023 | |
|---------------------|-----------------|----------------|-----------------|----------------|-----------------|----------------|
| | Receiving ratio | Handling ratio | Receiving ratio | Handling ratio | Receiving ratio | Handling ratio |
| Phone | 69.3 | 100.0 | 67.6 | 100.0 | 71.9 | 100.0 |
| ARS | 18.7 | 100.0 | 18.5 | 100.0 | 15.4 | 100.0 |
| 1:1 counseling | 9.2 | 100.0 | 10.4 | 100.0 | 9.9 | 100.0 |
| Chatting counseling | 2.7 | 100.0 | 3.6 | 100.0 | 2.8 | 100.0 |

VOC Management Process



KT&G Flagship Store - MINIMALIUM

I. CONSUMER-CENTERED MANAGEMENT

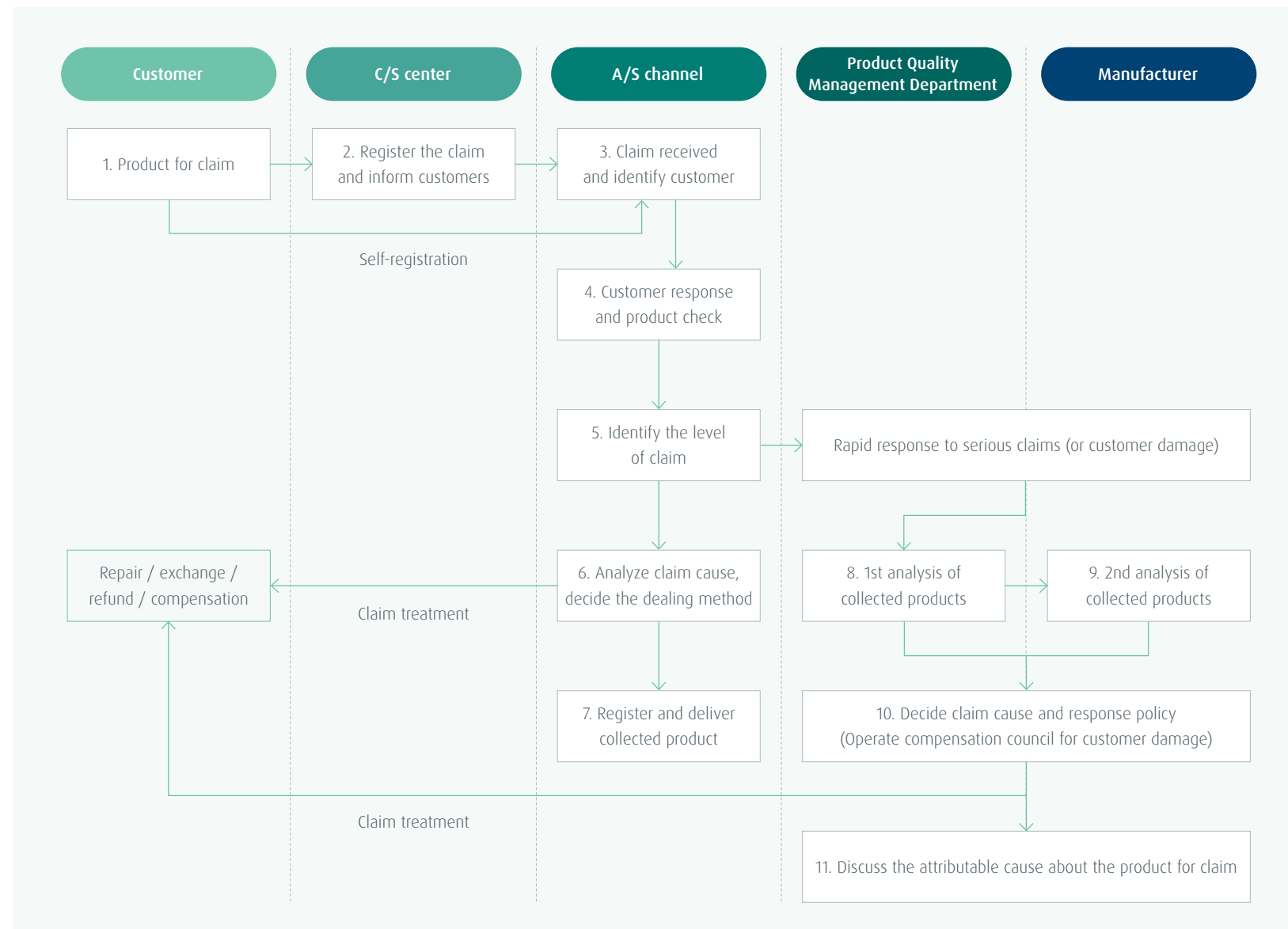
Compensation for Customer Damage Claims

Guidelines and Processes for Handling Consumer Claims | KT&G established the Guidelines for Handling Consumer Claims in the first half of 2022 to accurately identify consumer claims related to the products it sells and to manage their handling quickly and efficiently to prevent the recurrence of similar claims and improve service to consumers. These guidelines apply to KT&G's management of consumer claims for products sold domestically (conventional cigarettes, NGP sticks, NGP devices, and other consumables). We also comply with the prescribed consumer compensation procedures for its products and services. Claims received through the after-sales service channel are categorized according to urgency and importance after checking the product and the contents of the inquiry, and the handling method is determined in consultation with the relevant departments.

Customer Damage Compensation Council | When a customer claim occurs, we operate a response council involving relevant internal departments such as Brand Office, Communication Office, Finance Office, Quality Control Department, and Legal Affairs Department to quickly establish and implement a systematic response strategy, including cause analysis, compensation amount and method, legal response, and feedback. Furthermore, we are reflecting the response in our product and service systems to prevent similar issues from occurring in the future.

Strengthening Consumer Communication | To improve customer communication and service levels, KT&G operates online and offline communication channels, including the lil homepage, which introduces the lil brand and devices; lil MINIMALIUM (lil flag shop) and lil Store (online mall), where customers can consult and purchase products; and the C/S center and A/S center to respond to customer inquiries and handle claims. Since the second half of 2020, we have operated an online customer center consisting of Kakao Channel, which is more accessible and convenient for customers, and chat consultations and 1:1 inquiry board for hearing impaired and phone-averse customers, and we are continuously expanding our infrastructure to improve customer satisfaction. The online customer center provides self-diagnosis and FAQs for lil devices to help customers solve simple problems on their own, and in the second half of 2024, we plan to introduce ChatBots to enhance customer convenience.

Processes for Handling Consumer Claims



I. CONSUMER-CENTERED MANAGEMENT

II. Activities to Improve Consumer Satisfaction

Customer Satisfaction Monitoring

Customer Satisfaction Survey | As customer inquiries have increased, KT&G has strengthened its customer response capabilities by expanding the number of counselors and introducing ARS, and has maintained a response rate of more than 80% compared to call inflow. In addition, we have conducted surveys to improve customer satisfaction with our products and services, including the quality of customer service, and are striving to provide better services by drawing improvements based on customer responses to questions.

Customer Consultation Satisfaction Monitoring | KT&G has been collecting counselor satisfaction surveys and VOCs from CS center counseling customers since July 2020 to improve the quality of counseling services and enhance products and services. Previously, the survey was conducted by sending text messages to 10,000 people every quarter. However, in January 2023, the method was changed to info-push. As a result, customer satisfaction and opinions are now gathered through a mobile pop-up immediately after the customer's consultation is completed, improving both the response rate and accuracy.

Customer Satisfaction Performance | KT&G actively collaborates with the NGP Business HQ, R&D HQ, and Manufacturing HQ to improve product quality and enhance customer satisfaction. As a result, KT&G has been awarded the Brand of the Year Award organized by the Customers Council and the Korea Brand Hall of Fame organized by the Institute for Industrial Policy Studies (IPS) for six consecutive years.

Information Protection

Information Protection Management System | KT&G has established the Corporate Secret Protection Committee as the highest responsible body for information security and privacy, and has appointed a Chief Security Officer (CSO) and a Chief Information Security Officer (CISO) in charge of information protection within the Committee to strengthen information protection system management. The CSO is in charge of human, managerial, technical, and physical protection to protect corporate secrets and serves as the chairperson of the Corporate Secret Protection Committee.

The CIO manages major information security tasks, including those related to personal information and information management, and submits agenda items to the Corporate Secret Protection Committee. The Committee reviews, deliberates, and resolves annual information protection activity plans, including the establishment and revision of information protection-related regulations, information protection certification, and the establishment of security systems. If any major issues related to information security arise as a result of deliberations, they are reported to the Chief Strategy Officer, and major issues are reported to the Sustainability Committee under the BOD to systematically respond to related risks.

External Award Performance of lil Brand



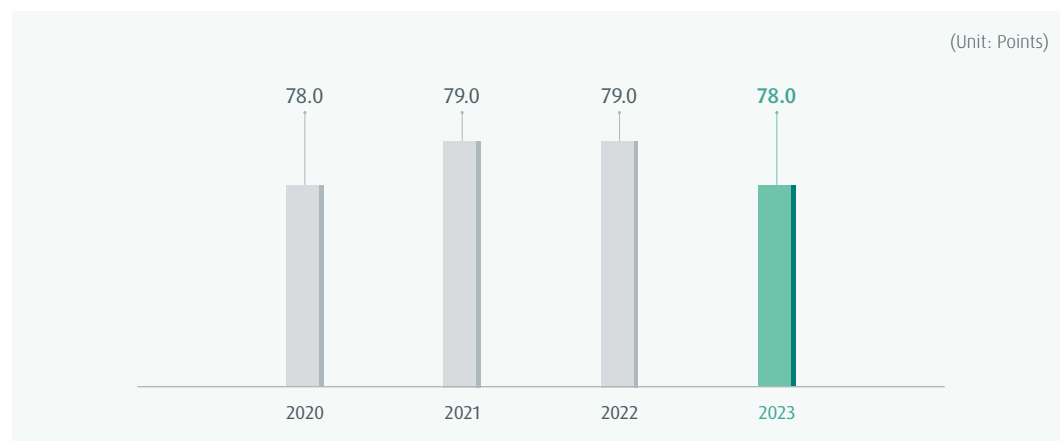
2023 Received the Brand of the Year Award for

6 consecutive years

2024 Included in the Korea Brand Hall of Fame for

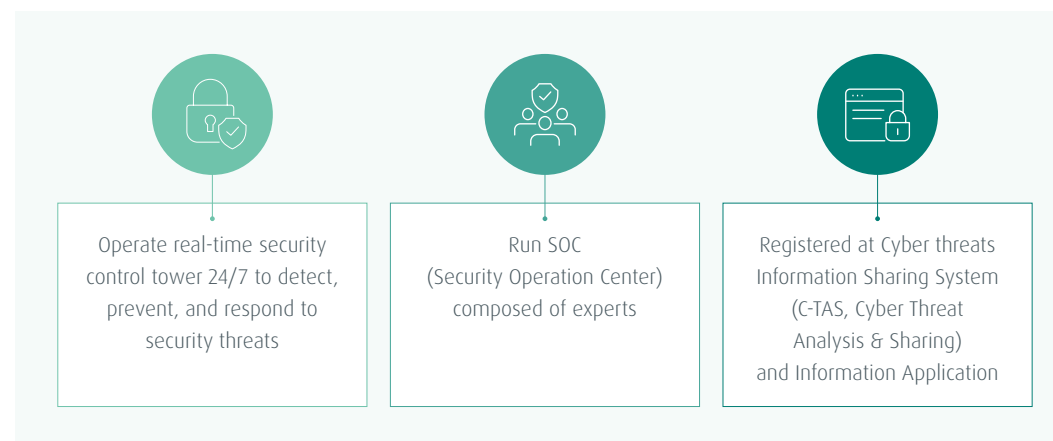
6 consecutive years

Customer Satisfaction Survey Results



* Source: NCSI (National Customer Satisfaction Index)

Data Security Control System



I. CONSUMER-CENTERED MANAGEMENT

Information Security Policy and Goal

KT&G strictly manages and protects all company information and does not unfairly acquire or use trade secrets and intellectual property rights of third parties, including competitors.

Employees shall protect company information with property value such as financial information, research and development, intellectual property rights (patent rights, trademark rights, utility model rights, design rights, copyrights, etc.), product information, business strategy, marketing strategy including pricing policy, and merger and acquisition information in accordance with relevant laws and company rules. In addition, employees shall not use unethical means such as eavesdropping, hacking, or bribery to obtain trade secrets of third parties, including competitors, and shall use the intellectual property rights of third parties only in compliance with laws and regulations on intellectual property rights and with legitimate authority. We shall also follow strict principles to protect the personal information of our customers, employees, and others. We collect and use personal information in accordance with each country's personal information protection laws and company policies, and we are committed to protecting personal information so that it does not leak illegally. If we outsource the collection or use of personal information to a third party, we require that the third party also comply with applicable laws and regulations.

Guidelines for Information Security and Handling | KT&G has established the Guidelines for Corporate Secrets Protection and Guidelines for Personal Information Internal Management and posted them on the KT&G Legal Information System so that any employees can view them. In addition, the Privacy Policy contains information on the collection, retention, use, and destruction of personal information acquired by KT&G so that information subjects can check the status of personal information management at any time.

Information Security Certification | In addition to complying with domestic information protection laws such as the Act on Promotion of Information and Communications Network Utilization and Information Protection and the Personal Information Protection Act, KT&G has obtained ISO 27001, an international standard certification for information protection, and ISMS-P, a domestic information protection and privacy management system certification, to secure objective credibility for its information protection management. We are continuously reviewing and level-managing the targets and areas of certification every year with the goal of renewing and maintaining the certification system.

Information Security Disclosure | KT&G is diligently implementing information protection disclosures to protect users and ensure their right to know. As a result of these disclosure activities, KT&G has been selected as an excellent disclosure company (information protection investment company) for two consecutive years since 2022.

Diagnosing and Managing the Information Security Level | KT&G proactively detects and measures information security risks by establishing an inspection plan for risks and vulnerabilities based on new system introductions and changes, service impact, etc. every year. We also aim to achieve a 100% vulnerability remediation rate and zero security incidents through continuous management of risks and vulnerabilities identified through inspections.

Inspection of Information Security and Cybersecurity

KT&G has established and is operating a regular inspection system for information protection. The inspection activities are divided into corporate secret protection operation inspection to manage information protection-related company rules and policies, personal information compliance inspection based on compliance with personal information-related laws and regulations, vulnerability inspection to prepare for internal and external threats, and security solution policy inspection to prevent security risks of security solutions.

Inspection of Corporate Secret Protection Operation | We conduct inspections to manage and update the company's policies. We manage company rules and policies based on revisions to relevant laws and regulations and on requirements for information protection. We also conduct inspection and improvement activities through the Working-level Council on Information Security and the Corporate Secret Protection Committee.

Inspection of Personal Information Compliance | We conduct inspection activities to proactively identify and mitigate risks based on personal information-related laws and information protection guidelines. Inspection activities include simulated audits and risk assessments of the personal information processing system and subcontractors who are entrusted with the management of personal information.

Inspection of Vulnerabilities | We conduct inspection activities to ensure that KT&G systems provide safe services. It consists of penetration testing to infiltrate the system and identify vulnerabilities, infrastructure inspection to diagnose vulnerabilities across the infrastructure, source code inspection to detect vulnerabilities inherent in the system, and security review to proactively take measures against vulnerabilities due to system development or changes. We establish inspection plans such as regular inspections and implementation inspections to identify vulnerabilities and take measures.

Inspection of Security Solution Policy | The inspection is divided into user inspection and solution inspection. The user inspection checks the appropriateness of user permissions and policies granted to the security solution, and the solution inspection conducts activities to prevent security risks that may occur in the solution itself, such as the latest patterns and security issues.

KT&G Information Security and Cybersecurity Inspection

| Category | | Target | Execution cycle |
|---------------------------------------------------------|---------------------|------------------------------------------------------------|-------------------------|
| Inspection of corporate secret protection and operation | Policy management | Company rules, policies, organizational improvements, etc. | At least twice a year |
| | | | |
| Inspection of personal information compliance | Risk assessment | Personal information processing systems | At least twice a year |
| | Subcontractors | Personal information management subcontractors | At least twice a year |
| | Penetration testing | Web and mobile applications | At least twice a year |
| | Infrastructure | System, network, DB, etc. | At least once a month |
| Inspection of vulnerabilities | Source codes | Source code-based systems | At least twice a year |
| | Review of security | New and changed systems | Around the clock |
| | | | |
| Inspection of security solution policy | User | Individual user rights policy | At least once a quarter |
| | Solution | Solution operation policy | Around the clock |

Information Security Division and Responsibilities



- **Chief Security Officer (CSO)**
 - Head of Management Support HQ
- **Chief Information Security Officer (CISO)**
 - Head of Information Security Office
- **Training and Inspection**
 - Security vulnerability check and security level review
 - Infringement incidents simulation training to prevent cyberattacks
 - Malicious e-mail response training and distribution of response guidelines
 - Information security compliance level check
- **Education**
 - Information security education for all employees
 - Secured coding education on commissioned developers
 - Specialized education on information security for commissioned agencies
 - Information security education for newly hired (experienced) employees
- **Monitoring**
 - Real-time security threat detection and response through 24/7 security control
 - Monitoring/analyzing abnormal behavior of employees, and explanation management
 - Monitoring of personal information access records
- **Campaign**
 - Implementing Self-diagnosis for information security to enhance security levels
 - Publishing and distributing "information security content" to raise awareness of information security
 - Running "Information Security 3GO" campaign to raise awareness of corporate secret protection
- **Information Protection/Security Policy of Overseas Subsidiaries**
 - Preparing the security rule standard for overseas subsidiaries
 - Establishing information security protocols for overseas subsidiaries
 - Establishing information security management system standards for overseas subsidiaries
 - Revising standard information security guidelines for overseas subsidiaries
- **Information Security of Subsidiaries**
 - Establishing guidelines for subsidiaries' security regulations
 - Examining the legal compliance level
 - Implementing special inspections for subsidiary security vulnerabilities and security issue responses

I. CONSUMER-CENTERED MANAGEMENT

CASE STUDY

Inspection of Manufacturing Process Security Management

To manage security management threats to manufacturing facilities, KT&G has been implementing security diagnosis and setting action plans since 2022, starting with pre-inspections. In 2023, we established security guidelines for manufacturing facilities and designated and trained security personnel to carry out these guidelines. We also built a new firewall at the factory, applied 24/7 control, and introduced industrial vaccines and USB locks.

In 2024, based on the definition of factory security management threats, we are conducting detailed diagnosis by applying the Manufacturing Factory Security Management Inspection Standards (Ministry of SMEs and Startups), which includes laying the foundation for the management system through network and information asset identification, securing integrity through malware checks, and minimizing the risk of ransomware infection through vulnerable service exposure checks. Based on the security diagnosis activities, we aim to establish a security management process for manufacturing facilities by 2026.

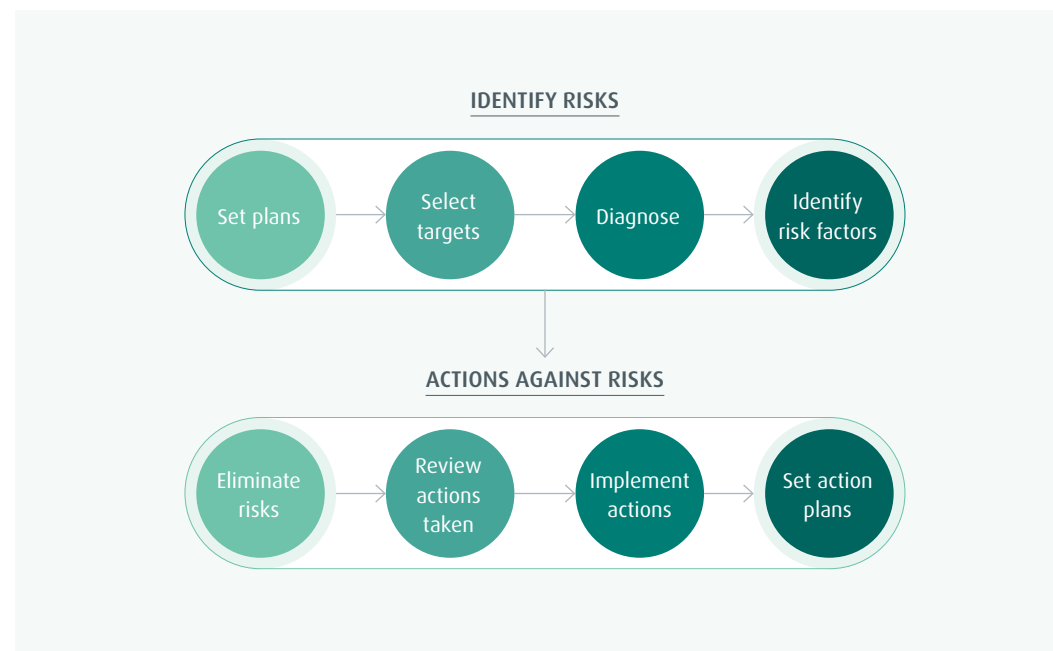


Information Security Risk Management

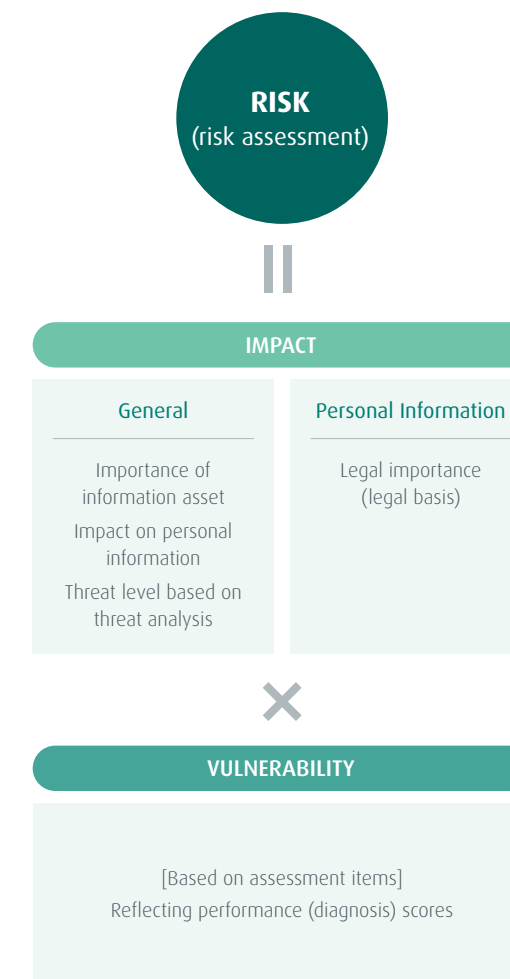
Process of Identifying and Information Security Risks and Taking Actions | KT&G is establishing an information security risk identification process to manage and mitigate threats to its information assets. This process operates in two stages - the risk identification stage, where risk factors are identified and verified, and the action stage, where measures are taken to eliminate the identified risks. By developing a risk identification plan based on information security risk factors and recent security issues (such as vulnerabilities and compliance), KT&G conducts diagnostic activities to verify these risk factors. The findings from these diagnostics lead to the creation and execution of plans and actions to address and mitigate the identified risks.

Information Asset Risk Assessment Process | KT&G operates a risk assessment process based on an information asset risk management manual, conducting risk assessments on information assets at least once a year. The risk level is evaluated by considering the impact on the information protection level of the information assets and their vulnerabilities that could be exploited by threats. General risk assessment involves calculating the risk level by reflecting the scores derived from diagnostics of factors such as the importance of the information asset, the impact on personal information, and threat analysis. For personal information risk assessment, the calculation includes legal importance and reflects the scores of evaluation items as vulnerabilities to determine the risk level. Through this risk assessment process, KT&G manages information security risks effectively.

Process of Identifying Information Security Risks and Taking Actions



Risk Assessment Process According to the Information Asset Risk Management Manual





I. CONSUMER-CENTERED MANAGEMENT

Activities to Mitigate Information Security Risk

Third-party Vulnerability Diagnosis | To provide secure web and application services in response to increasingly sophisticated internal and external threats, KT&G conducts security vulnerability assessments across all systems and implements security measures. Leveraging various references and extensive activity experience, KT&G outsources vulnerability analysis to an independent and specialized external organization, SK Shieldus. This third-party engagement ensures the improvement of the security of infrastructure and information security systems. Key activities in the vulnerability management program include penetration testing, infrastructure vulnerability assessments, source code reviews, and security evaluations.

Penetration testing targets web and application services, identifying vulnerabilities through system penetration and black box testing. This process provides guidance for addressing discovered vulnerabilities and supports the implementation of necessary measures. Infrastructure vulnerability assessments involve regular checks on systems, networks, and databases based on the latest vulnerability information, addressing both operational settings and inherent product vulnerabilities. Source code reviews use tools within a program configuration management system to check for vulnerabilities before the code is applied to the operational environment, addressing potential issues proactively. Security evaluations focus on new systems or systems undergoing changes, reviewing vulnerabilities before implementation or modification to preemptively address any potential risks.

KT&G strives to prevent potential security incidents in advance through these vulnerability management programs and to improve service quality by enhancing security levels through vulnerability management activities. Since the inception of the security vulnerability management program in 2018, the number of vulnerabilities has decreased by over 80% compared to the initial assessment. We are working together with the goal of achieving a 100% remediation rate for vulnerabilities identified through inspections.

Personal Information Protection System | KT&G operates a personal information access control and management system to ensure the secure handling of personal information. In addition, we manage the status of personal information processing systems, control unauthorized access to personal information within the system, and comprehensively manage the status of personal information handlers and the processing of personal information.

Training for Responding to Cyber Security Incident | To prevent security incidents and establish a rapid response system in the event of an incident, KT&G conducts drills based on simulated scenarios for potential breaches, such as personal information leaks, DDoS attacks, and ransomware. The training aims to identify and address any deficiencies, followed by improvement activities to enhance the overall security posture.

Disaster Recovery Drills | To minimize the loss of company information assets and ensure business continuity during unexpected emergencies, KT&G conducts disaster recovery drills. These drills are based on simulated scenarios and focus on responding to disaster situations. By analyzing the results, including recovery time and recovery achievement rates, KT&G identifies areas for improvement and implements corrective actions. This ongoing effort aims to maintain business continuity even in the face of disasters.

Strengthening Information Protection Capabilities

KT&G identifies personal information leaks and cybercrime as major risks in the field of information security. To address these risks, KT&G has established information security regulations and operational guidelines, and developed an incident response manual. Reporting systems and response procedures are defined for each type of incident to prevent escalation into more severe stages. In addition, KT&G conducts annual compliance checks related to personal information and creates and distributes awareness-raising content. We also strengthen personal information protection capabilities through ongoing drills for our employees.

Based on company rules related to information security, KT&G operates anomaly monitoring to prevent personal information-related incidents such as external intrusions and internal leaks. The company has established an information security system and runs a security control center 24/7. On the back of systematic response to personal information protection at an enterprise-wide level, there have been no incidents of customer information leakage in the past 13 years.

Leakage of Customer Information in 2023



0 cases

(13 consecutive years)



ADVANCING GOVERNANCE AND STRENGTHENING EXECUTION CAPABILITY



MANAGEMENT APPROACH

KT&G has established transparent and independent governance and is developing it from a long-term perspective to strengthen sustainable growth and to enhance the value and protect the rights of shareholders and other stakeholders. In accordance with the KT&G Corporate Governance Charter, which embodies principles and visions that meet global standards, we are solidifying a Board-centered responsible management system with independent directors playing a central role. To further enhance the expertise and capabilities of the Board of Directors, we have introduced and are comprehensively managing the Board Skills Matrix while advancing it by incorporating the company’s mid- to long-term strategic direction and global standards.

KT&G also strives to grow together with our stakeholders through responsible management under the corporate philosophy of “Exemplary, Progressive, and Inclusive.” Accordingly, we have enacted the KT&G Group Business Ethics Charter as the standard for the desirable practice and value judgment that KT&G pursues. All our employees comply with the Charter and carry out various activities aimed at enhancing their ethical awareness and ability to put these values into practice.

KEY PERFORMANCE INDICATORS

Compliance rate with core indicators of FSC¹⁾



100%

Increasing the proportion of stock compensation for management



CEO Long-term Performance Incentive

60%

Enhancing the board expertise



Advancement of the Board Skills Matrix

¹⁾ 15 Indicators recommended by the Financial Services Commission (FSC) to enhance corporate governance transparency

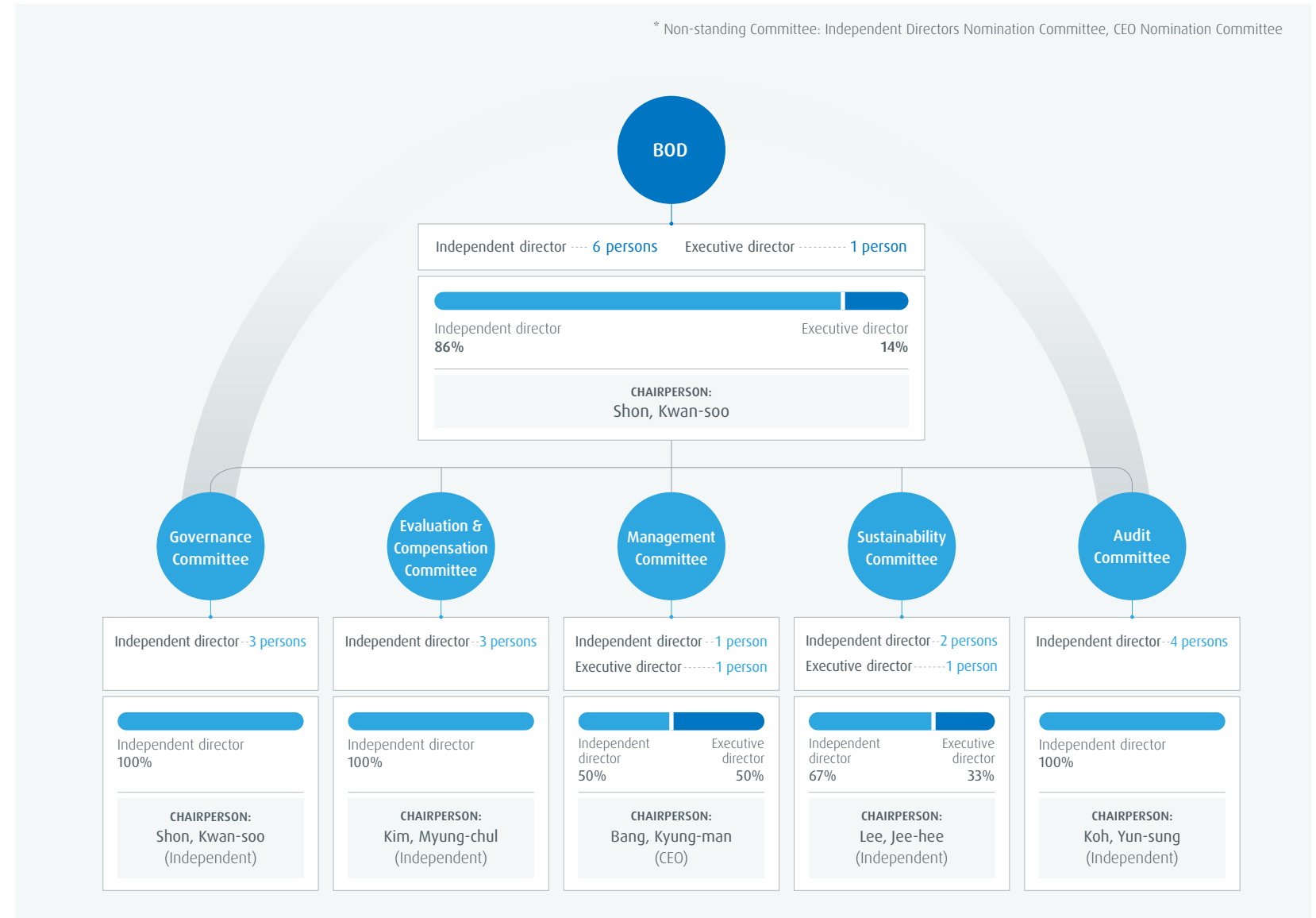
CORPORATE GOVERNANCE

BOD Composition

KT&G has established transparent and independent governance to enhance the sustainability of the company and the value of stakeholders, including shareholders. Moreover, we continuously develop this structure and proactively responds to changes in the business environment and market. As of June 2024, our Board of Directors (BOD) comprises seven directors - one executive director and six independent directors. We have established the roles of each director to ensure utilizing their knowledge and practical experiences such as management, manufacturing and supply chain, finance and accounting, risk management, global operations, sustainable management, consumer goods, and law. Independent directors account for 86% of the BOD, thus allowing it to make independent decisions under a system of checks and balances and perform its management supervision function effectively. As of the end of June 2024, the average tenure of the seven board members¹⁾ is 2.5 years.

Considering the changing business environment, KT&G transferred the authority to recommend and dismiss executive directors to the BOD during the 37th annual general meeting (AGM) held in March 2024. Under the existing Articles of Incorporation, our company's CEO or CEO candidate could recommend executive directors, and the CEO could propose the dismissal of executive directors. However, to improve the Board's supervisory and check functions over the management's activities, KT&G amended the Articles of Incorporation so that executive directors are appointed at the AGM among candidates recommended by the Board, which also has the authority to propose their dismissal²⁾. Consequently, the supervisory and check functions of the KT&G BOD have been reinforced, providing a foundation for further enhancement of corporate governance.

BOD Organization of the BOD and Committees



¹⁾ Based on appointed tenure

²⁾ Article 2-3, Transfer of Authority to Recommend/Dismiss Executive Directors

CORPORATE GOVERNANCE

BOD Composition

| Category | Name | Gender (Age) | Position | Date of Appointment | Anticipated Completion Date | Transaction with companies, relationship with the largest shareholder or major shareholders | Affiliated Committees | Expertise | Career |
|----------------------|-----------------|--------------|----------------------------------------------------------------|---------------------|-----------------------------|---------------------------------------------------------------------------------------------|-----------------------------------------------------------------|------------------------|----------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|
| Independent director | Shon, Kwan-soo | Male (63) | Chairperson of BOD Chairperson of Governance Committee | Mar. 2022 | 2025 AGM | Non applicable | Governance Committee Management Committee Audit Committee | Logistics, M&A | President, Korea Defense Transportation Association Permanent Advisor, CJ Logistics Co-CEO, CJ Logistics Head of CJ Human Resources |
| Independent director | Kim, Myung-chul | Male (68) | Chairperson of Evaluation & Compensation Committee | Mar. 2020 | 2026 AGM | Non applicable | Evaluation & Compensation Committee Audit Committee | Global, Finance | (Current) Advisor, SEE (Space Entertainment Enterprise) CFO (Vice President), u.Life Solutions President, Shinhan Bank of America CFO (Managing Director), Shinhan Financial Group |
| Independent director | Koh, Yun-sung | Male (50) | Chairperson of Audit Committee | Mar. 2020 | 2026 AGM | Non applicable | Evaluation & Compensation Committee Audit Committee | Finance, Accounting | (Current) Professor, Hankuk University of Foreign Studies Director, the Korean Accounting Association Director & Vice-Chairman, the Korea Tax Association |
| Independent director | Lee, Jee-hee | Female (62) | Chairperson of Sustainability Committee | Mar. 2022 | 2025 AGM | Non applicable | Governance Committee Sustainability Committee | Advertising, Marketing | (Current) CEO of W Camp CEO, W Works Adjunct Professor, Department of Advertising, Chung-Ang University Co-CEO, Post Visual |
| Independent director | Kwak, Sang-wook | Male (65) | - | Mar. 2024 | 2027 AGM | Non applicable | Governance Committee Audit Committee | Legal | (Current) Consulting Attorney at Hwahyeon Law Firm (Current) Chairman of the Audit Committee, Korea University Auditor at the Board of Audit and Inspection Chief Prosecutor of the Busan District Prosecutors' Office |
| Independent director | Shon, Dong-hwan | Male (50) | - | Mar. 2024 | 2027 AGM | Non applicable | Evaluation & Compensation Committee Sustainability Committee | Legal | (Current) Professor at the School of Law, Sungkyunkwan University Presiding Judge at Seoul Central District Court Presiding Judge at Goyang Branch of Uijeongbu District Court Former Presiding Judge at Busan District Court |
| Executive director | Bang, Kyung-man | Male (53) | CEO (President) of KT&G Chairperson of Management Committee | Mar. 2021 | 2027 AGM | Non applicable | Management Committee Sustainability Committee | Management Specialist | (Current) President and CEO of KT&G COO (Senior Executive Vice President), KT&G CBO (Executive Vice President), KT&G Chief of Strategy HQ & Global HQ, KT&G |

CORPORATE GOVERNANCE

Operation of the BOD

Teams Dedicated to Assisting the BOD KT&G stipulates the authorities, responsibilities, and operational procedures of the BOD in Article 34 of the Articles of Incorporation and Articles 7 and 9 of the Board of Directors Regulations, and we hold regular and ad hoc BOD meetings. The BOD – the core decision-making body of the company – deliberates and makes decisions on pending issues, including significant management goals, such as mid- to long-term strategies and business plans, and basic management policies for our company and stakeholders. Each director is required to attend at least 75% of the Board meetings held during the year; in 2023, a total of 16 BOD meetings were held with a director attendance rate of 100%. Furthermore, we have advanced our BOD by reorganizing its roles and functions and those of the committees under it so that it can concentrate on committing to its duties based on the Governance Advancement Project implemented in 2019 to improve our company’s governance.

BOD Activities in 2023

| No. | Date | | Agenda Items |
|-----|---------|------------|---------------------------------------------------------------------------------------------------------|
| 1 | Jan. 11 | Report | 1. Advisory results on the Group’s mid- to long-term vision and growth strategy |
| | | Resolution | 1. Approval of loan to the Indonesia Corporation (TSPM) (draft) |
| 2 | Jan. 18 | Resolution | 2. Approval of investment in the Kazakhstan Manufacturing Corporation (draft) |
| | | Report | 3. Plan to promote cooperation projects with PMI |
| | | Report | 4. KT&G vision and mid- to long-term growth strategy |
| | | Resolution | 1. KT&G-PMI global distribution and supply agreement (draft) |
| 3 | Jan. 30 | Report | 2. Receipt of shareholder proposals and letters |
| | | Resolution | 1. Approval of the 36th financial statements and the statement of disposal of retained earnings (draft) |
| 4 | Feb. 09 | Resolution | 2. Approval of the 36th business report (draft) |
| | | Report | 3. 2022 assessment report of internal accounting control system operation status |
| | | Resolution | 4. Composition of the Independent Director Nomination Committee (draft) |
| | | Report | 1. Receipt of shareholder proposals |
| 5 | Feb. 15 | Report | 1. Receipt of shareholder proposals |
| 6 | Feb. 20 | Resolution | 1. Review of the eligibility of shareholder proposals (draft) |
| | | Report | 1. 2022 assessment results of internal accounting control system operation status |
| | | Report | 2. Report on the results of compliance inspection and effectiveness assessment in 2022 |
| 7 | Mar. 08 | Resolution | 3. Recommendation of the Audit Committee member candidates (draft) |
| | | Resolution | 1. Decision on remuneration limits for directors (draft) |
| 8 | Mar. 08 | Resolution | 1. Holding of the 36th annual general meeting (draft) |
| | | Resolution | 1. 2023 safety and health management plan (draft) |
| 9 | Mar. 10 | Resolution | 1. Holding of the 36th annual general meeting (draft) |
| | | Report | 2. Budget change for the construction project of a new printing plant |
| 10 | Mar. 16 | Resolution | 1. Appointment of the BOD chairperson (draft) |
| | | Resolution | 2. Appointment of members and chairpersons of the committees under the BOD (draft) |

KT&G shares materials with directors regarding the agenda before BOD meetings and holds briefing sessions as necessary, ensuring that directors have in-depth and efficient discussions. Furthermore, to ensure efficient operation, we run the BOD Supporting Department to convene BOD meetings and share the agenda and corporate information. In addition, we respond to work performance requests and provide support for related training, seminars, and compliance.

[More information about BOD activities, including date and agenda items of 2023 BOD meeting, is available at our website.](#)

| No. | Date | | Agenda Items |
|-----|---------|------------|-----------------------------------------------------------------------------------------------------------------|
| 12 | May 11 | Report | 1. Settlement of the first quarter for the 37th fiscal year (2023) |
| | | Resolution | 1. Capital payment for the 6th and 7th installments for Starfield Suwon Co., Ltd. (draft) |
| | | Resolution | 2. Capital payment for Cheongna Medipolis PFV Co., Ltd. (draft) |
| | | Report | 3. Semi-annual settlement of accounts for the 37th fiscal year (2023) |
| 13 | Aug. 03 | Resolution | 4. Approval of interim dividend for the 37th fiscal year (2023) (draft) |
| | | Resolution | 5. Acquisition and cancellation of treasury stocks (draft) |
| | | Report | 6. Management issues |
| | | Resolution | 7. Participation in the paid-in-capital increase of Tae-A Industrial (draft) |
| | | Resolution | 8. Plan to issue corporate bonds (draft) |
| | | Report | 1. Settlement of the third quarter of the 37th fiscal year (2023) |
| | | Report | 2. Mid-to long-term (2024-2026) shareholder return plan (draft) |
| | | Resolution | 3. Approval of new loan to Indonesia Corporation (TSPM) and extension of the maturity of existing loans (draft) |
| 14 | Nov. 09 | Resolution | 4. Approval of investment in Kazakhstan Manufacturing Corporation (draft) |
| | | Resolution | 5. Extension of the deposit period for the KT&G-IBK Mutual Growth Cooperation Loan Fund (draft) |
| | | Resolution | 1. Mid- to long-term management strategy and 2024 business plan (draft) |
| 15 | Dec. 07 | Resolution | 2. 2024 budget plan (draft) |
| | | Resolution | 3. Amendment of regulations following the advancement of governance and renaming of committees (draft) |
| 16 | Dec. 28 | Report | 4. Receipt of shareholder letters |
| | | Resolution | 5. Evaluation plan for BOD activities in 2023 (draft) |
| | | Resolution | 1. Criteria for evaluating CEO candidates (draft) |

Major Decision-making Matters of the BOD

-  Convocation of the annual general meeting agenda items to be submitted
-  Financial matters
-  Important management issues
-  Matters deemed necessary by the BOD
-  Matters requiring resolution of the BOD in accordance with the relevant laws and the Articles of Incorporation

BOD Operation in 2023

No. of BOD meetings held

16

(12 regular, 4 special)

Average attendance rate of the directors

100%

* Minimum attendance of directors: 75%

CORPORATE GOVERNANCE

Process of Appointing CEO and Independent Directors

Improvement of the Composition and Operation of the CEO Nomination Committee | KT&G further systemized the CEO appointment process through the Governance Advancement project that we promoted in 2019. We enacted and amended the establishment and operation of the CEO succession plan and the CEO candidate nurturing program by the newly established Governance Committee, and delegated the decision-making authority related to the CEO succession policy to the Governance Committee. In addition, the CEO candidate verification process was strengthened from 2 steps (CEO Nomination Committee and BOD) to 3 steps (Governance Committee, CEO Nomination Committee, and BOD), and the new CEO must sign a management contract with the CEO Nomination Committee. The Evaluation & Compensation Committee, which is entirely composed of independent directors, conducts a management evaluation every year to support the CEO's efforts to implement responsible management.

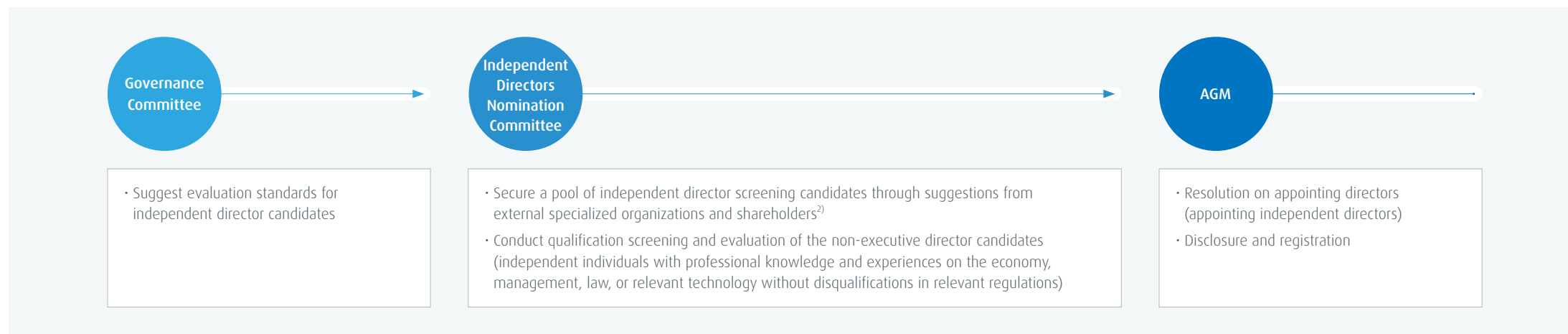
KT&G amended the Articles of Incorporation about the composition of the Committee during the 37th AGM held in March 2024 to improve the independence of the CEO Nomination Committee¹⁾. Accordingly, the previous composition of the CEO Nomination Committee, with up to seven members including the current CEO, was changed to explicitly exclude the current CEO and consist solely of up to six independent directors. This amendment has allowed KT&G to raise the objectivity and fairness of the CEO nomination process.

¹⁾ Article 2 (4), Improvement of the Composition and Operation of the CEO Nomination Committee

Improvement of the Process of Appointing Independent Directors | KT&G established the Independent Director Nomination Committee, which is composed entirely of independent directors, and is operating it in accordance with Article 542-8 of the Commercial Act. We are committed to enhancing the diversity, expertise, and independence of our BOD. During the appointment process for independent directors, this committee recommends candidates through a thorough and fair process that considers the KT&G Board Skills Matrix. The Committee selects candidates as independent directors, either from multiple search firms that recommend the best professionals based on the criteria for the independent director candidate screening proposed by the Governance Committee, or from the pool of candidates proposed by our shareholders.

Each recommended candidate is submitted individually to the AGM as a separate item of the agenda for appointment. We specify the qualifications for independent directors as "independent individuals with professional knowledge and experiences on the economy, management, law, or relevant technology without disqualifications in relevant regulations."

Independent Director Appointment Process



²⁾ Shareholders who can exercise their rights in accordance with the commercial law requirements



Process for Appointing the New CEO in 2024

The KT&G BOD amended the regulations in December 2023 to improve the fairness and objectivity of the CEO appointment process and ensure that the CEO appointment process, as well as the composition of related committees, is composed of all independent directors.

Starting at the end of December 2023, the new CEO appointment process took about three months by following a three-step procedure: Governance Committee - CEO Nomination Committee - BOD report and approval at the AGM, in accordance with relevant laws and the Articles of Incorporation. To find the best candidate, the BOD procured a broad pool of candidates through both external recommendations from multiple professional institutions and an open public recruitment process. With input from an external selection advisory panel, a thorough review was conducted over more than two months, evaluating 24 internal and external candidates. At the 37th AGM held in March 2024, Bang Kyung-man, the then-CFO/COO, was selected as the final candidate and appointed as the new CEO of KT&G.



CORPORATE GOVERNANCE

Board Committees KT&G organizes and operates committees under the BOD to enhance our ability to perform our tasks with professionalism and efficiency. The BOD has five standing committees (Governance Committee, Evaluation and Compensation Committee¹⁾, Management Committee, Sustainability Committee²⁾, and Audit Committee) and two non-standing committees (Independent Director Nomination Committee and CEO Nomination Committee). The Sustainability Committee was established in 2022 to increase sustainable corporate value by minimizing the environmental impact on the company's overall operations and to look for ways to create value for stakeholders.

A majority of directors are independent directors in all committees, to improve the committee's independence for carrying out management monitoring, excluding the Management Committee comprised of executive directors, with an independent director appointed as chairperson. Non-standing committees, such as the Independent Director Nomination Committee and CEO Nomination Committee, are operated when necessary. In 2022, we introduced the KT&G Board Skills Matrix to evaluate the professional skills and competencies of the BOD in order to improve our governance system, and the Matrix was disclosed on our website. We have recently advanced the Matrix even further by reflecting our mid-to-long-term strategic direction as well as global standards.

KT&G composes such committees under the BOD as Governance Committee, Evaluation and Compensation Committee, Audit Committee, Independent Director Nomination Committee and CEO Nomination Committee, entirely of independent directors, thereby reinforcing the independence of the BOD.

¹⁾ As of December 7, 2023, the former Evaluation Committee was renamed the Evaluation and Compensation Committee.
²⁾ As of December 7, 2023, the former ESG Committee was renamed the Sustainability Management Committee.

Organization of the Board Committees



* Committee chairperson

Changes in the Composition of Audit Committee and Independent Directors Nomination Committee



Audit Committee

Existing provision The Committee shall consist of three or more directors, and at least two-thirds of the members shall be independent directors.



Revised provision The Committee shall consist of three or more independent directors.

Independent Directors Nomination Committee

Existing provision The Committee shall consist of three or more directors, and the majority of the members shall be independent directors.



Revised provision The Committee shall consist of three or more independent directors.

CORPORATE GOVERNANCE

Independence and Expertise of the BOD

Independence of the BOD KT&G has set “independent Board of Directors” as the basis for its BOD operations, based on which we appoint independent directors who are qualified as a transparent and independent person to protect the interested parties as well as shareholders, keeping executives in check. In 2010, through the revision of the Board of Directors Regulations, it was stipulated that “the chairperson of the Board shall be elected by BOD resolution among independent directors,” ensuring that the Board remains faithful to its original role. This has also enabled us to establish an objective and independent governance system by separating the roles of the CEO and the chairperson of the Board, and this system has been in place for 14 years.

In appointing independent directors, we select candidates through an independent professional institution and search firms, and we double-check each candidate’s independence through a company evaluation and through external professional institutions. While preparing the bill introduction at the AGM, the Independent Director Qualification Certificate is checked with the candidates themselves to ensure that we can appoint directors who are qualified in regard to fairness and independence.

With the exception of the Management Committee and Sustainability Committee, all other committees under the BOD are exclusively composed of independent directors to faithfully fulfill their roles of keeping the management in check. The Governance Committee, which proposes the criteria for appointing independent directors, and the Independent Director Nomination Committee, which evaluates and recommends independent director candidates, are also exclusively composed of independent directors only to further improve the independence of the BOD.

Independence of the BOD



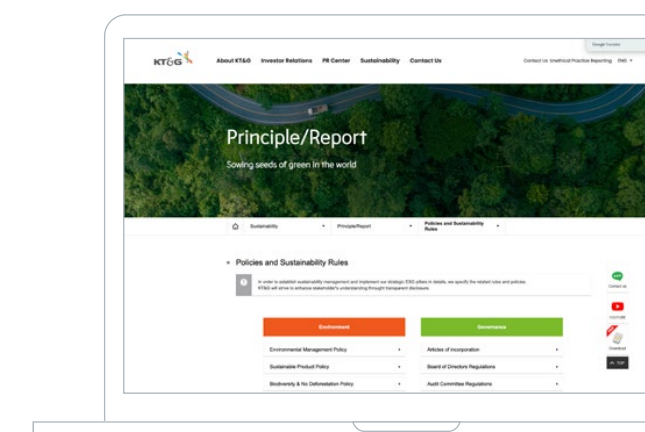
Rate of the independent directors

86% or more

Separation of the CEO and Chairperson of the BOD

Independence of Independent Directors and Prohibition on Concurrent Position

| Category | Whether the independence level meets the qualification | | | | | | | | | Concurrent positions | | |
|-----------------|--------------------------------------------------------|---|---|---|---|---|---|---|---|----------------------|---------------------------------------|-------------|
| | ① | ② | ③ | ④ | ⑤ | ⑥ | ⑦ | ⑧ | ⑨ | Concurrent position | Organization/Position | Transaction |
| Shon, Kwan-soo | ● | ● | ● | ● | ● | ● | ● | ● | ● | - | - | - |
| Kim, Myung-chul | ● | ● | ● | ● | ● | ● | ● | ● | ● | - | - | - |
| Koh, Yun-sung | ● | ● | ● | ● | ● | ● | ● | ● | ● | - | - | - |
| Lee, Jee-hee | ● | ● | ● | ● | ● | ● | ● | ● | ● | Applicable | W Camp/CEO | X |
| Kwak, Sang-wook | ● | ● | ● | ● | ● | ● | ● | ● | ● | Applicable | Korea Copywrite Center, Inc./Director | X |
| Shon, Dong-hwan | ● | ● | ● | ● | ● | ● | ● | ● | ● | - | - | - |



I. CORPORATE GOVERNANCE

Expertise of the BOD In 2022, KT&G proactively introduced the Board Skills Matrix (BSM) among domestic companies to promote the sustainable development of the company. Recently, through consultation with external professional organizations, we have enhanced this system by reflecting our mid- to long-term strategic direction and global standards. Accordingly, the Independent Director Nomination Committee selects and appoints candidates for independent directors based on the enhanced BSM and ensures they have expert knowledge and practical experience in various fields such as management, manufacturing and supply chain, finance and accounting, risk management, global operations, sustainable management, consumer goods, and law, thereby enhancing the expertise of the Board. At the 37th AGM held in March 2024, two new independent directors with expertise in law and regulation were appointed. The two newly independent outside directors will contribute to the company's ability to identify, understand, and comply with major issues related to government regulations. KT&G also operates a balanced BOD that is not biased towards specific backgrounds or professions, ensuring that board members can discuss agenda items from various perspectives and make rational decisions.

The department in charge of BOD operations provides human and material resources so that the BOD can make the best decisions. This department offers training opportunities and holds seminars to help BOD members improve their professionalism by acquiring the knowledge and skills necessary for business performance. For new directors, we provide data on the overall management status of our company and operate a site-visiting program for places of business.

KT&G Board Skills Matrix

| Experience and expertise | Shon, Kwan-soo | Kim, Myung-chul | Koh, Yun-sung | Lee, Jee-hee | Kwak, Sang-wook | Shon, Dong-hwan | Bang, Kyung-man (Executive) |
|-----------------------------|----------------|-----------------|---------------|--------------|-----------------|-----------------|-----------------------------|
| Senior Executive Leadership | ● | ● | | ● | ● | ● | ● |
| Manufacturing/Supply Chain | ● | | | | | | |
| Finance/Accounting | | ● | ● | | | | ● |
| Risk Management | ● | ● | | | | | ● |
| Global Business | ● | ● | | ● | | | ● |
| Sustainability | | | | ● | | | ● |
| Consumer Industries | ● | | | ● | | | ● |
| Legal/Regulatory | | | ● | | ● | ● | |

BOD Training in 2023

| Date | Targets | Trainees | Content |
|---------|----------------------|-------------------------------|------------------------------------------------------------------------------------------------------------|
| Apr. 28 | Independent director | Kim, Myung-chul | Identification of the management status of business divisions and key issues related to company management |
| May 02 | Independent director | Lim, Min-kyu; Baek, Jong-soo | Identification of the management status of business divisions and key issues related to company management |
| May 03 | Independent director | Lee, Jee-hee; Koh, Yun-sung | Identification of the management status of business divisions and key issues related to company management |
| May 04 | Independent director | Shon, Kwan-soo | Identification of the management status of business divisions and key issues related to company management |
| Oct. 26 | Independent director | Lim, Min-kyu | Identification of capital market trends and key issues related to company management |
| Oct. 30 | Independent director | Baek, Jong-soo | Identification of capital market trends and key issues related to company management |
| Oct. 31 | Independent director | Lee, Jee-hee; Kim, Myung-chul | Identification of capital market trends and key issues related to company management |
| Nov. 01 | Independent director | Koh, Yun-sung | Identification of capital market trends and key issues related to company management |
| Nov. 02 | Independent director | Shon, Kwan-soo | Identification of capital market trends and key issues related to company management |



KT&G Board Skills Matrix

CORPORATE GOVERNANCE

Evaluation and Compensation of the BOD

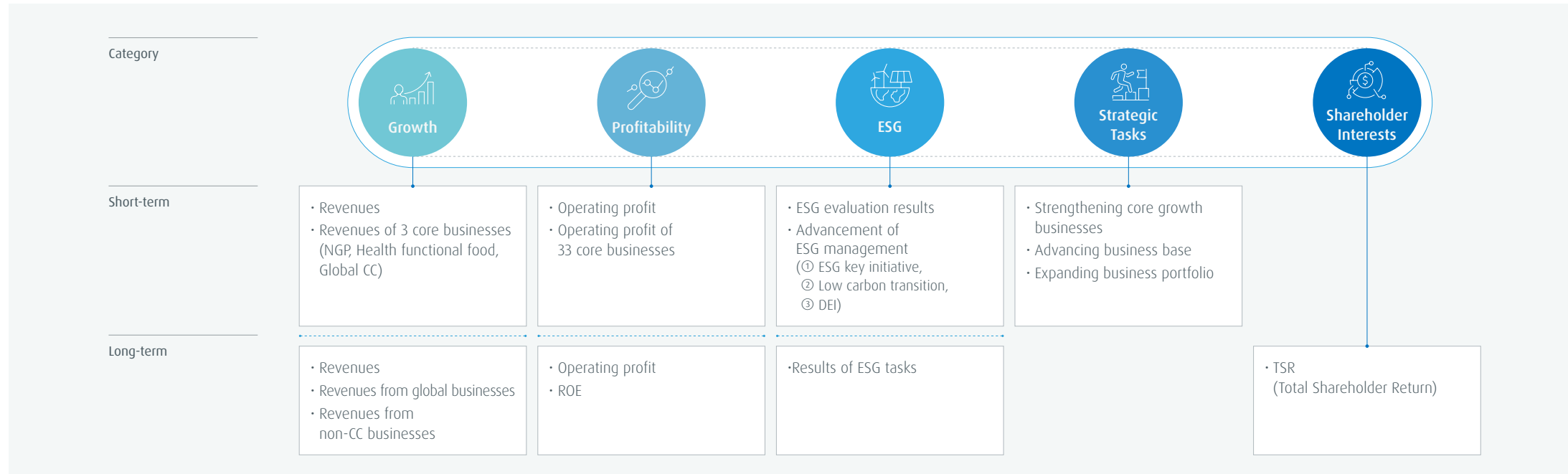
Advancement of CEO Performance Evaluation and Compensation KT&G's CEO management evaluation indicators are categorized into short-term indicators, assessed annually, and long-term indicators, evaluated every three years. In April 2024, considering business strategies and changes in the management environment, new short-term and long-term CEO management evaluation indicators were set to establish a sustainable foundation for the company. These indicators are comprised of key performance indicators (KPIs) such as growth, profitability, ESG, strategic tasks, and shareholder interests, through which we plan to evaluate management performance with a focus on long-term responsible management and enhancing shareholder value.

Since 2021, KT&G has incorporated ESG evaluation criteria into the CEO evaluation indicators to promote long-term value-driven activities by top management. To systematically oversee the establishment and integration of the ESG management system, ESG items have been designated as process indicators (non-quantitative) in the short-term and as result indicators (quantitative) in the long-term starting in 2024. Through this approach, we evaluate industry-specific ESG key initiative tasks, low carbon transition tasks, and DEI (Diversity, Equity, and Inclusion) tasks, and incorporate the evaluation results from major ESG rating agencies into the CEO evaluation.

In May 2021, KT&G introduced a performance-linked stock compensation system through a board resolution to induce responsible management by executives and align the interests of shareholders and management to maximize shareholder value. Under this system, a portion of the CEO's long-term performance incentive is paid in stocks. Additionally, in February 2024, KT&G increased the proportion of stock compensation in the CEO's long-term performance incentives to approximately 60% and introduced stock compensation in short-term performance incentives as well. The scope of the performance-linked stock compensation system was expanded to include all executives. For long-term performance incentives of executive directors (including the CEO), KT&G implemented a restricted stock unit (RSU) scheme, which includes a vesting period and a three-year deferral payment. This ensures the compensation system is linked to shareholder value from a long-term perspective.

Formalization of Clawback provision within CEO Performance Compensation System | KT&G has formalized a clawback provision within the compensation regulations for executive directors. If it is confirmed that there has been manipulation or distortion of evaluation data due to intentional or gross negligence by executive directors, including the CEO, the policy stipulates that the entire performance bonus for the relevant year must be returned to the company upon resolution by the BOD, composed of independent directors.

CEO (President) Performance Evaluation Indicators



CEO-to-Employee Pay Ratio (2023)



CEO's compensation: KRW 1,677 million

Pay of the median employee: KRW 99 million



¹⁾ Calculated by dividing the CEO's compensation by the pay of the median employee

I. CORPORATE GOVERNANCE

BOD Evaluation and Compensation System

Evaluation of the BOD Activities | KT&G ensures fairness in evaluations by annually approving a “BOD activity evaluation plan (draft)” through BOD resolutions at the end of each year, which determines evaluation criteria, methods, and other relevant matters. Evaluation items are divided into separate grids for item-specific evaluations on a 5-point scale, incorporating opinions gathered through descriptions. The purpose of BOD activity evaluation is to enhance corporate governance performance, with results shared among the board to inform subsequent board operations. Additionally, evaluation outcomes of the BOD and its committees, attendance rates of independent directors, and contributions during BOD and committee meetings are comprehensively considered as reference material for reappointment decisions. Moreover, the BOD and its committees conduct self-assessments annually, utilizing evaluation results to enhance their respective operations in the following year.

Evaluation and Compensation Committee | KT&G’s Evaluation and Compensation Committee consists solely of independent directors to ensure fair management evaluation, and it conducts evaluations of the CEO every year to support the establishment of appropriate compensation. Specifically, the Committee resolves diverse matters concerning the CEO’s performance evaluation and compensation, executive’s remuneration and retirement benefits, and employee severance pay regulations. It also determines contract conditions related to management objectives for CEO candidates, while also measuring quantitative and non-quantitative performance indicators for the CEO.

Evaluation and Compensation of Independent Directors | KT&G conducts annual evaluations of independent directors at the end of each year in accordance with Article 34, Paragraph 6 of the Articles of Incorporation and Article 17 of the Board of Directors Regulations. These annual evaluations aim to promote efficient BOD operation and rational improvement of corporate governance structure. The evaluation criteria consist of BOD roles and responsibilities, BOD operational efficiency, BOD committees, and mutual evaluations among independent directors. Evaluation questions and items are divided into item-specific evaluation questions rated on a 5-point scale and feedback gathered through descriptive content. The remuneration for independent directors is determined within the limit of directors’ remuneration approved by the AGM, taking into account the remuneration levels of the same industry or competitors. The specific amount and payment method are decided by the BOD.

Compensation Paid to Directors (2023) (Unit: KRW million)

| Category | No. of persons | Total amount paid | Average pay per person |
|---------------------------|----------------|-------------------|------------------------|
| Registered director | 2 | 2,468 | 1,234 |
| Independent director | 2 | 200 | 100 |
| Member of Audit Committee | 4 | 382 | 96 |
| BOD | 8 | 3,050 | 381 |

2023 BOD Activities Evaluation Results

| Evaluation Item | Points (5-point scale) | |
|--------------------------------------------------|--------------------------------------------------------------------------------------------------------------|------|
| Role and responsibility of the BOD (4.83 points) | Fair and faithful performance of duties for the benefit of the company and all shareholders | 4.88 |
| | Review of major strategies and financial goals, etc. and continuous observation of the degree of achievement | 5.00 |
| | Active participation in the management evaluation and compensation | 4.63 |
| | Supervision and checks on the management | 4.63 |
| | Understanding corporate ethical and social responsibility and reflecting decision-making | 5.00 |
| Efficiency of the BOD operation (4.90 points) | Frequency and regularity of BOD meetings | 5.00 |
| | Adequacy of the composition of the BOD | 4.88 |
| | Fidelity of materials provided by the BOD | 4.75 |
| | Fidelity in the preparation and implementation of the rules for the BOD operations | 5.00 |
| | Adequacy of training and support for new directors | 4.88 |
| Committees under the BOD (4.88 points) | Expertise in committee composition and proportion of independent directors | 4.88 |
| | Appropriateness of committee operation method | 5.00 |
| | External expert support for the committee | 4.75 |

Evaluation and Compensation Committee Activities in 2023

| No. | Date | Attendees/Total | Agenda | | Whether approved |
|-----|---------|-----------------|------------|----------------------------------------------------------------|------------------|
| | | | Category | Content | |
| 1 | Feb. 15 | 4/4 | Resolution | Short-term management evaluation of the CEO for 2022 (draft) | Approval |
| | | | Resolution | Long-term management evaluation of the CEO for 2022 (draft) | Approval |
| | | | Resolution | Setting the CEO’s short-term management goals for 2023 (draft) | Approval |

I. CORPORATE GOVERNANCE

II. Audit Committee

KT&G's Audit Committee is composed of three or more independent directors in accordance with the operational standards specified in the Commercial Act and internal regulations. Article 4 of the Audit Committee Regulations stipulates that "the Committee shall perform its audit duties independently from the BOD, executive bodies, and other departments, and shall maintain objectivity in performing its audit duties," thereby ensuring that the Audit Committee can perform its duties independently. When selecting candidates for the Audit Committee, we also review whether they can perform audit duties independently and objectively in accordance with the Audit Committee Regulations. To enhance expertise, two out of the four Audit Committee members are appointed as financial and accounting experts. The Committee has regular quarterly meetings as stipulated in Article 8 of the Audit Committee Regulations, with the chairperson able to convene ad hoc meetings, as necessary. In 2023, a total of 6 audit committee meetings were held to discuss agenda items such as shareholder meeting agenda review, internal control management systems, audit planning team business plans, financial statements, internal audit results, and matters related to external auditors.

Composition of Audit Committee

| Position | Composition | | Career and Qualification | Expertise in accounting and finance | |
|--------------|----------------------|-----------------|------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|-------------------------------------|----------------------------------------------------|
| | Independent director | Name | | Applicable or not | Expert type |
| Chair-person | ○ | Koh, Yun-sung | <ul style="list-style-type: none"> Professor in Business Administration (Accounting), Hankuk University of Foreign Studies (2010-present) Director, Korean Accounting Society and Korea Tax Association (2010-present) Ph. D Business Administration (Accounting), Yonsei University (2007) | ○ | Academic degrees in accounting and finance |
| Member | ○ | Kim, Myung-chul | <ul style="list-style-type: none"> CFO, Shinhan Financial Group (2007-2008) Finance Director, Shinhan Bank (2005-2006) Foreign Currency Team Head, Shinhan Bank (1993-1998) | ○ | Professional experiences in financial institutions |
| Member | ○ | Shon, Kwan-soo | <ul style="list-style-type: none"> Co-CEO, CJ Logistics (2014-2019) CEO, CJ GLS (2012-2013) Vice President, CJ GLS (2010-2012) | - | - |
| Member | ○ | Kwak, Sang-wook | <ul style="list-style-type: none"> Consulting Attorney, Hwahyeon Law Firm (2019-present) Chairman of the Audit Committee, Korea University (2020-present) Chief Prosecutor of the Busan District Prosecutors' Office (2010-2011) | - | - |

* Audit Committee Member Kwak, Sang-wook was newly appointed at the 37th AGM held on March 28, 2024.

The internal audit planning team, comprised of Certified Public Accountants (CPAs) and employees with diverse professional backgrounds in operations, marketing, manufacturing, procurement, IT, and other areas, primarily supports the Audit Committee in conducting audit functions efficiently. Based on the annual audit plan, the audit team audits the company and reports the results to the Audit Committee quarterly, ensuring systematic oversight.

Audit Committee Training in 2023

| Date | Conducted by | Trainees | Content |
|---------|-----------------------------|--------------------------------|----------------------------------------------------------------------------------------------------------------------------|
| Jan. 31 | EY Hanyoung | Kim, Myung-chul | Seminar on "corporate strategies in the era of hyper-polarization" |
| May 25 | Samil PwC Governance Center | Koh, Yun-sung | Seminar on "the future of corporations, corporations of the future, and more" |
| Jun. 22 | B1 | Koh, Yun-sung | Understanding the Differences between RAS (Russian Accounting Standards) and K-IFRS (Korean Financial Reporting Standards) |
| Jul. 06 | EY Hanyoung | Kim, Myung-chul | Seminar on "top priorities for BOD and Audit Committee" |
| Sep. 01 | EY Hanyoung | Koh, Yun-sung; Kim, Myung-chul | EY Hanyoung's 4th accounting transparency seminar |

Attendance Rate of Audit Committee in 2023

100%



KT&G Corporate Governance

BUSINESS ETHICS AND COMPLIANCE

Ethical Management

Ethical Management System

KT&G Group Business Ethics Charter | KT&G emphasizes the importance of promoting ESG management and complying with international ethical norms. To reflect ethical values that meet global standards, KT&G has established and operates the KT&G Group Business Ethics Charter. It embodies many principles, ranging from business ethics, information protection, fair trade practices, responsible business and marketing activities, research ethics, environmental protection, and social contributions, to human rights protection. It contains common principles and standards that must be adhered to by all employees of KT&G and is universally applicable to the entire Group, including domestic and international subsidiaries."

As the Charter is operated for employees of the Group, the content is structured in an easily understandable manner, breaking away from the complex format of traditional legal texts. Specific examples are included to assist members in making quick and accurate decisions in situations requiring decision-making. Furthermore, it has been translated into the languages of the countries where our subsidiaries are located (a total of eight languages, including Indonesian), and related educational materials have been created and distributed in each language. This supports all Group members in firmly establishing a global standard of ethical awareness. Moving forward, KT&G plans to continuously present ethical values customized to market environments based on the KT&G Group Business Ethics Charter, conducting continuous education and audits to enhance capabilities in managing risks.

Ethical Management Promotion Organization | In the first half of 2024, KT&G implemented organizational restructuring to establish an integrated and systematic legal and ethical management framework at the Group level. The compliance and ethical management organization, which includes Compliance Management Center, Domestic Legal Affairs Department, and Global Legal Affairs Department, aims to ensure a stable management environment while safeguarding the Group's revenue activities and performance from potential risks. This organization also fosters a culture of ethics and compliance within the company, promotes proactive ethical perspectives among employees, and works to uphold sustainable corporate values while driving overall corporate success.

Ethical Management Organization



Ethical Management Activities

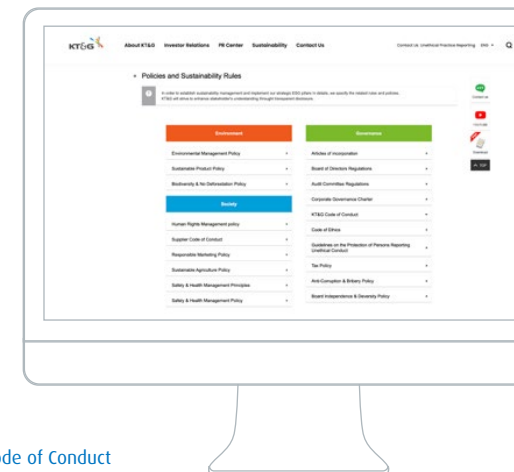
KT&G enhances ethical awareness among its entire workforce through regular ethics management training sessions focusing on preventing workplace harassment, bullying, and corruption. Additionally, the company conducts annual self-assessments to measure compliance with ethical management practices and encourages employees to pledge their commitment to ethical behavior. Initiatives such as the "Think Twice" ethical management campaign are promoted to encourage active participation and the internalization of ethical values among employees. KT&G also takes the lead in building a culture of ethical management throughout its value chain by signing the Special Terms of Business Ethics when entering into contracts with partners. Moreover, we continuously monitor fair trade and unethical behavior among members through stakeholder surveys.

In May 2024, KT&G participated in the Ethical Management Best Practices Contes, sponsored by the Anti-Corruption & Civil Rights Commission and organized by the Institute for Industrial Policy Studies and BEST ESG Forum, in order to strengthen stakeholder trust. Recognized for its efforts in establishing an ethical management framework and promoting ethical culture, KT&G was honored with the "Representative BEST ESG Forum Award." KT&G aims to continue enhancing its competitiveness as an exemplary company in transparent and ethical practices, building trust with stakeholders through proactive external initiatives.

Major Ethical Management Activities



Received the Representative BEST ESG Forum Award



KT&G Code of Conduct

I. BUSINESS ETHICS AND COMPLIANCE

Unethical Behavior Reporting System KT&G operates an “unethical behavior reporting system” that allows stakeholders, including employees and business partners, to report unethical behaviors such as bribery, personnel solicitation, misconduct, workplace harassment, bullying, collusion, and others, either anonymously or openly without time or location constraints. The system is supported by established guidelines to protect whistleblowers from retaliation and adverse actions, ensuring confidentiality and transparency through the “unethical conduct reporting and handling manual.” In June 2023, KT&G expanded the reporting channels by adding languages of countries where its overseas subsidiaries are located, increasing the total to nine languages (from the initial two of Korean and English). This expansion aims to strengthen overall ethical management across the group as its global operations expand.

[Unethical Practice Reporting](#) [Guidelines on the Protection Persons Reporting Unethical Conduct](#)

When a report of unethical behavior is received through the website reporting channel, the company reviews the details of the incident to determine whether to proceed with an investigation. If an unethical behavior is substantiated, immediate actions such as disciplinary measures against the involved party and corrective actions are taken. Depending on the severity and outcome, whistleblowers may also be compensated according to relevant regulations. In 2023, 89 reports were received through the unethical conduct reporting channel. KT&G addressed these reports with actions such as referral to business authorities for further investigation, implementing preventive measures where necessary, and conducting ongoing management to prevent recurrence. KT&G will continue to promote the reporting system to strengthen employees’ compliance awareness and practice ethical management.

[Refer to the “ESG Facts & Figures” to find more information about the status of reporting and measures taken on unethical conduct](#)

Expansion of languages provided for the unethical behavior reporting system

| PREVIOUS (- MAY 2023) | CURRENT (JUNE 2023 -) |
|-----------------------|-------------------------------------------------------------------------------------|
| Korean, English | Korean, English, Chinese, Japanese, Indonesian, Taiwanese, Russian, Turkish, Kazakh |

How to Report Unethical Behavior

| | | |
|----------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|-------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|--------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|
| <p>REPORTING USING REAL NAME</p> <p>The reporter is requested to consent to and enter his or her personal information. The identity of the reporter is protected in accordance with the Guidelines on the Protection Persons Reporting Unethical Conduct.</p> | <p>ANONYMOUS REPORTING</p> <p>Those who are concerned about the disclosure of their identity may report anonymously. However, if the content of the report is ambiguous, the report may not be investigated.</p> | <p>OTHERS</p> <p> Postal mail Compliance Management Center 19F KT&G Tower, 416 Yeongdong-daero, Gangnam-gu, Seoul, Korea</p> <p> E-mail ethics@ktng.com</p> |
|----------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|-------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|--------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|

Unethical Behavior Handling Process



BUSINESS ETHICS AND COMPLIANCE

Compliance Management

Compliance Management System

[KT&G Anti-Corruption & Bribery Policy](#)

Domestic Compliance Management System | With stricter regulations on corporate social responsibility, fair competition, and corruption prevention, KT&G has established compliance control standards and strengthened its compliance management system. Additionally, the company sets the direction for compliance activities and strives for fair and transparent business practices to secure customer trust and promote sustainable growth. Through its Compliance Management Center, KT&G conducts regular assessments of compliance among its employees and reports the findings to the board of directors. To promote internal compliance culture, the company operates legal information systems, compliance, and ethics evaluation indicators across all institutions (HQs, plants, regional offices), and integrates them with compensation. This process aims to enhance the risk management capabilities of each employee.

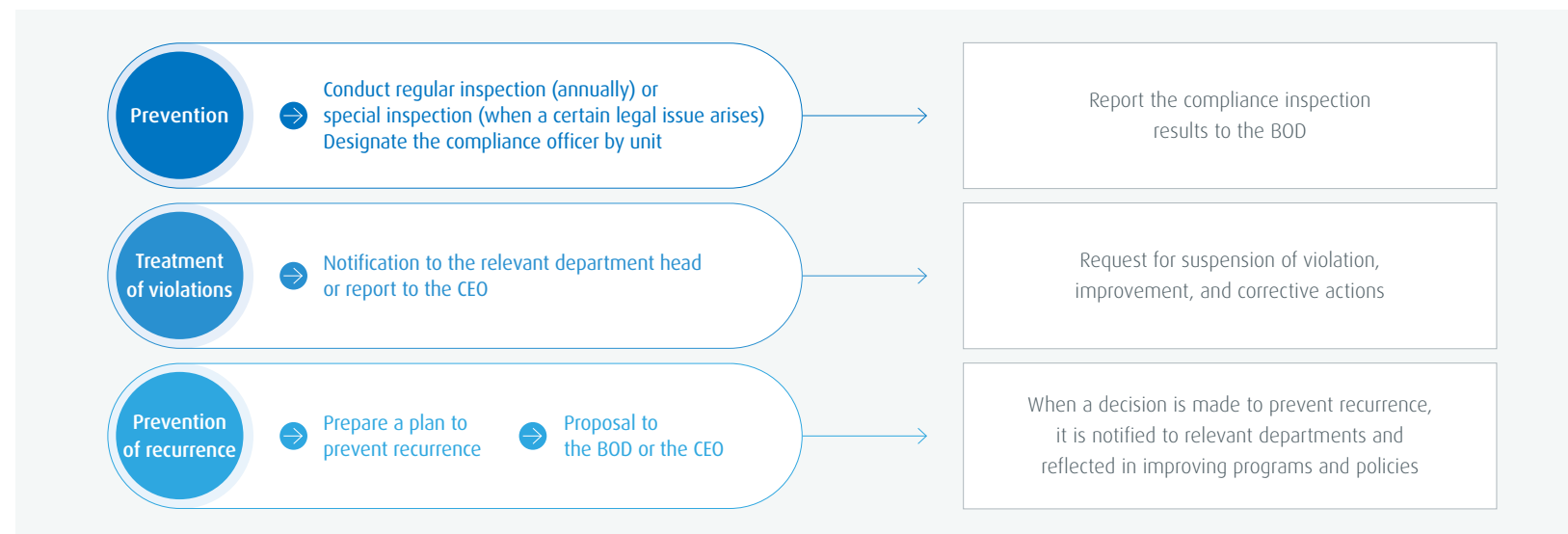
Anti-Corruption & Bribery Policy | KT&G has established and utilizes the KT&G Anti-Corruption & Bribery Policy to eradicate corruption, bribery, and other misconducts, promoting transparent business activities. Through this policy, KT&G demonstrates a stronger commitment to preventing bribery and corruption in accordance with global standards outlined in the KT&G Group Ethics Charter.

Monitoring of Law/Policy Trends and Preemptive Response | KT&G continuously monitors the enactment and revision of business-related laws, government policy trends, and the impact of such changes to analyze potential risks related to its business, assess legal risks, and proactively respond. Key matters are promptly communicated to relevant departments to ensure compliance with related laws and policies. Moving forward, we plan to continue effectively promoting compliance control activities through ongoing monitoring and response system operations.

Global Compliance System | As KT&G expands its global business, it is strengthening compliance management activities to adhere to local laws in each country and thus to predict and prevent potential legal risks in advance. Each overseas subsidiary operates its business and manages its employees based on internal regulations. Additionally, KT&G has established GIP (Global Information Portal), a legal information sharing platform, and appoints Compliance Officers for each subsidiary. They serve as a bridge between the headquarters and overseas subsidiaries to ensure there are no blind spots in compliance management.

GIP provides legal advisory services and contract reviews customized to overseas organizations, aiming to prevent legal risks in respective countries. It is constantly updated to enhance compliance functionalities. Additionally, KT&G monitors compliance status through the Compliance Weekly Report submitted by each overseas Compliance Officer, providing ongoing support for subsidiaries to identify and address issues independent of each other.

Compliance Control Process



Major Global Compliance Performance in 2023

| Performance | Content |
|------------------------------------------------------------------------------|-----------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|
| Responding to global legal issues | <ul style="list-style-type: none"> · Risk management by monitoring and responding to global sanctions · Responding to legal issues by complying with local laws and regulations, regarding the establishment, merger, and liquidation procedure of overseas organizations · Executing on-site legal support for overseas business, including negotiation assistance and dispute resolution |
| Stabilizing global business environment through localized legal consultation | <ul style="list-style-type: none"> · Managing initial market entry risks by reviewing price/non-price regulations by country · Reviewing the legal environment to determine the appropriateness of entering a new country · Providing customized legal services to newly established overseas organizations to reduce business risks and contribute to localization |
| Advancing global contract management | <ul style="list-style-type: none"> · Standardizing global distribution contracts and providing guidelines · Training on major legal issues and precautions for each contract case |
| Internalizing global compliance | <ul style="list-style-type: none"> · Compliance officer seminars for all overseas subsidiaries · Providing education on the "understanding global compliance" to prospective expatriates · Guidance and training for new compliance officers of overseas subsidiaries |

I. BUSINESS ETHICS AND COMPLIANCE

Compliance Inspection KT&G conducts compliance audits across all domestic entities including HQs, plants, and regional offices to assess employees’ ethical awareness, managerial compliance, responsible marketing practices, subcontracting transactions, and commercial laws. These audits aim to evaluate the compliance status of employees and derive improvement measures. Efforts are also made to support autonomous compliance checks within the organization to enhance supply chain compliance. Furthermore, KT&G conducts compliance audits for overseas subsidiaries to assess the ethical awareness of expatriates and local managers, as well as their understanding and adherence to the compliance reporting system. The audit results and improvement plans are reported to the BOD to continually develop KT&G’s compliance management practices.

Domestic Compliance Inspection I KT&G continues to regularly conduct compliance audits targeting domestic business sites in accordance with the Commercial Act and the company’s compliance control standards. In 2023, the results confirmed a satisfactory level of compliance awareness among KT&G employees. For items where some deficiencies were identified, follow-up actions such as training and the distribution of legal and regulatory guidance materials were taken.

Global Compliance Inspection I In line with the global business expansion and the Group’s vision and growth roadmap, the need for managing compliance of KT&G’s overseas subsidiaries has increased. Accordingly, we are promoting on-site inspection of overseas subsidiaries, identifying areas for improvement, and sharing the headquarters’ compliance activities and future compliance directions.

In 2023, we conducted inspection on the awareness and compliance of ethics and reporting systems among a total of 179 local managers from seven overseas subsidiaries (Indonesia Corporation, Russia Manufacturing/Sales Corporation, Kazakhstan Manufacturing/Sales Corporation, Türkiye Corporation, Taiwan Corporation). The results of the inspection indicated that the subjects’ adherence to ethical awareness and reporting systems was generally satisfactory. Depending on the level of awareness, additional measures such as the distribution of educational materials were taken for some institutions to support the internalization of the KT&G Group Ethics Charter and the establishment of a compliance system. In particular, visits were made to the Türkiye Corporation, Russia Manufacturing/Sales Corporation, and Kazakhstan Manufacturing/Sales Corporation to promote compliance directions, conduct status assessments, and identify areas for improvement in 2023. KT&G will continue to strive for each overseas subsidiary to achieve compliance systems at the global standard.

Results of the Compliance Inspection in 2023



Employees of all domestic business sites and overseas subsidiaries of KT&G

4,293 persons

Domestic Compliance Inspections in 2023

| Inspection Item | Target | Respondents (Person) | Note |
|------------------------------------|------------------------------------------------|----------------------|----------------------------------------------------------------|
| Employees’ ethical awareness | All employees | 4,114 | Including dispatched employees, while excluding those on leave |
| Matters to be observed by managers | Employees below the position of Head of Office | 334 | Excluding (P) and (F) team leaders |
| Subcontracting | Departmental managers and employees in charge | 82 | SCM Office and other subcontracting-related organizations |
| Responsible marketing | | 37 | Marketing HQ, NGP Business HQ |
| Sales-related laws and regulations | Staff in sales department | 1,428 | Chief of regional headquarters, excluding drivers |
| Supply Chain Compliance | Purchasing Management Team | 5 | Self-assessment by employees |

Global Compliance Inspection in 2023

| Inspection Item | Target | Respondents (Person) | Note |
|--------------------------------------------------------------|------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|----------------------|----------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|
| Employees’ ethical awareness and compliance reporting system | 7 overseas subsidiaries (Indonesia Corporation, Russia Manufacturing/Sales Corporation, Kazakhstan Manufacturing/Sales Corporation, Türkiye Corporation, Taiwan Corporation) | 179 | <ul style="list-style-type: none"> Ethical Awareness <ul style="list-style-type: none"> - Inspection of whether there have been any instances of witnessing or experiencing workplace sexual harassment and bullying, acceptance of gifts by employees, misuse of assets, racial discrimination, and lack of respect for cultural diversity Compliance Reporting System <ul style="list-style-type: none"> - Inspection of awareness of reporting channels, awareness of education and compliance reporting obligations, and whether these are being implemented |



I. BUSINESS ETHICS AND COMPLIANCE

II. Compliance Education and Cultural Dissemination

Activities to Spread Compliance Culture in Korea

Appointment and Operation of Compliance Officers KT&G has been continuously expanding the Compliance Officer system, ever since its establishment in 2021. In 2023, we designated Compliance Officers not only for each domestic department but also for overseas and domestic subsidiaries, which has enabled us to establish and operate an infrastructure that allows for the swift discussion of legal risks that may arise in the course of business with the compliance department in charge at each organization. Compliance Officers support ongoing compliance activities in daily operations by spreading legal policy trends related to institutional tasks. Through continuous education and seminars for Compliance Officers, KT&G aims to expand autonomous compliance based on the Compliance Officer system of each institution.

Compliance and Ethical Management Evaluation Indicators Liked with Compensation To highlight the significance of compliance activities, KT&G integrated compliance and ethical management practices into its organizational evaluation criteria in 2021, and extended it to all KT&G departments and overseas subsidiaries in 2023. In particular, detailed indicators were revised during the year to implement reporting obligations for each department, creating a response system to quickly identify and report risks associated with the company.

KT&G conducts organizational evaluations annually based on the “compliance and ethics management” evaluation criteria, reflecting the evaluation results in determining the size of incentives for each organization, which are also linked to monetary incentives for employees. These indicators encourage employees to enhance compliance and ethical awareness in their work performance and manage compliance risks autonomously, thereby contributing to enhancing operational capabilities. Based on this, KT&G plans to further spread the compliance culture within the organization.

Compliance Training KT&G plans and conducts compliance education programs tailored to the duties and responsibilities of its employees to enhance their compliance awareness. In 2023, a total of 25 compliance training sessions were conducted, including regular compliance training according to compliance control standards, compliance training during recruitment, and special compliance training. The training covered topics tailored to the characteristics of the target audience and their specific job functions, ranging from workplace harassment prevention to tobacco business law.

Operation of the Legal Information System KT&G operates an online portal site called the Legal Information System to efficiently prevent legal risks that may arise in business operations. This site can be accessed via the company’s internet portal. It allows employees to utilize various legal information such as legal advice, contract reviews, standard contracts, internal regulations, and legal policy trends. In 2023, we conducted legal reviews of 5,657 contracts and 412 consultations related to business through the Legal Information System.

Compliance Training in 2023

| Category | Trainees | Content |
|--------------------------------------|-----------------------------------------------------------|------------------------------------------------|
| Regular compliance training | All employees | Occupational safety and health |
| | | Prevention of workplace sexual harassment |
| | | Prohibition of workplace bullying |
| | | Disability awareness improvement |
| Compliance training upon recruitment | New hires on Level 6 and 9, and experienced hires in 2023 | Personal information protection |
| | | Understanding ethical management |
| | | Understanding tobacco business law |
| Special compliance training | Managers | Occupational safety and health |
| | | Prevention of workplace sexual harassment |
| | Expatriate in overseas subsidiary | Prohibition of workplace bullying |
| | | Compliance Officer by department |
| | | Understanding the roles of Compliance Officers |



Seminar training materials for Compliance Officers

BUSINESS ETHICS AND COMPLIANCE

Activities Aimed at Spreading a Culture of Global Compliance

Global Compliance Training The Global Legal Affairs Department specifies the training content necessary to enhance “understanding of global compliance” for sustainable business and to mitigate legal risks that may arise during the expansion of overseas operations, and conducts relevant trainings for newly hired and transferred employees, as well as expatriates in overseas subsidiaries, who are responsible for these tasks. Additionally, the Department is promoting training to strengthen the compliance capabilities of employees responsible for global export business. This includes principles of managing contracts in English and key considerations when negotiating with overseas partners. In addition, it is running various compliance training programs in collaboration with relevant institutions such as Human Resources Development Institute to support employees of overseas subsidiaries in adhering to global compliance standards.

Holding Compliance Officer Seminars With the goal of establishing a comprehensive compliance framework, KT&G organized seminars in 2023 for all Compliance Officers of overseas subsidiaries. These seminars were designed to communicate the Croup’s compliance vision, objectives, and strategies, while also clarifying the responsibilities and roles of compliance officers. Additionally, in 2023, efforts were made to strengthen compliance management by establishing evaluation indicators for compliance and ethics management. To increase awareness among staff, seminars on the importance and necessity of compliance were held for all Compliance Officers at overseas subsidiaries. Moreover, for newly hired Compliance Officers at overseas subsidiaries, onsite visits and weekly online one-on-one education sessions were conducted to enhance understanding of KT&G’s compliance policies and cultivate practical capabilities, thereby supporting systematic management of compliance risks at respective subsidiary.

Fair Trade and Fair Competition KT&G has been implementing the fair trade compliance program (CP) based on the “Operation Guidelines for KT&G Fair Trade Compliance Program” established in 2002, and Compliance Officer appointed by the BOD is responsible for general CP operations. In 2020, we revised the Guidelines to activate CP, reflecting the revised matters relevant to the regulations of the Fair Trade Commission and the Korea Fair Trade Mediation Agency. Reflecting the amendments to the Fair Trade Act and the Subcontracting Act, we have published the “Fair Trade Compliance Manual” in e-Book format to enhance accessibility and usability for our employees. In 2023, to protect subcontractors in supply transactions and promote fair trade, we introduced the delivery price indexation system, and as a way to foster mutual growth, we participated in the “companies participating in the delivery price indexation system” by signing delivery price indexation agreements with 29 subcontractors of KT&G.

Additionally, KT&G revised its code of ethics to explicitly prohibit illegal communication with competitors. Through the Guidelines on Compliance for Sales Offices, we enumerate examples of potential fair trade violations that may occur in the field, thereby preventing unfair trade practices and unfair competition. Furthermore, through compliance checks, we continuously monitor and ensure adherence to relevant laws and regulations to prevent any actual illegal activities, while also providing education on areas where awareness may be lacking.



Overseas Subsidiaries that Conducted Compliance Training in 2023



Global (Overseas Subsidiaries) Training in 2023

| Course Name | Trainee | Content |
|--------------------------------------------|---------------------------------------------------------------------------------------------------------|-------------------------------------------------------------|
| Code of Conduct Training Program | All KT&G overseas subsidiary employees | Summary and guidance on the KT&G Group Ethics Charter |
| Introduction to the Whistleblowing Program | All employees at Türkiye Corporation, Indonesia Corporation, and Russia Manufacturing/Sales Corporation | Regular updates and education on the whistleblowing system |
| Anti-Fraud awareness Program | All employees at Indonesia Corporation | Training on preventing misuse of company assets |
| Compliance Seminar | Compliance officer of an overseas subsidiary | Education on the importance and reinforcement of compliance |
| Compliance Officer On-boarding Program | Newly hired Compliance Officers at Kazakhstan Corporation | Basic training on the role of Compliance Officers |

BUSINESS ETHICS AND COMPLIANCE

Transparent Disclosure



Tax Policy KT&G abides by domestic and overseas tax-related laws and pays tax in accordance with its corporate philosophy of “Exemplary Company,” and we do not transfer income to low-tax countries with the purpose of tax evasion. Domestic and overseas subsidiaries abide by laws of each country where businesses are carried out according to parent company’s policies and faithfully fulfill their tax obligations. The employees in charge of tax affairs at all of the Group subsidiary companies comply with the tax laws in accordance with KT&G’s tax policy and submit evidentiary documents actively and faithfully when requested by the tax authorities based on a transparent relationship with them.

All internal and external transactions are dealt with based on the Korea International Financial Reporting Standards (K-IFRS) whereas transactions with overseas subsidiaries are carried out within the normal price range according to the transfer pricing policy. KT&G calculates and pays income tax based on the above principles and tax laws, and calculates other taxes based on the established accounting standards and related tax laws.

Tax Risk Management Activities KT&G interprets tax laws in a transparent manner based on compliance principles, reporting, and paying related taxes. We share these principles with subsidiaries within the Group to manage tax risks at the corporate level.

Tax Risk Assessment I External tax experts (accounting firms) verify the company’s tax compliance, and all subsidiaries within the Group report and pay relevant taxes based on expert advice. For corporate tax, consultations from external experts are obtained in advance during major accounting treatments forming the basis of the corporate tax calculation. External tax experts are selected from a pool of professionals with a certain level of expertise within the region or country, and their status is shared and managed.

Tax Risk Management Activities I From an operational standpoint, each department within the company is required to consult with the finance department prior to any new or large-scale transactions to review compliance with accounting standards and tax laws. For corporate tax, profits and expenses are adjusted for tax purposes according to corporate tax regulations based on K-IFRS, and the tax is reported and paid accordingly. The data used as the basis for calculating corporate tax is stored in the company’s electronic system to ensure the reliability of the information. Additionally, temporary differences arising from tax adjustments are transparently recorded and managed. Furthermore, other taxes such as value-added tax and tobacco consumption tax are managed in a similar fashion with corporate tax, being calculated and reported rigorously according to strict tax regulations.

Conscientious Tax Payment KT&G contributes to local communities through tax payments including corporate tax, individual consumption tax, value-added tax, withholding tax, tobacco consumption tax, local education tax, acquisition tax, among others. In 2023, KT&G’s consolidated profit before amounted to KRW 1,241.2 billion, with reported tax amounting to KRW 320.5 billion, recording a reported tax rate of 25.82%. On the other hand, the effective tax amount was KRW 318.8 billion, which resulted in an effective tax rate of 25.84%. Over the past three years, the average nominal tax rate was 26.63% and the average effective tax rate was 28.35%, indicating an average effective tax rate 1.72%p higher. This difference is mainly attributable to the effect of non-taxable income and non-deductible expenses, changes in deferred tax amount, tax deductions, and reductions.

Tax Payment in 2023*

(Unit: Person, KRW billion)

| Region | Company name | Number of employees | Revenue | Profit before tax ¹⁾ | Income tax accrued current year | Income tax paid |
|-----------|------------------------------------------------------|---------------------|---------|---------------------------------|---------------------------------|-----------------|
| Korea | KT&G Corp. | 4,378 | 5,044.8 | 1,152.8 | 186.1 | 316.6 |
| Indonesia | PT Trisakti Purwosari Makmur | 4,519 | 385.8 | 41.2 | 0.6 | 0.8 |
| Global | KT&G Rus L.L.C., KT&G Global Kazakhstan LLP, etc. | 670 | 432.0 | 47.2 | 4.3 | 1.4 |
| Total | | 9,567 | 5,862.6 | 1,241.2 | 191.0 | 318.8 |

* KT&G’s major overseas subsidiaries are engaged in manufacturing and sales of cigarettes.

¹⁾ Including profit (loss) from discontinued operations

Tax Amount and Tax Rate on a Consolidated Basis

| Category | Unit | 2021 | 2022 | 2023 | Average |
|---------------------------------|-------------|---------|---------|---------|---------|
| Profit before tax ²⁾ | KRW billion | 1,387.2 | 1,420.9 | 1,241.2 | 1,349.8 |
| Reported tax amount | KRW billion | 359.6 | 399.8 | 320.5 | 360.0 |
| Reported tax rate | % | 25.92 | 28.14 | 25.82 | 26.63 |
| Effective tax amount | KRW billion | 415.8 | 415.6 | 318.8 | 383.4 |
| Effective tax rate | % | 29.97 | 29.25 | 25.84 | 28.35 |

²⁾ Including profit (loss) from discontinued operations

RISK MANAGEMENT

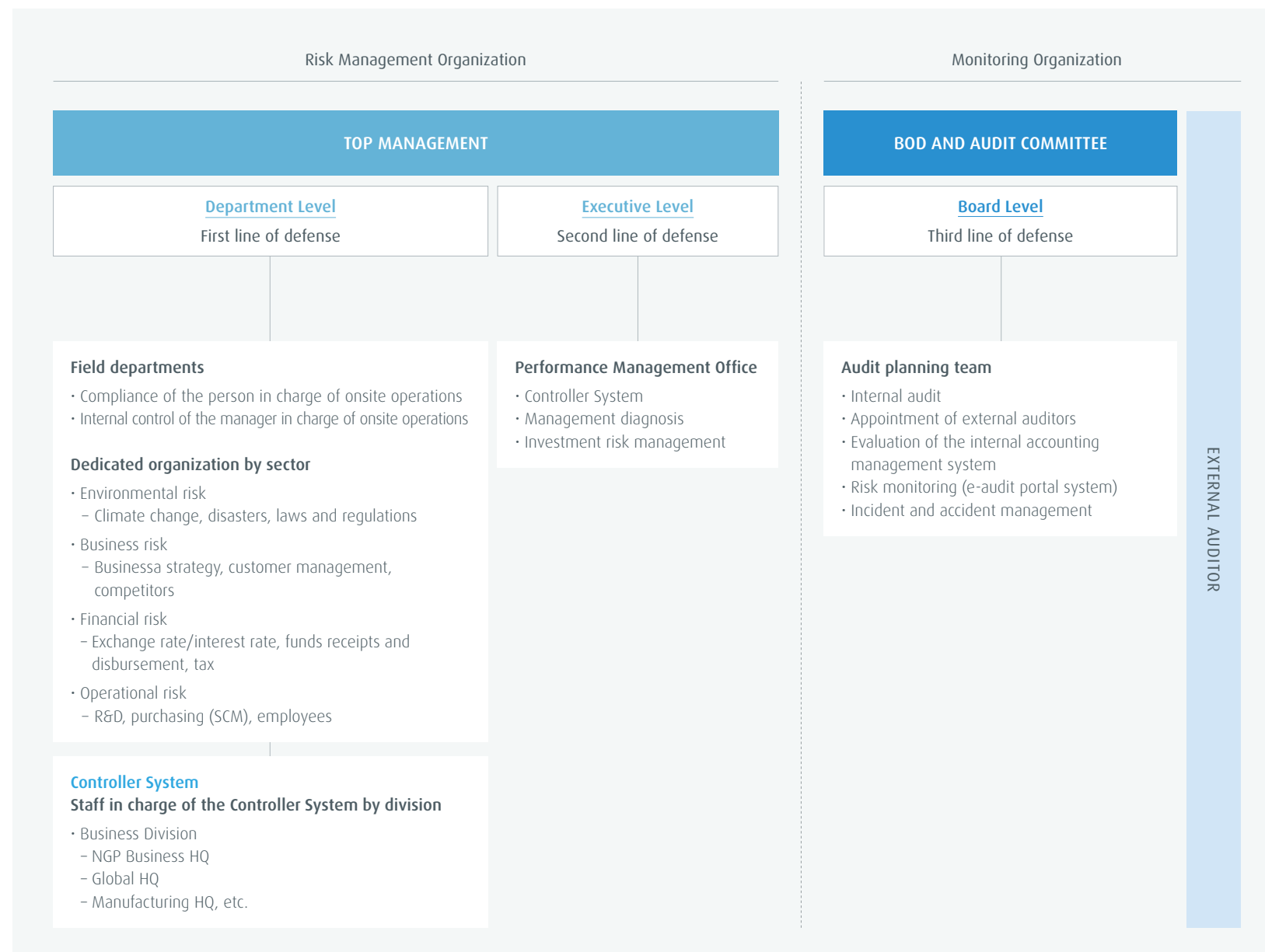
Risk Management System

Governance All employees and management of KT&G is responsible for initial response to risks that may arise from operations and applying internal control functions on filed. In case of business departments particularly, designated "Controllers" enhances the effectiveness of risk management by ensuring compliance with controller systems. Secondly, the Performance Management Office supports frontline departments in effectively responding to overall risks and performing internal control functions through the controller system and management diagnostics. The Compliance Management Center performs compliance oversight to support the company's ethical and legal management.

KT&G's Audit Committee and its audit planning office under the Committee assume the final supervisory function for risk management. They annually monitor the company's comprehensive risk strategies across operational departments, performance management offices, internal regulations, guidelines, manuals, and processes to ensure compliance from an independent position. Through these efforts, KT&G establishes a systematic and effective risk management system to identify and respond to potential risk factors proactively.

KT&G's multi-layer, organic risk management system serves as the core that supports the company's sustainable growth in a rapidly changing business environment. Moving forward, KT&G will continue to secure stakeholder trust through proactive and responsible risk management efforts, striving for long-term value creation.

Risk Management Organization



RISK MANAGEMENT

Enterprise Risk Management System KT&G has established an enterprise risk management system through which it identifies potential risks across all business sectors in advance, establishes preventive measures and proactive response measures, and thus minimizes the risk impact. Based on the diagnostic results of the existing risk management conducted in 2021, KT&G formulated a master plan in 2022 and operates the KT&G Management System (KT&G MS), our management policy. Furthermore, by completing the establishment of risk management systems for new businesses and real estate in 2022 and financial product investments in 2023, KT&G has laid the foundation for establishing company-wide risk management system. The Management Control Office, an organization dedicated to risk management, renamed to Performance Management Office in April 2024, operates controller systems, management diagnoses, and reporting packs at the Group level for domestic and international business sites and subsidiaries. This guarantees ongoing enhancement of risk management. Moving forward, we will further solidify the risk management system and complete an integrated risk management framework that meets global standards by spreading a management culture.

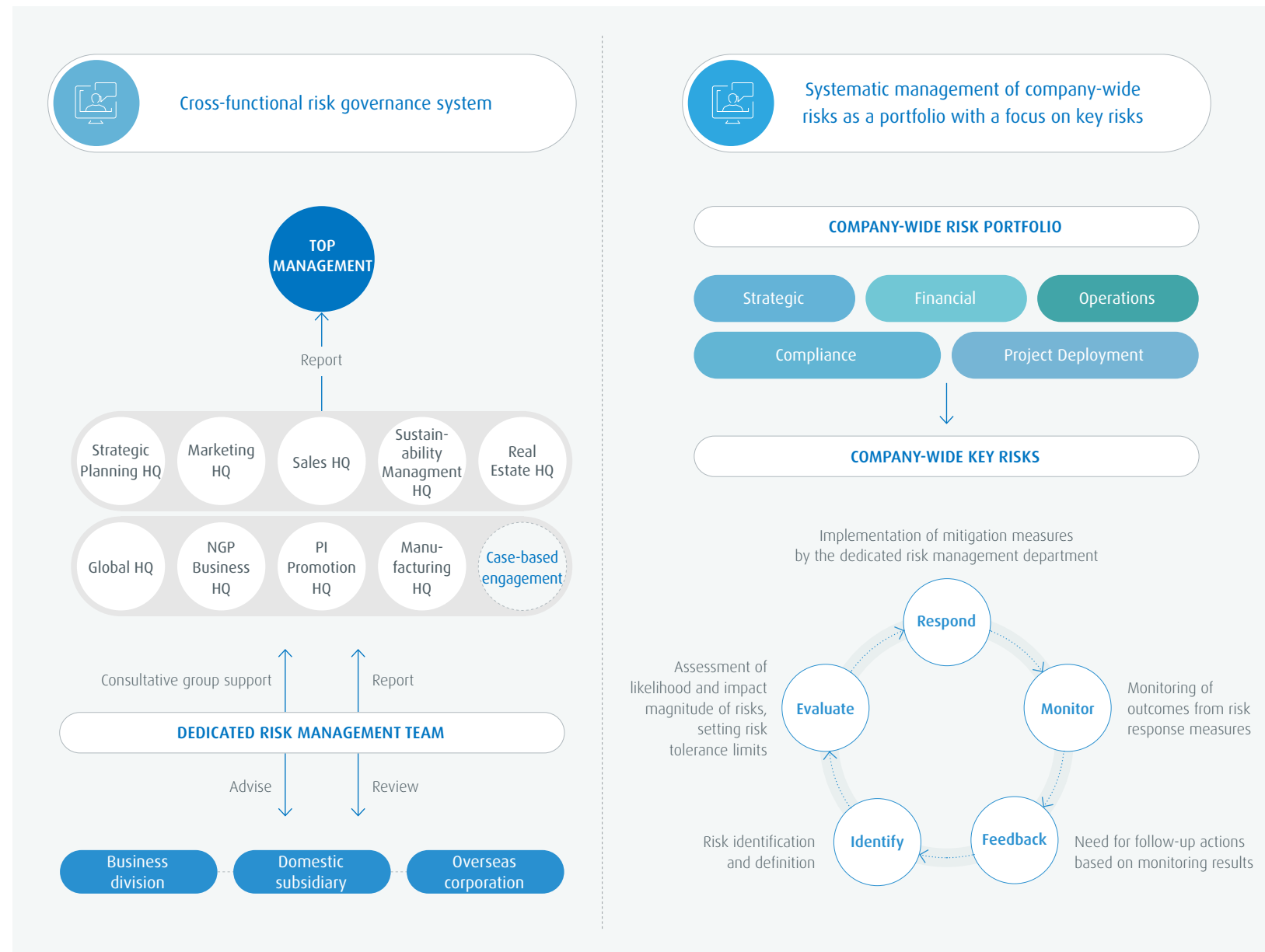
Controller System The Performance Management Office manages the Controller System to proactively analyze and address risk factors objectively across business units, domestic subsidiaries, and overseas entities and branches. Moving forward, each organization's controllers will continue to enhance their capability to analyze and preemptively respond to risk and opportunity factors, and further develop management systems. As KT&G's business scope expands, the scope of controlling is also continually expanding. The Controller System was implemented at Global, Manufacturing, and SCM HQs in 2023, with plans in 2024 to expand and enhance the system. We plan to perform the role of supporting the Group strategy based on "performance management," along with the existing "post-risk management-focused" tasks.

KT&G Management System KT&G MS, which defines management principles, processes, and roles and responsibilities across finance, human resources, legal affairs, IT, compliance, and other areas of management. It serves as a Group-level policy and framework for providing basic direction and methodologies for core management at overseas corporate management divisions. In 2023, we officially introduced KT&G MS to the overseas subsidiaries of KGC Ginseng Corporation, enhancing the quality of the Group's management and strengthening the risk management system.

Through the implementation of such group-wide policies, we can accelerate global management, enhance the quality of overseas subsidiary management, and strengthen risk management across all aspects of management. We therefore operate various educational content to continuously expand and internalize KT&G MS, which provides the basic direction and methodology for management. We also regularly hold sharing sessions for relevant departments and provide training for overseas subsidiary managers regarding KT&G MS.

Fostering a Risk Management Culture among Employees The audit planning team annually produces a casebook of actual incidents and accidents, which is then disseminated to all employees, in order to foster a risk management culture among our employees. In 2023, in particular, we published separate casebooks for incidents and accidents in the company's sales and manufacturing sectors, providing detailed examples, actions taken, and regulations specific to each field. Additionally, to enhance the risk management capabilities of our overseas subsidiary members, we produced and distributed KT&G MS, our management policy, in audiobook and e-learning formats. Moreover, to strengthen the risk management capabilities of the Audit Committee, which oversees company-wide risks, we conduct annual training sessions. The training conducted in 2023 covered accounting risks, overseas business risks, financial risks, and environmental regulation risks.

Risk Management System



I. RISK MANAGEMENT

II. Response Plan by Risk Factor

KT&G identifies and proactively prevents potential risk factors that may arise in overall management by reviewing risk factors and identifying potential risks at least twice a year. In addition, we effectively manage enterprise-wide management risks through such systems as the controller system, while also establishing a framework to integrate and manage non-financial risks, such as climate change, within the enterprise risk management system.

CASE STUDY

Risk Minimization Activities from the Product Development Perspective

KT&G has established a rigorous brand development and management process to minimize risks that may arise during product development, and formalizes this process a checklist that ensures compliance.

Given the nature of tobacco products, KT&G must strictly adhere to regulations stipulated in the domestic Tobacco Business Act, including mandatory warning labels, advertising restrictions, and disclosure of tobacco ingredients. To comply with these regulations, KT&G internally establishes a deliberation committee to review compliance with the Tobacco Business Act and its enforcement decrees prior to implementation.

Additionally, in the process of developing brand names, we conduct preliminary trademark searches and reviews. During the development of packaging and advertisements, we review for misleading statements and unfair advertising to ensure strict compliance with the Tobacco Business Act. Moreover, based on the operational guidelines on bill of materials (BOM), standards, and product lifecycle management (PLM), KT&G exercises authority control by organization, personnel, and task to proactively prevent risks that may arise during product development.



Financial & Non-financial Risk Factors and Countermeasures

| Category | Key Risk | Cause | Risk Impact | Likelihood | Countermeasures | Related Department |
|---------------|------------------------------|--------------------------------------------------------------------------------------------------------------------------------------------|-------------|------------|-----------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|--------------------------------------------------------|
| Financial | Financial report | • Transparency and reliability of financial reporting | H | L | <ul style="list-style-type: none"> • 24/7 monitoring of accounting and regulatory trends • Implementation of semi-annual internal accounting control system evaluation and improvement measures • Adoption and operation of the ERP (SAP) for the Group subsidiaries | Finance Office Audit planning office |
| | Tax | • Corporate tax and regional tax management | H | L | <ul style="list-style-type: none"> • Analyzing target business through tax review and advice, and optimizing tax return • Prior review through operation of tax advisory service | Finance Office |
| | Capital management | • Capital management | M | L | <ul style="list-style-type: none"> • Fund management focused on stability and liquidity according to the fund management guidelines • Executing fund through deliberation and resolution by internal and external experts in the case of financial investments with medium or higher risk | Finance Office |
| | Foreign currency | <ul style="list-style-type: none"> • Compliance with Foreign Exchange Transactions Act • Exchange rate fluctuation | H | L | <ul style="list-style-type: none"> • Regular operation of the Foreign Exchange Risk Management Committee • Invitation training on the Foreign Exchange Transactions Act • Weekly and monthly foreign exchange market trend analysis | Finance Office |
| Non-financial | Strategy & reputation | • Corporate and brand trust and credibility | H | L | <ul style="list-style-type: none"> • Business management risk analysis and management to be considered in decision making | Strategy & Planning Office Growth Management Office |
| | Corruption | • Tangible and intangible losses due to unethical behavior of employees | H | M | <ul style="list-style-type: none"> • Training on anti-corruption for employees, self-check on ethics, and stakeholder survey • Operation of the guideline for the protection of whistleblowers of unethical conduct • Risk monitoring through e-audit portal system, regular inspection on accidents and sharing results | Management Policy Office Audit planning office |
| | Law and regulation | • Compliance with laws related to tobacco business, environment, and occupational safety and filing major business-related lawsuits | H | L | <ul style="list-style-type: none"> • Monitoring of major business-related legislative and government policy trends • Issuance of compliance guidelines categorizing legal risks in business operations • Compliance with relevant laws for the implementation of the FTC Convention | Business Policy Office |
| | Information protection | • Hacking, leaking of private information., etc. | M | L | <ul style="list-style-type: none"> • Operation, security, and monitoring of information protection systems against external intrusions and internal leaks | Information Security Office |
| | Operation | • Employees, business processes, or system errors | M | M | <ul style="list-style-type: none"> • Identification of strengths and weaknesses through management diagnosis, and derivation and implementation of improvement tasks | Performance Management HQ Audit planning office |
| | Climate change ¹⁾ | • Transition and physical risks arising from climate change | L | L | <ul style="list-style-type: none"> • Identification of preemptive risks and preparation of countermeasures through climate change scenario analysis • Monitoring risk response performance and analyzing climate change trends • Responding to natural capital risk based on the AR³T Framework | ESG Management Office |

¹⁾ At the current analysis point, the impact and likelihood of this risk are low, but we recognize the potential for increased impact and frequency in the future. We are continuously assessing the potential impacts of climate change on the company and will enhance our management systems accordingly.

RISK MANAGEMENT

Special Risk Identification Framework KT&G systematically manages the company’s specific risks according to the risk management framework. Among them, in the case of “foreign exchange risk,” the dedicated foreign exchange department identifies and evaluates foreign exchange risks based on internal and external factors, and then sets risk tolerance limits according to the internal guidelines for foreign exchange risk management and analyzes the impact on business performance. In particular, we calculate the hedge ratios and amounts for the overall and specific targets, taking into account foreign exchange risk measurements and exchange rate fluctuations, using risk tolerance limits and foreign exchange risk measurement models. If necessary, derivative contracts and management are implemented for risk hedging. The dedicated foreign exchange department reports on the entire process to the Foreign Exchange Risk Management Committee for deliberation and approval, constantly monitoring the impact on the company. Through these measures, KT&G can actively manage foreign exchange risks to minimize potential risks arising from exchange rate fluctuations and achieve stable business performance.

Management Diagnosis KT&G has established a system for conducting Group-wide management diagnosis and consulting operations, led by the Performance Management Office, a specialized organization for performance and risk management. Through management diagnoses of business units, overseas subsidiaries, and domestic subsidiaries, we aim to enhance the integrity of operations and preemptively address risks, and identified improvement tasks undergo regular follow-up checks for sustained management. In 2022, we conducted diagnoses for the Indonesia Corporation and Yungjin Pharm, our domestic subsidiary, followed by the diagnosis on Global HQ, Türkiye Corporation, Tae-A Industrial. In 2024, thematic diagnoses are planned for domestic and overseas subsidiaries and business divisions to continue enhancing the Group-wide risk management.

CASE STUDY

Interest Rate Risk

KT&G is issuing corporate bonds to secure funds for mid- to long-term CAPEX investments due to global business expansion and to improve the company’s ROE. To mitigate cash flow volatility risks, we issue fixed-rate corporate bonds. However, we also occasionally utilize short-term borrowings with variable interest rate when necessary. Accordingly, we are monitoring variable interest rates, and as of the end of 2023, it has been confirmed that a 1% change in the interest rate on each variable interest rate loan would impact the pre-tax net income by 299 million KRW. We will continue to monitor this in accordance with our internal borrowing guidelines.

| Category | 1% increase | 1% decrease |
|-----------------------|-------------------|-------------------|
| Short-term borrowings | 299 (KRW million) | 299 (KRW million) |



Foreign Exchange Risk

KT&G is engaged in global business and is continuously expanding its overseas operations. Our global business is primarily conducted in USD, and all other currencies are exchanged into USD. KT&G therefore assesses the sensitivity of risk to a 10% fluctuation in the US dollar, and the impact of a 10% change in the KRW/USD exchange rate on pre-tax profit at the end of the current period is as follows. KT&G considers foreign exchange risk as a significant risk affecting the company and reports sensitivity applied during foreign exchange risk reporting to key management and the board of directors. We hold quarterly meetings of the Foreign Exchange Risk Management Committee to assess the impact of exchange rate risks.

| Category | 10% increase | 10% decrease |
|----------------|----------------------|----------------------|
| Pre-tax profit | +235.2 (KRW billion) | -235.2 (KRW billion) |



Climate Risk

KT&G sources leaf tobacco from various countries. Due to the diverse regional characteristics, it is necessary to analyze and manage climate change risks tailored to each region. Using the S&P Climanomics® analysis tool, it has been identified that leaf tobacco cultivation sites and ginseng farms contracted by KT&G are at risk of flood damage due to heavy rainfall scenarios in the 2030s. In particular, the tobacco leaf cultivation area located in Tanzania has been analyzed as the region with the highest risk. In response, we will seek ways to minimize physical damage, such as establishing response guidelines for heavy rainfall and inspecting drainage facilities, considering the specific characteristics of each region.

| Climate Change Scenario | The projected annual average loss ratio due to floods in the 2030s under climate change scenarios for key supply chains (%) |
|-------------------------|-----------------------------------------------------------------------------------------------------------------------------|
| SSP1-2.6 | 0.1 |
| SSP2-4.5 | 0.1 |
| SSP5-8.5 | 0.2 |



RISK MANAGEMENT

Audit Activities KT&G operates an audit planning office composed of members with diverse experiences, such as certified public accounting, sales, marketing, and manufacturing, and we conduct regular training and seminars to enhance the expertise of the audit planning office. We have developed an audit pool for each area of the company's major business, and systematically conduct internal audits by dividing them into the preventive audit, theme audit, financial audit, and occasional audit depending on the purpose of the internal audits.

The results of internal audits are reported to the Audit Committee on a regular basis, and the effectiveness of control activity design and operation is evaluated by evaluating the operation of the internal accounting control system. Any issues identified during the evaluation process are resolved through discussions with the external auditors and the dedicated department. We also have established an e-audit portal system to monitor business-related risks and corruption risks using 39 items, and when abnormal data are detected, an explanation is requested immediately.

Key Audit Activities

| Audit Items | Note |
|-------------------|-----------------------------------------------------------------------------------------------------------------------------------------------|
| Preventive audit | • Inspection of key operations in printing plant |
| Theme-based audit | • Inspection of subsidiary financial management practices • Inspection of waste management practices |
| Financial audit | • Internal accounting inspection of domestic and overseas subsidiaries |
| Frequent audit | • Inspection of quality management practices in manufacturing plants • Complaints received by the unethical conduct reporting center, etc. |

Emerging Risk

| Risk | Risk Category | Definition and Description | Impact | Mitigation Activities |
|----------------------------------------------------------------------------------------------------------------------------------------------------------|---------------|-----------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|--------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|
| <p>Damage to tobacco plantations due to severe ENSO events</p>  | Environmental | The Super El Niño phenomenon, which began in 2023, is the strongest El Niño on record, causing concentrated heavy rainfall and hot temperatures in Brazil, a major tobacco leaf production country. In 2023, average temperatures in South America were the highest on record, and Porto Alegre, Rio Grande do Sul, where tobacco is produced, suffered severe flooding earlier this year. The El Niño-Southern Oscillation (ENSO) phenomenon has persisted for centuries, but its intensity is increasing due to climate change. There is a possibility of stronger El Niño or La Niña events in the future, which could directly impact KT&G's major tobacco supply regions, South America and Southeast Asia. Therefore, continuous monitoring of the unprecedented risks posed by the ENSO phenomenon is necessary. | Tobacco production in Brazil has plummeted by more than 20% due to heavy rainfall, which is mainly attributable to an effect of the Super El Niño. If tobacco production decreases, sales prices and cost of goods sold of leaf tobacco will increase due to supply-demand imbalances, potentially deteriorating profitability. Additionally, frequent heavy rainfall and high humidity could degrade the quality of leaf tobacco, posing challenges for product quality management. *Conversely, a strong La Niña event could result in reduced production in leaf tobacco cultivation areas located in Southeast Asia. | Considering the characteristics and properties of distinct types of leaf tobacco, it may be prudent to explore diversifying sources of supply by identifying origins less susceptible to ENSO phenomena. Additionally, within regions like South America and Southeast Asia, efforts could focus on sourcing from coastal or less flood-prone areas to expand leaf tobacco procurement. Distributing guidelines for handling heavy rainfall events to suppliers and tobacco plantations and establishing a system to predict and prepare for the impact of ENSO through climate-related research, are crucial steps. Furthermore, establishing a close cooperation framework with leaf tobacco farms to jointly address climate change impacts, and enhancing irrigation and drainage facilities to improve the climate resilience of leaf tobacco cultivation areas, appears essential. |
| <p>Decreased ginseng production due to high temperatures</p>  | Environmental | The optimal cultivation temperature for ginseng, a key ingredient in KT&G Group's health functional food business which accounts for more than 20% of the Group's revenue, is between 21 and 25°C. Photosynthesis ceases at temperatures above 30°C. If temperatures exceed 30°C for more than seven days, heat damage can occur. According to the S&P climanomics® simulation results, Hongcheon, one of the major cultivation areas contracted by KGC Ginseng Corporation (a subsidiary of KT&G), is identified as the cultivation area most exposed to physical risks (extreme high temperatures) in all climate scenarios. Indeed, in 2023, Hongcheon experienced maximum temperatures exceeding 30°C in both July and August. Considering the global trend of rising average temperatures, there is a potential for further temperature increases. Thus, it is necessary to monitor and manage damage from heat waves not only in Hongcheon but also in other ginseng cultivation areas. | The Hongcheon area is a major cultivation region contracted by KGC Ginseng Corporation (a subsidiary of KT&G). If heat stress occurs in ginseng cultivation areas due to elevated temperatures, it could lead to reduced quality or decreased yield of cultivated ginseng. This could result in financial losses for KT&G and its subsidiaries due to increased production costs and disruptions in the production of ginseng-related health supplements, cosmetics, and other products. | To lower the temperature and improve ventilation within the ginseng cultivation areas, structural improvements such as the installation of shading covers and improved fences can be pursued. Additionally, the development and distribution of new varieties with improved heat tolerance and yield can be considered. Also, KT&G may explore relocating ginseng cultivation to regions with lower risk of elevated temperatures or avoiding higher-altitude areas that are warmer as alternative methods to manage the impact of heat risks. |
| <p>Increased tobacco sourcing costs due to energy crisis</p>  | Geopolitical | Fluctuations in fertilizer costs are closely related to profitability because tobacco cultivation, particularly for leaf tobacco, requires significant fertilizer application. The recent Middle East disputes, in addition to the ongoing Russia-Ukraine conflict, have led to sustained global energy insecurity. Price hikes across various energy sources are expected to directly impact fertilizer production costs, potentially causing an increase in fertilizer prices. Conservative estimates suggest the Russia-Ukraine conflict may persist until 2025 or beyond, implying prolonged energy price increases that could persist for years. Continuous monitoring and proactive responses are essential to assess and address the long-term impact of these cost increases on leaf tobacco production costs. | Energy crises could disrupt smooth energy procurement for fertilizer production, potentially affecting fertilizer quality and efficiency. Reduced fertilizer production efficiency could lead to higher costs for both KT&G and tobacco growers, thereby increasing leaf tobacco procurement costs for KT&G. This scenario could lead to higher production costs and reduced profitability for KT&G's tobacco products. Additionally, declining fertilizer quality may negatively impact tobacco quality and yield. Hence, ongoing observation and proactive measures are crucial to mitigate these potential risks to leaf tobacco production costs over the long term. | To mitigate risks, "precision agriculture" technology can be introduced to optimize fertilizer usage during tobacco cultivation, thereby reducing fertilizer purchase costs. In addition, based on close collaboration with tobacco farmers and fertilizer manufacturers, we can jointly address the energy crisis by providing technical training and support aimed at reducing fertilizer usage and improving energy efficiency. |

ENHANCING SHAREHOLDER VALUE

Active Shareholder Return Policy

Establishment and Implementation Status of Mid- to Long-Term Shareholder Return Policy

KT&G establishes its dividend policy by comprehensively considering investments for continuous future growth, business performance, cash flow, and dividend stability to enhance shareholder value. Based on this policy, we consistently pay dividends annually and continue to maintain a steady upward trend in dividends per share.

In November 2021, KT&G disclosed a “2021-2023 mid- to long-term shareholder return policy” totaling about KRW 2.75 trillion to implement a more transparent and expanded shareholder return policy. Over the past three years, we have executed around KRW 1 trillion worth of treasury stock repurchases and KRW 1.75 trillion in cash dividends, thereby fully implementing our three-year shareholder return policy. As a result, we achieved an average dividend payout ratio of 60.5% over three years and a cumulative total shareholder return rate of 95.2%.

In November 2023, KT&G announced a mid- to long-term shareholder return plan for 2024 to 2026, focusing on KRW 2.8 trillion in cash returns and the repurchase of treasury stocks amounting to around 15% of the total shares issued¹⁾. Of the KRW 2.8 trillion cash return plan, KRW 1.8 trillion will be allocated for dividends to maintain an upward trend in dividends per share, while approximately KRW 1 trillion is set aside for additional purchases of new treasury stocks. These repurchased treasury stocks will be immediately retired, totaling about 7.5% of the total shares issued. Additionally, we publicly announced that we will retire treasury stocks equivalent to 7.5% of the total shares issued over the next three years. As the first step of this new shareholder return plan, we retired 3.5 million treasury stocks, representing 2.6% of the total shares issued, in February 2024.

Moving forward, KT&G will continue its efforts to pursue diverse and proactive shareholder return policies that enhance corporate and shareholder value, considering business performance, financial situation, and mid- to long-term investment plans. We will also actively engage with the market to enhance visibility and transparency of our shareholder return policy.

Expansion of Shareholder Return Activities

Implementation of Semi-Annual Dividends | KT&G announced the introduction of semi-annual dividends through fair disclosure related to the KT&G Investor Day held on January 26, 2023. Immediately following the BOD’s decision on the details, the announcement was made to communicate with the market. Additionally, dividend-related matters are promptly included in the business reports and corporate governance reports, and the company’s website discloses dividend histories for the past five years in both Korean and English to inform shareholders. Based on the announcement and fair disclosure of semi-annual dividends, KT&G implemented semi-annual dividends for the first time as of June 30, 2023, paying KRW 1,395 billion in cash dividends at KRW 1,200 per share.

By implementing the “2021-2023 mid- to long-term shareholder return policy,” KT&G paid a total cash dividend of KRW 5,200 per share, including KRW 1,200 per share for semi-annual dividends and KRW 4,000 per share for year-end dividends in 2023, marking an increase of KRW 200 compared to 2022. This resulted in a total dividend amount of KRW 590.8 billion for 2023, with a cash dividend payout ratio of 65.4% and a cash dividend yield of 6.0%.

Introduction of Online Dividend Inquiry Service | Beginning with the dividend for the 2022 fiscal year, paid in April 2023, KT&G launched an online dividend inquiry service. This service was communicated to shareholders through the KT&G website and press releases. By replacing traditional dividend notifications sent by mail with a real-time online inquiry service accessible via PC and mobile devices, KT&G enhanced shareholder convenience. This initiative made it possible to reduce paper usage for postal notifications and minimize carbon emissions from delivery processes, which ultimately contributed to resource conservation and ESG management



Online Dividend Inquiry Service

2021-2023 Mid-to Long-Term Shareholder Return Policy

100% implemented
3-year shareholder return policy

- Approximately KRW 2.75 trillion (KRW 1 trillion for treasury stock repurchases, KRW 1.75 trillion in cash dividends)
- Average dividend payout ratio: 60.5%
- Cumulative total shareholder return rate: 95.2%

Amount of Mid-to Long-term Shareholder Return from 2024 to 2026

Approximately KRW **2.8** trillion

Utilization of resources available for shareholder returns, excluding investment funds set aside for internal and external growth

¹⁾ 137,292,497 shares at the time of announcement

I. ENHANCING SHAREHOLDER VALUE

II. Protecting Shareholder Rights

Activities to Protect Shareholder Interests

Shareholder Voting Rights | KT&G actively introduces systems to further develop the convenience of exercising shareholder voting rights, ensuring that shareholders' opinions can be reflected in important decision-making processes of the company. To encourage greater shareholder participation in annual general meeting (AGM), KT&G participates in a dispersed autonomous compliance program for shareholder meetings, holding regular general meetings outside of the concentrated shareholder meeting dates over the past five years. Also, to encourage proxy voting, KT&G discloses proxy forms and posts them on its website.

In 2020 and 2021, KT&G implemented an electronic proxy system, followed by the introduction of electronic voting starting in 2022. Based on these efforts to enhance the convenience of shareholder voting rights, the attendance rate at the 37th AGM held on March 28, 2024, exceeded 80%. Additionally, detailed results of shareholder meetings, including the number of shares voted for and against each agenda item, are transparently disclosed in corporate governance reports and on the company's website.

Adoption of Concentrated Voting System | To protect and strengthen the rights of minority shareholders, KT&G uses a concentrated voting system. The company informs shareholders of this through corporate governance reports and business reports and provides detailed explanations of the procedures by the relevant department upon inquiries. Shareholders holding more than 1/100 of the voting shares of the total issued shares with voting rights can demand (in writing or electronically) that the company appoint two or more directors through a concentrated voting method at least six weeks before the date of the general meeting (or the corresponding date of the previous year's regular general meeting for the annual general meeting).

At the 36th AGM held on March 28, 2023, KT&G conducted voting under the concentrated voting system regarding the election of outside directors requested by shareholders' concentrated voting demands. At the 37th AGM held on March 28, 2024, shareholders, including Agnes, requested a unified concentrated voting for the appointment of both inside and outside directors, including the CEO. KT&G accepted shareholder proposals to integrate the appointment of the CEO with other directors as the 3rd agenda item "appointment of two directors" and conducted voting under the unified concentrated voting system to protect the rights of minority shareholders.

Protection of Shareholder Proposal Rights and Other Rights | KT&G stipulates in Article 4 of its Board of Directors Regulations that "Directors must adhere to the Director Code of Ethics set by the Board of Directors and fulfill their duty of care as conscientious administrators towards the company and shareholders, striving for optimal decision-making and business execution." This emphasizes the BOD's commitment to prioritizing the protection of shareholder rights in corporate management. Furthermore, through its Corporate Governance Charter, KT&G formalizes the right for shareholders to request inquiries and explanations regarding proposals at general meetings, ensuring fair and efficient deliberation of each agenda item by sufficiently explaining them and providing shareholders with speaking opportunities during shareholder meetings.

We protect shareholder proposal rights in accordance with relevant laws such as the Commercial Act and have presented shareholder proposals as agenda items at the 36th and 37th AGMs. For proposals presented through shareholder proposals, we provide speaking opportunities to shareholder proponents to facilitate smooth explanations and recommendations regarding the proposals. At the 37th AGM, Industrial Bank of Korea, KT&G's largest shareholder, put forward a candidate for an independent director through a shareholder proposal. KT&G placed the appointment agenda for the independent director candidate recommended by shareholders at the AGM to protect shareholder rights. Through a resolution at the AGM, the candidate proposed by the Industrial Bank of Korea was appointed as an independent director of KT&G. Moving forward, we will continue our efforts to ensure minority shareholder rights, including shareholder proposal rights.

Providing Fair Shareholder Information | To ensure all shareholders have equal access to company-related information, KT&G holds quarterly earnings announcements and corporate briefings. Annually, during the fourth quarter corporate briefing, the company discloses profit and loss forecasts for the coming year, making this information available on its corporate website. Starting from the first quarter earnings announcement in 2023, KT&G edited its IR materials to facilitate easier understanding of business segment performances, enhancing accessibility for shareholders through webcast formats posted on the company's website. Additionally, matters of high shareholder interest, such as medium to long-term business plans and shareholder return policies are disclosed in both Korean and English through official disclosure channels and the corporate website. Information is disclosed promptly and fairly when required by Article 15 of the KOSPI Market Disclosure Regulations. In 2023, we implemented a total of six fair disclosures, including shareholder return plans, and 24 disclosures in English.

KT&G actively engages with investors through domestic and international Non-Deal Roadshows (NDRs) and participates in various conferences hosted by securities firms. Regular IR meetings and conference calls are held for domestic and international institutional investors and analysts, where management and outside directors participate to gather market feedback and gather information about KT&G's objectives.

In 2023, KT&G conducted eight overseas NDRs to foster active communication with foreign institutional investors. The company also provides contact information, including email addresses and phone numbers for the IR department, on its website, inviting shareholders to reach out at their convenience. Furthermore, KT&G maintains an English website (en.ktng.com) which mirrors its Korean site that discloses IR information, including important financial details. This is all available for verification on the Financial Supervisory Service's electronic disclosure system.

For investors to better understand and engage in the company's strategic direction, KT&G hosted the KT&G Investor Day on January 26 and KT&G Value Day on November 13, 2023. These events shared the company's medium to long-term growth strategy, which is focused on three core growth businesses: NGP (Next Generation Products), health functional foods, and global CC. We aimed to enhance investor comprehension through integrated online video conference formats in both Korean and English, with details on participation methods provided through our website and disclosures.

KT&G strives to promptly address ongoing inquiries and feedback from diverse shareholders through IR-dedicated department, reporting relevant facts to management and the BOD when necessary and ensuring timely responses to protect shareholder rights.

Participation Rate of the 37th AGM

80%+



Major Disclosures in 2023

6 Fair Disclosures

(Including shareholder return plans, etc.)

24 Disclosures in English



KT&G Value Day 2023

KGC SUSTAINABILITY MANAGEMENT



MANAGEMENT APPROACH

As the leading ginseng company in Korea, KGC ensures the quality and safety of its products through its well-established contract farming and quality control systems and continuously invests in R&D to enhance the scientific efficacy of ginseng and other main materials, driving the globalization of ginseng. Furthermore, we strive to become a global leading comprehensive H&B company by expanding the foundation of our global H&B business. To this end, we are diversifying health food ingredients beyond ginseng, promoting beauty business for healthy beauty, strengthening e-business to reflect trends, and expanding our global business. In addition, we prioritize creating ESG value to build a future that offers a healthier tomorrow for people around the world, and by listening to the voices of various stakeholders, including customers, we convey the value of sustainable health and happiness.

KEY PERFORMANCE INDICATORS

Reduction of GHG emissions
14.8%
(Compared to 2020)

Reduction of water withdrawal intensity
12.4%
(Compared to 2020)

Life cycle assessment (LCA)
Implementation of **LCA** for 2 key products
(Red Ginseng Extract 240g and Red Ginseng Root 600g, Expected to be completed in 2024)

* Based on domestic manufacturing sites

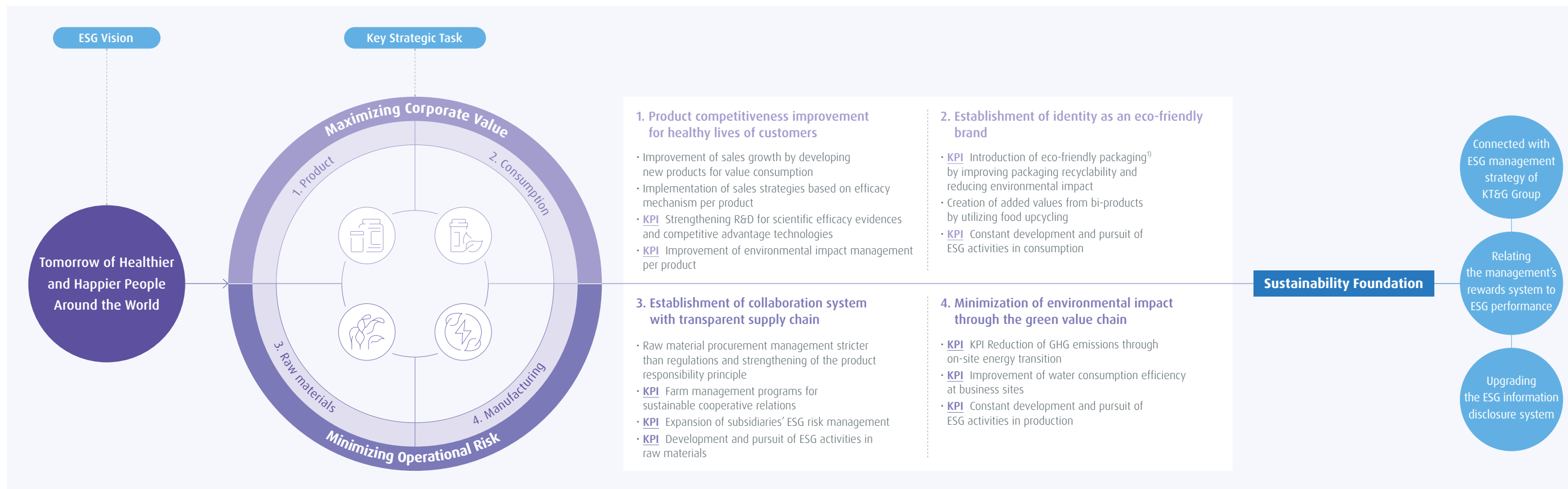
SUSTAINABILITY MANAGEMENT STRATEGY OF KGC

Establishment of ESG Implementation System

KGC is preemptively practicing ESG management to achieve the ESG vision of KT&G Group and the sustainable development of the company. To realize our mid-to long-term vision of a “Tomorrow of Healthier and Happier People Around the World,” we have established an ESG implementation framework comprising four main objectives - Establishment of collaboration system with transparent supply chain; Minimization of environmental impact through the green value chain; Product competitiveness improvement for healthy lives of customers; and Establishment of identity as an eco-friendly brand.

This framework includes 14 strategic initiatives aimed at achieving these goals. Based on this, we systematically implement an ESG management system of our own that considers the characteristics of the business and the level of social demand throughout the value chain. We strive to contribute to achieving the ESG vision at the Group level and ultimately become a company that meets expectations of all stakeholders, including customers.

Mid-to Long-term ESG Vision and Major Strategies



¹⁾ Eco-friendly packaging: Packaging that applies externally certified eco-friendly materials, recycled materials, recyclable materials, renewable materials, and materials and structures that reduce environmental impact.

SUSTAINABILITY MANAGEMENT STRATEGY OF KGC

ESG Implementation Goals and Performance

KGC set goals for 2025 for each key task to improve ESG risk and opportunity management capabilities and promote internal execution performance. We also continuously monitor the implementation status of the dedicated department. In 2023, we strengthened our sustainable competitiveness by fully implementing ESG management by assigning missions to each value chain, paving the way for achieving our goals by 2025. Going forward, we will focus on systematic implementation and management with the goal of strengthening sustainable competitiveness.

KPI for CEO Sustainability

KGC has introduced and expanded ESG KPI to identify issues that fit the characteristics by value chain and strengthen risk and opportunity management to enhance ESG management capabilities and internalize them throughout the company. In addition, we plan to align ESG indicators with management evaluation and compensation and expand related indicators so that ESG task execution can be internalized in each organization's performance evaluation. Going forward, we will continue to discover business opportunities by enhancing ESG management execution and will strive to effectively respond to external demands for growing importance of ESG information disclosure.

2025 ESG Implementation Goals and 2023 Performance

| Key area | RAW MATERIALS | | PRODUCT | | MANUFACTURING | | CONSUMPTION |
|---------------------------|---------------------------------------------------------------------------------------------------------------------------------------------------------|--------------------------------------------------------------------------------------------------------------------------------|---------------------------------------------------------------------------------------------------------------------------------------------------|--------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|--------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|--------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|----------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|
| | | | | | | | |
| | Adoption of farm management program | Partner company ESG risk management | R&D for product competitiveness | Management of products' environmental impact | Reduction of GHG emissions | Improvement of water usage efficiency | Improvement of packaging materials' recyclability |
| 2025 Implementation Goals | <ul style="list-style-type: none"> Farm management program (SGP: Sustainable Ginseng Program) based on sustainable cooperative relations | <ul style="list-style-type: none"> 100% ESG assessment targeting major raw material suppliers and OEM companies | <ul style="list-style-type: none"> R&D investment for product innovation and marketing capabilities development | <ul style="list-style-type: none"> LCA targeting major products (e.g. Red Ginseng Extract, etc.) (From 2023-) Value chain emissions (Scope 3) inventory management | <ul style="list-style-type: none"> Carbon neutrality at all business sites by 2045 - 25% reduction of GHG emissions compared to 2030 by 2030 - Expansion of the use of renewable energy at business sites | <ul style="list-style-type: none"> 20% reduction of water withdrawal intensity compared to 2020 by 2030 | <ul style="list-style-type: none"> Implementation of step-by-step activities to reduce the environmental impact of packaging materials and the introduction of eco-friendly packaging materials - Establishment and phased application of packaging R&D guidelines - Sequential introduction of eco-friendly shopping bags (2023-)¹⁾ - Application of non-laminated paper, promotion of mid-to long-term development of plastic-free pouch technology, etc. |
| 2023 Performance | <ul style="list-style-type: none"> Established the SGP and ran pilot operations (30 farms) | <ul style="list-style-type: none"> Conducted ESG assessment (18 major material suppliers, online evaluation) | <ul style="list-style-type: none"> Promoted the global ginseng efficacy research Expanded global R&D centers (1 to 2) | <ul style="list-style-type: none"> Implemented LCA (Red Ginseng Extract 240g, Red Ginseng Root 600g) Established the Scope 3 inventory | <ul style="list-style-type: none"> Reduced GHG emissions by 14.8% (compared to 2020) Renewable energy ratio: 1.0% <p><small>* Based on domestic manufacturing sites</small></p> | <ul style="list-style-type: none"> Reduced water withdrawal intensity by 12.4% (compared to 2020) <p><small>* Based on domestic manufacturing sites</small></p> | <ul style="list-style-type: none"> Established the eco-friendly packaging strategy based on the 3R strategy Introduced one-type of eco-friendly shopping bag |

¹⁾ Gradual transition plan based on detailed review of future directions for switching to eco-friendly materials, including additional analysis of consumer preferences

SUSTAINABLE RAW MATERIAL SUPPLY CHAIN

Responsible Raw Material Procurement

Management by Raw Material Procurement Phase KGC employs ginseng as its primary raw ingredient and supplements it with herbal medicines such as deer antler, angelica, and peony. For fresh ginseng used as a raw material for red ginseng, we purchase domestic Korean ginseng and directly manage the cultivation process through contract farming with farms. By supporting the production of high-quality raw materials, we not only ensure quality control but also pursue mutual growth. For domestically contracted medicinal herbs, we procure government-certified products to purchase high-quality and safe raw materials. If medicinal herbs are not cultivated in outstanding domestic farming areas or if their quality is insufficient, we strive to maintain quality standards by sourcing raw materials from excellent overseas farming areas. Additionally, we have set in place systematic and thorough verifications on the entire process from pre-cultivating to purchasing stages to secure product safety against physical, chemical, and biological hazards and genetically modified organisms (GMOs).

Stable Raw Ingredients Procurement Management To respond to uncertainties in supply due to agricultural production variability and long lead times (1 to 3 years for crude medicines, 7 years for ginseng), KGC regularly predicts mid-to long-term ingredient demand and controls supply and demand to secure adequate inventory. We are also striving for stable procurement by establishing various procurement processes. We meticulously manage each step of the process for raw ginseng, including land selection before cultivation, contract signing, the cultivation process, and purchasing. Furthermore, KGC supports contract farms at the forefront of the value chain by offering interest-free support for cultivation management fees, purchasing the entire production volume, and providing training in cultivation technology to enhance competitiveness of farms, as part of our win-win management practices.

Hazardous Factor Control by Stage

| Type | | WHO recommended management elements | Responsible department | Activities |
|------------|--------------------|------------------------------------------|------------------------------|-------------------------------------------------------|
| Physical | Heavy metals | Lead, cadmium, mercury, chromium | Raw materials, quality | Equipment inspection when purchasing and processing |
| | Foreign substances | Soil, metal, feces, parasites, etc. | Raw materials, manufacturing | Management when harvesting, purchasing, manufacturing |
| Chemical | Pesticide residue | Organic chlorine-based ingredients, etc. | Raw materials, quality | Product inspection before purchasing |
| | Organic solvent | Benzene, acetone, etc. | Quality | Inspection in manufacturing process |
| | Processed products | Benzopyrene, sulfur dioxide | Raw materials, manufacturing | Product inspection before purchasing |
| Biological | Mycotoxin | Aflatoxin, ochratoxin | Raw materials, manufacturing | Inspection in materials process |
| | Mold | All fungus | Raw materials | Visual inspection when harvesting and purchasing |
| | Germ | Salmonella, etc. | Manufacturing, quality | Inspection in manufacturing and product stage |
| Others | GMO | Whether genetically modified | Raw materials | Monitoring of variety approval |

Raw Materials Quality Certification

Recognizing that using safe raw ingredients is inevitable for safe production, KGC conducts internal safety assessments on natural ingredients from the soil stage before planting to the purchase stage. Fresh ginseng used as a raw material for red ginseng is evaluated based on standards that are stricter than the government's Good Agricultural Practices (GAP), and herbal medicines have obtained certifications such as GAP and geographical indications, thereby enhancing the reliability of our raw material safety management.

Comparison of Ginseng-related GAP and KGC Quality Control Standards

| Management item | GAP | KGC | |
|-----------------------------------|----------------------------------------------------|-----------------------------------------------------------------|--------------------------------------|
| Management period | 3 years (4-year-old - purchasing fresh ginseng) | 7-8 years (Farmland - purchasing fresh ginseng) | |
| Management unit | By lot | By ginseng field (multiple lots) | |
| System | GAP management system | In-house cultivation management system | |
| Tracking | Tracking log | Management records + KGC tracking log (Quarterly inspection) | |
| Hazardous factor control | Pesticide residue | Government standard | Less than 70% of government standard |
| | Water quality | Agricultural water | Rainfall |
| | Heavy metals | Less than 100% of government standard | Less than 70% of government standard |
| | Chemical fertilizer | Prohibited to use | Entirely prohibited to use |
| Environment and worker protection | Clean / protective equipment | Clean / protective equipment | |

Raw Fresh Ginseng Management Process



I. SUSTAINABLE RAW MATERIAL SUPPLY CHAIN

II. SGP (Sustainable Ginseng Program)

III. Establishment of SGP System

SGP (Sustainable Ginseng Program) is a program that promotes sustainable agricultural practices related to ginseng cultivation, with particular focus on minimizing the environmental impact of ginseng farming, enhancing the economic stability of farms, and providing high-quality products to consumers. KGC is implementing SGP to realize differentiated customer value and strengthen the sustainable production base of ginseng farms by managing ginseng cultivation to be sustainable under compliance with environmental and social regulations.

Detailed Implementation Plan for SGP

Ginseng Cultivation Sustainable Ginseng Program

- Crop: Management of the entire cultivation process from planned site to harvest
- Environment: Cyclical farming methods, waste treatment, etc.
- Labor: Ensuring labor rights, safety compliance, etc.



Natural Environment

- Establishing a green value chain from cultivation to harvest
- Building a system that balances environmental conservation and increased production
- Developing new pest control technologies to replace crop protection chemicals
- Compliance with environmental regulations

Social Responsibility

- Ensuring social fairness and sustainability
- Responsible sourcing of raw materials (ginseng)
- Co-prosperity with partners (contract farms)
- Human resource management: Strengthening capabilities through employee training, etc.

KGC is gradually expanding the operation of SGP, which includes standard cultivation, environmental protection, labor rights, and traceability management, while also adhering to basic ESG principles to enhance social fairness and sustainability and strengthen responsible sourcing of raw materials and co-prosperity with partners. To this end, in 2023 we set compliance requirements and guidelines for each item of governance, crop, environment, and labor and human rights. In 2024, an evaluation checklist will be developed accordingly, based on which we will assess farmers' adherence to best practices, with third-party evaluations to be incorporated starting from 2025. Additionally, we will continuously update guidelines and evaluation instructions and systematically manage data to efficiently operate the SGP and lead the ginseng industry in establishing sustainability.

SGP Implementation Activities

Reducing Environmental Impact | To ensure the sustainability of SGP, it is crucial to maintain soil health and protect biodiversity during the ginseng cultivation process. KGC aims for carbon neutrality by 2045 and is striving to reduce carbon emissions and achieve a circular economy. To this end, we are preventing the indiscriminate disposal of agricultural materials and promoting the recycling of collected agricultural materials. In 2023, a pilot project conducted for willing farms in the Gangwon-do resulted in the collection and recycling of 793 tons of agricultural materials.

Consulting Support for Farms | KGC is making various efforts to establish SGP early in collaboration with farmers. In 2023, SGP was introduced to next-generation agricultural managers¹⁾ and related education was provided. In 2024, group education will be conducted for all contracted farmers to accelerate the establishment of SGP.

Training Core Professionals | To ensure efficient operation of SGP and enhance stakeholder understanding, KGC is training core professionals. In 2023, the background and direction of SGP were explained to our employees, and SGP was introduced to farmers along with guidelines on standard ginseng cultivation methods. Additionally, surveys and evaluations were conducted to introduce SGP and identify practical implementation measures. In 2024, we will expand the scope of survey and evaluation to 100 farms, and make education for all site staff and pre-education for all prospective contractors mandatory. Moreover, we will make continuous efforts to spread SGP, including sending Ginseng Consultants (GCs) from local offices to farms for on-site training and promotion, with the goal of implementing SGP in all farms by 2030. Through core professionals, KGC seeks to promote and expand differentiated SGP, ensuring labor rights protection, safety management, and GHG reduction in ginseng farming, thereby fulfilling social and environmental responsibilities.

¹⁾ Farmers under 50 years old

Criteria for Selecting Best Practices for Sustainable Ginseng Production



Basic methods for ginseng production, including site selection and management, seed management, and growth management



Methods to minimize environmental pollution from equipment used in ginseng cultivation, such as recycling agricultural waste and minimizing the use of crop protection chemicals through cultural control²⁾



Standards such as prohibition of child labor and forced labor, creating a safe working environment, and compliance with working hours

²⁾ Practices to cultivate healthy crops by reducing the occurrence of diseases or weeds through improved cultivation methods, etc.

I. SUSTAINABLE RAW MATERIAL SUPPLY CHAIN

II. Supply Chain ESG Evaluation

Enhancing Supply Chain ESG Evaluation and Metrics KGC conducts supply chain ESG assessment to understand the ESG management level of its partners. Our supply chain ESG evaluation is based on collaboration with externally accredited organizations and utilizes an evaluation tool that covers ESG elements such as labor and human rights, safety and health, environment, ethics, and management. This self-assessment format of evaluation contributes to strengthening the sustainable competitiveness of the supply chain through continuous enhancement.

In 2022, we increased the weighting of ESG evaluation items in the annual comprehensive evaluation for partner companies that produce major packaging materials such as paper boxes and pouches. In 2023, we conducted ESG evaluations for major material partners in collaboration with an externally accredited ESG organization. In 2024, we plan to support education to improve ESG understanding and expand the evaluation targets to broaden collaboration for ESG value creation. Additionally, efforts including self-diagnosis of the evaluation system and identifying improvements through on-site inspections will continue to enhance the evaluation tool.

In 2023, KGC, as part of its ESG activities with the supply chain, implemented a pilot resource recycling project. This project involved collaborating with two major packaging partners to collect wastepaper generated during the production process and reproduce it as packaging material base paper.

Conducting Partner ESG Evaluations KGC conducts comprehensive annual evaluations of materials suppliers with transaction amounts exceeding KRW 100 million, considering factors such as quality management, ESG management, financial soundness, and cooperation. In 2023, we prioritized ESG self-assessment evaluations for key materials partners with transaction amounts exceeding KRW 1 billion. In 2024, the evaluation target will expand to include major OEM partners, with the aim of strengthening evaluation management by utilizing evaluation results to support the enhancement of partners' ESG implementation capabilities.

Outline of Partner Company Evaluation



STRENGTHENING PRODUCT COMPETITIVENESS THROUGH R&D

Enhancement of Global-Level Research Capabilities

KGC has established a R&D system based on scientific verification and organic collaboration across various sectors from raw materials to finished products, including cultivation, efficacy, safety, and product development, and is leading the R&D of ginseng and natural products around the world. We promote R&D in various fields to accelerate the development of new products; secure scientific basis for efficacy; discover differentiated competitive advantages by standardizing raw materials and deriving differentiated factors; and strengthen marketing support by expanding the global research collaboration network.

In 2023, KGC established an R&D center in Los Angeles, U.S., to expand its global network and enhance research capabilities to a world-class level. Serving as the second global R&D hub following the first one in Shanghai, China, it oversees not only the development of new brands but also the management of processes and quality for locally produced products. In addition, the center is conducting clinical studies in the U.S. on the functionalities of ginseng and red ginseng, such as boosting immunity, improving blood flow, and antioxidant effects. It also plays a role in collecting market information on global health functional food ingredients. Moving forward, KGC plans to accelerate the development of locally customized products that incorporate preferred ingredients and functionalities in the US market through efficacy research and raw material standardization.

KGC is focusing on securing scientific evidence for the value of ginseng and red ginseng by collaborating with leading universities and research institutions in the U.S. and Europe, among others. We will also continue to pursue research on the efficacy and safety of natural products and develop functional ingredients to provide differentiated value to our brands and products. Going forward, we will secure the excellence of ginseng through the expansion of global efficacy research, design functional products based on consumer needs, expand the market through the development of locally customized products, standardize key ingredients (such as red ginseng and deer antler), and streamline the product development process. In doing so, we will secure sustainable competitiveness and create a “healthier and happier tomorrow for people around the world.”

R&D System of KGC



Enhancing Eco-friendly Technology Capabilities

KGC focuses on developing eco-friendly technologies to reduce environmental impact and enhance customer value. Good example includes the “fat-soluble red ginseng fraction new material (red ginseng oil) manufacturing technology,” an eco-friendly red ginseng oil extraction technology developed by KGC with its own technology. We identified this technology as promising, aligning with evolving market dynamics such as the growth of the domestic and international food upcycling market and increased demand for eco-friendly products driven by changing consumer awareness. Subsequently, we underwent a verification process to obtain an objective evaluation of its value from a reputable institution. As a result of qualifying for both “greenness” of the eco-friendly manufacturing system for the separation and purification of red ginseng oil and “technical excellence” of the manufacturing technology, we obtained the Green Technology certification¹⁾ in December 2022. We also received confirmation from the Green Certification Office; Korea Institute of Planning and Evaluation for Technology in Food, Agriculture, and Forestry; and the Ministry of Agriculture, Food and Rural Affairs for two products – “Blood Circulation Support” and “Eye Support” of the Jung Kwan Jang α Project – as Green Technology products²⁾. In March 2024, an additional Green Technology certification was granted to the “Red Ginseng Oil RXGIN CLEAN.”

KGC is exploring diverse upcycled food materials derived from ginseng and red ginseng, alongside red ginseng oil. We have demonstrated our research prowess in upcycled food materials by successfully developing low-molecular collagen from deer antler and dietary fiber from red ginseng. Moving forward, KGC will continue R&D to uncover the material value of food extraction residues, aiming to reduce environmental impact while enhancing product value and creating differentiated customer value.



4 Green Technology product certificates

¹⁾ Green Technology certification is certification for technologies that save and efficiently use energy and resources to minimize GHG emissions and pollutants.
²⁾ Selected as products that have been commercialized for the purpose of sales as products to which green technology is applied. Must meet the confirmation of green technology certification, product production availability, quality management, and product performance.

I. STRENGTHENING PRODUCT COMPETITIVENESS THROUGH R&D



CASE STUDY

Launched new “Donginbi” products – anti-aging products using red ginseng oil

In 2023, KGC’s dual anti-aging beauty brand, Donginbi, launched two anti-aging products featuring red ginseng oil. The “Red Ginseng Daily Defense Capsule Ampoule,” released in April, is an innovative product utilizing modern technology that micro-encapsulates red ginseng oil. It features packaging that facilitates easy waste separation and aligns with value-based consumption trends.

Following this, the “1899 Watery Oil Essence” introduced in June. It is a watery oil essence that absorbs quickly and lightly, containing high-purity red ginseng oil and the proprietary beauty ingredient RG Ginsenic Glow™¹⁾, improving on the less favorable elements of other oil products with exceptional performance and speed.

¹⁾ Patent application 10-2023-0010109: Method for manufacturing red ginseng marc extract fortified with specific ginsenosides



Launched “Lab1899” – new vegan cosmetics

In March 2024, KGC launched “Lab1899,” a high-performance vegan beauty brand certified by the prestigious French vegan certification organization. The brand introduced a skincare line comprising of 3 products, including the “Red Ginseng Peptide Serum,” which contains red ginseng-derived peptides ²⁾ produced using patented methods, as well as hand and body care lines (2 products), marking a significant step into the global vegan beauty market.

²⁾ Patent application 10-2023-0129225: Composition for preventing skin aging containing red ginseng peptides



Launched “Red Ginseng Oil RXGIN CLEAN” – men’s prostate health supplement

In August 2023, KGC launched “Red Ginseng Oil RXGIN CLEAN,” after being officially recognized by the Ministry of Food and Drug Safety in Korea as patented ingredient for prostate health. The product uses an optimized supercritical extraction method to maximize effective components. After five years of research on red ginseng oil starting from 2018, it was confirmed through human clinical trials to aid in men’s prostate health and received official recognition from the Ministry. Since its release, it has garnered substantial popularity, particularly among middle-aged men.



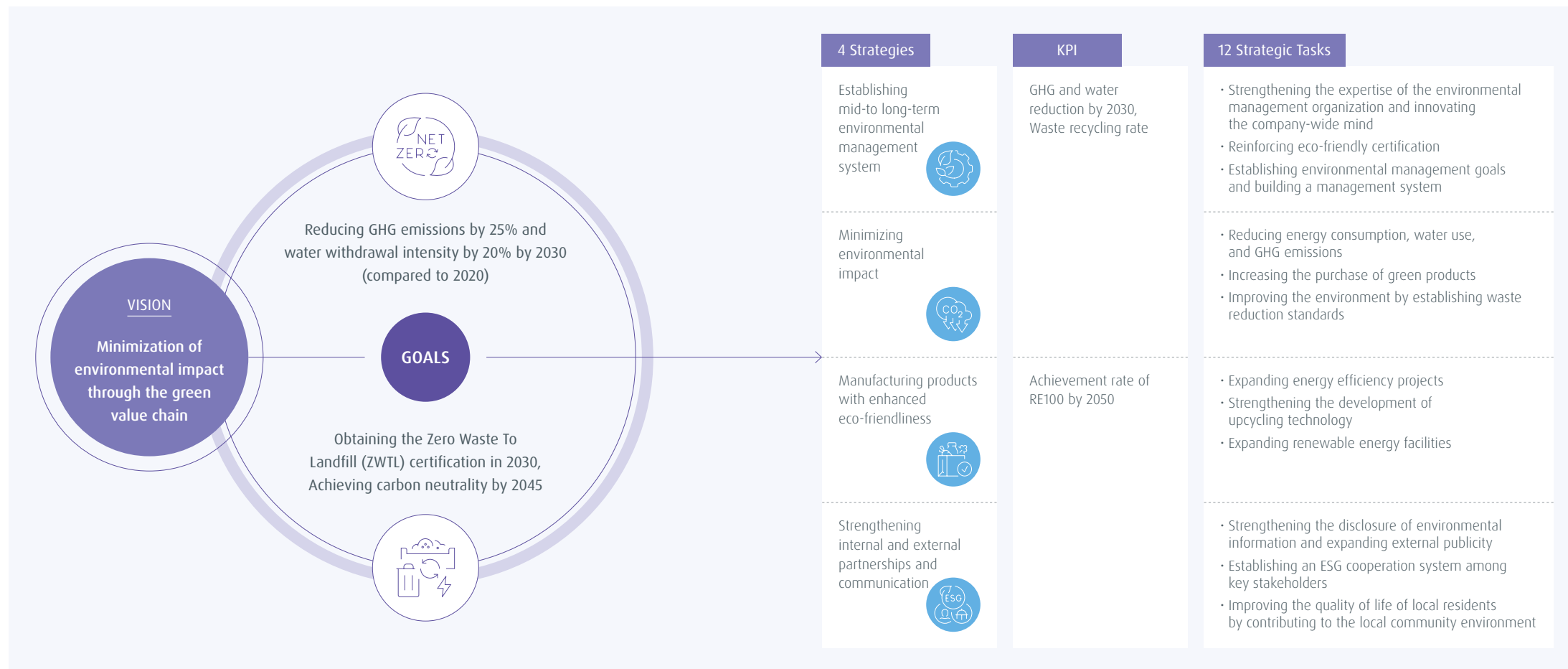
MINIMIZING ENVIRONMENTAL IMPACT

Environmental Management Strategy

KGC adheres to an environmental management policy and strives for the establishment of environmentally conscious workplaces by setting objectives that surpass the basic requirements of environmental regulations. To achieve the mid-to long-term vision of “Minimization of environmental impact through the green value chain,” we are focused on reducing GHG emissions centered on energy conversion in the business site and improving the efficiency of water use in the business site.

In particular, the Manufacturing HQ of KGC established the mid-to long-term ESG management action plan roadmap in 2022 to establish a mid-to long-term environmental management system and derive strategic tasks to minimize environmental impact, including carbon neutrality, water resource management, and waste management. Accordingly, we are actively promoting such initiatives as reduction of GHG centered on energy transition at business sites, enhancement of water usage efficiency, and zero waste to landfill, based on which we aim to achieve eco-friendly green growth.

Environmental Policy Implementation Strategy



Mid-to Long-term Environmental Goals

CARBON NEUTRALITY

Reducing GHG emissions by 25% compared to 2020 by 2030, achieving carbon neutrality by 2045

Considering the internal reduction capacity and emission scale of KGC, and the connectivity with the ESG strategy of KT&G Group, KGC established mid-to long-term reduction targets by 2030 in accordance with the SBTi WB 2°C scenario.

WATER RESOURCES MANAGEMENT

Reducing water withdrawal intensity by 20% compared to 2020 by 2030

KGC established mid-to long-term water management goals by comprehensively considering the characteristics of the food industry, product quality management, and the direction of ESG strategy of KT&G Group.

WASTE MANAGEMENT

Obtaining the international certification of Zero Waste To Landfill (ZWTL) by 2030

Buyeo and Wonju Plants of KGC will verify the manufacturing process and waste conversion in the facility to achieve the ZWTL certification, a scale for evaluating a company’s resource recycling level.

MINIMIZING ENVIRONMENTAL IMPACT

Environmental Management Implementation

Promotion of Green Business Certification KGC is accelerating efforts to establish eco-friendly facilities, targeting the Green Business designation from the Ministry of Environment for its Wonju Plant (2024) and Buyeo Plant (2025). For the Wonju Plant, a "Green Management Report" was published, which includes the establishment of a green management vision, resource and energy savings, GHG reduction and improvement activities, and social contribution activities. In 2023, the Plant was recognized for its contribution to reducing environmental pollutants and received a commendation from the Governor of Gangwon Province. Additionally, practical and specific activities to reduce environmental impact, such as standardizing the use of eco-friendly copier paper, are being identified and implemented at the Manufacturing HQ level. Based on these activities and achievements, a Green Business designation application was submitted in April 2024, with a goal of new designation in the fourth quarter following site evaluations in the third quarter. The acquisition of the certification is expected to enhance company ESG management.

Management of Energy Consumption at Business Sites Energy sources utilized at the Wonju Plant include direct sources such as LNG, diesel, and gasoline, along with indirect sources represented by industrial electricity. The energy consumption at the Wonju Plant in 2023 was 338 TJ, consisting of 44% direct energy and 56% indirect energy. The Wonju Plant completed the establishment of a Factory Energy Management System (FEMS) in the fourth quarter of 2023, through which it has been monitoring its energy consumption since the first quarter of 2024. From the second quarter, the system will be used to conduct energy efficiency analyses, calculate energy consumption per formulation, process and set targets, enabling a more systematic energy management.

Energy sources utilized at the Buyeo Plant include stationary combustion such as LNG and LPG, mobile combustion including diesel, LPG (for vehicles), and gasoline, as well as indirect sources like electricity. The energy usage at the Buyeo Plant in 2023 was 334 TJ, consisting of 45% fixed energy, 54% indirect energy, and 1% or less mobile energy. The Plant uses energy meters to improve processes using a large amount of energy and manages the efficiency of major utility facilities. From the third quarter of 2023, when the FEMS is set to be completed, we monitor and analyze energy consumption and carry out additional reduction activities.

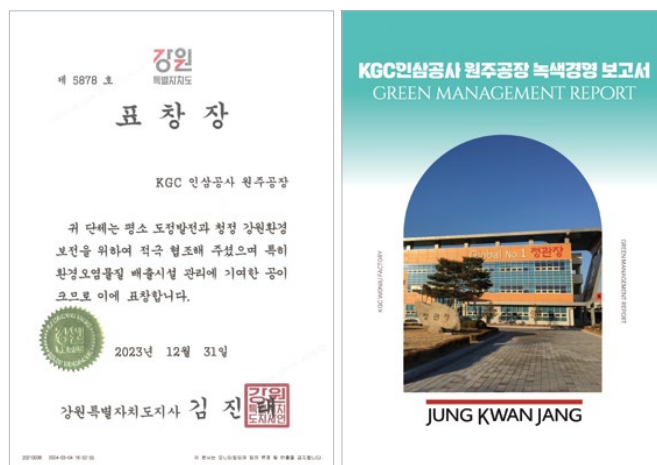
GHG Target Management at Business Sites To manage GHG emissions, KGC collects and analyzes electricity and fuel usage in each business site in real time. Through these analyses, we manage the absolute amount of GHG emissions and basic unit data. Since both Wonju and Buyeo Plants were designated as GHG target management sites, they have set annual goals, discovered and implemented GHG reduction measures, and managed emissions. Designated in 2012, the Buyeo Plant started executing the strategy in 2013, while the Wonju Plant has been implementing the strategy since 2020 after its designation in 2016. The total GHG emissions in 2023 recorded 16,609 tCO₂e at Wonju Plant and 16,461 tCO₂e at Buyeo Plant.

KGC is actively working to reduce GHG emissions. In 2023, the Wonju Plant reduced its GHG emissions by 421 tCO₂e by improving refrigeration and cooling equipment (replacing cooling tower fill, performing chemical cleaning of freezers, cleaning condenser and outdoor unit fins, and using a cooling water line cleaning agent). Emissions were further reduced by 132 tCO₂e and 127 tCO₂e, respectively, by replacing a deteriorated coal-fired boiler and aging steam traps. Additionally, the introduction of solar power self-consumption equipment (199.5 kW) led to an additional reduction of 80 tCO₂e. Improvements in air conditioning operation (strengthening operating time and temperature setting standards) and repairs to compressed air leaks resulted in reductions of 419 tCO₂e and 52 tCO₂e, respectively.

Total Energy Consumption



Total GHG Emissions



MINIMIZING ENVIRONMENTAL IMPACT

The Buyeo Plant reduced its GHG emissions by 376 tCO₂eq by cleaning refrigeration units and boiler pipes through chemical and physical methods. An additional 1,140 tCO₂eq was reduced through improvements in air conditioning operation methods (adjusting airflow and refrigeration return temperature). Additionally, emissions were reduced by 125 tCO₂eq through adjustments to the humidifier pressure, and by 242 tCO₂eq through improvements to the water treatment R/O system in the water treatment room.

Meanwhile, KGC established Factory Energy Management Systems (FEMS) at each plant in 2023 for efficient management of energy use and calculation of energy consumption per process. Based on this, starting in 2024, we intend to implement department-specific unit targets to enhance GHG reduction efforts.

GHG Reduction Activities and Performances

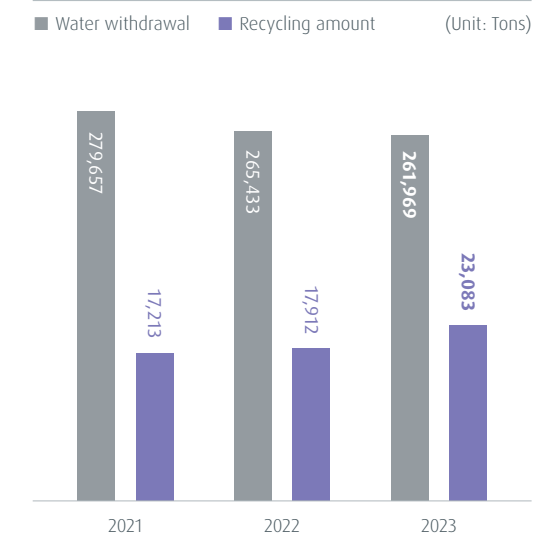
| WONJU PLANT | BUYEO PLANT |
|------------------------------------------------------------------------------------------------------|---------------------------------------------------------------------------------------------------------------|
| <p>Improvement of refrigeration and cooling equipment 916 MWh (421 tCO₂eq)</p> | <p>Improvement of air conditioning operation methods 1,309 MWh (601 tCO₂eq)</p> |
| <p>Replacement of old coal-fired boiler 60 k Nm³ (132 tCO₂eq)</p> | <p>Improvement of refrigeration unit operation methods 1,174 MWh (539 tCO₂eq)</p> |
| <p>Replacement of old steam traps 58 k Nm³ (127 tCO₂eq)</p> | <p>Cleaning of outdoor unit fans for heating and cooling units 333 MWh (125 tCO₂eq)</p> |
| <p>Solar power generation 174 MWh (80 tCO₂eq)</p> | <p>Boiler cleaning 21,000 m³ (47 tCO₂eq)</p> |
| <p>Improvement of air conditioning operation methods 911 MWh (419 tCO₂eq)</p> | <p>Cleaning of refrigeration unit 204 MWh (204 tCO₂eq)</p> |
| <p>Repair of compressed air leaks 114 MWh (52 tCO₂eq)</p> | <p>Improvement of water treatment R/O system 526 MWh (242 tCO₂eq)</p> |
| <p>Repair of heat exchanger coil tubes 18 k Nm³ (41 tCO₂eq)</p> | <p>Improvement of humidifier 57,000 m³ (125 tCO₂eq)</p> |

Introduction of Renewable Energy KGC is promoting the transition to renewable energy by expanding the adoption of solar power facilities. In May 2023, the Wonju Plant installed a 0.2MW solar power facility, generating an average of 700-900kW per day, with a total annual self-consumption of 173MWh. To increase the proportion of renewable energy, the Wonju Plant is considering the installation of solar facilities with a total capacity of 3.2MW on the available rooftop space in three phases. The first phase, with a capacity of 1.2MW, will commence in 2024 with completion targeted for 2025. The second and third phases, each with a capacity of 1MW, are planned for completion in 2026 and 2027, respectively. Upon completion, the solar installations are expected to reduce GHG emissions by 10% compared to 2020. The Buyeo Plant installed a 0.2MW solar power facility in March 2023, replacing 1.1% (210,634kWh) of its annual electricity consumption with renewable energy. In 2024, an additional 1MW facility will be installed, which is expected to reduce GHG emissions by 8.4% by 2025. The Buyeo Plant will continue to expand its solar power capacity with an additional 0.8MW in 2025, another 0.8MW in 2026, and 0.4MW in 2027, aiming to achieve a total capacity of 3.2MW by 2027. This expansion is expected to reduce GHG emissions by 11.5% compared to 2020. Additionally, for any further renewable energy needs, it will utilize direct PPA (Power Purchase Agreement).

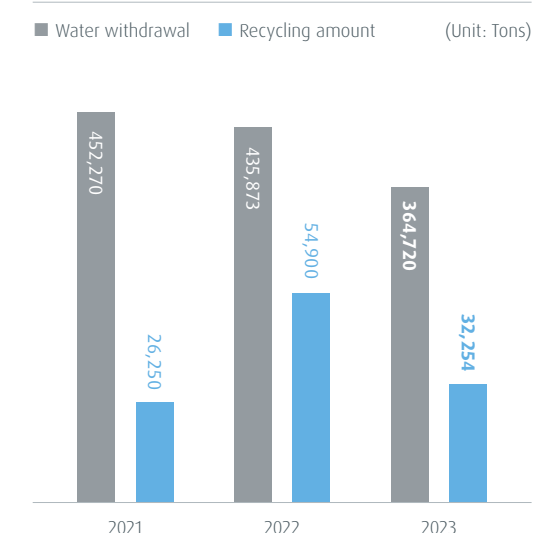
Water Management at Business Sites In 2023, KGC's Wonju and Buyeo Plants intook 261,969 tons and 364,720 tons of water, respectively, and recycled 23,083 tons and 32,254 tons of it. While water is a universal resource, its limited availability necessitates responsible usage to ensure universal benefit. Thus, KGC is continuously striving to reduce water consumption. In 2023, the Wonju Plant addressed the leakage issue from outdated boiler economizers by replacing the equipment, which resulted in reduced municipal water consumption. Additionally, the Plant is exploring ways to recycle concentrated wastewater from the water treatment facility for further reduction. The Buyeo Plant switched the circulation method for the ginseng extract condenser, saving 24,622 tons of municipal water and 27,429 tons of sewage. Moreover, the Plant optimized processes and implemented re-treatment of washing water used in the fresh ginseng processing facility to reduce wash water consumption, achieving both environmental protection and cost savings.

Waste Management at Business Sites KGC strives to minimize the landfill of waste generated at its business sites and to use resources efficiently through reuse and recycling. As part of this endeavor, we worked on obtaining the ZWTL (Zero Waste to Landfill) certification in 2023, which assesses the recycling performance of workplace-generated waste and assigns corresponding classifications, and both of Wonju and Buyeo Plants achieved it in August 2023. As of 2023, the Wonju Plant recorded a recycling rate of 93% (with a 10% energy recovery incineration rate), and the Buyeo Plant achieved a 99% recycling rate (with an 8% energy recovery incineration rate). In 2024, we plan to maintain this certification by selling red ginseng marc from the alcohol production line and selling circulating resources as well as through performance report. In 2023, KGC achieved a significant milestone by having red ginseng marc recognized as a circulating resource. Red ginseng marc, a byproduct generated in the red ginseng manufacturing process, still contains various valuable components and can be utilized for multiple purposes. Instead of disposing of this byproduct, KGC collaborates with food upcycling specialists to develop new products, thereby contributing to waste reduction and the realization of a circular economy. As of May 2024, we have finalized the raw material form and the direction for upcycling product development and is actively working on product development.

Water Withdrawal and Recycling at Wonju Plant



Water Withdrawal and Recycling at Buyeo Plant



ENHANCING PRODUCT ECO-FRIENDLINESS

Expanding Sustainable Packing

In line with the growing attention of internal and external stakeholders to eco-friendly products and resource circulation, in addition to the international community's declaration to pursue carbon neutrality, KGC has been accelerating its pace of eco-friendly product development. We define "sustainable packaging" as a crucial keyword in the product development and improvement process, which refers to reducing waste that directly or indirectly impacts the environment, applying packaging forms that minimize the carbon footprint, and actively utilizing renewable packaging materials.

Development of Sustainable Packaging Materials Roadmap for Developing Sustainable 3R-Based Packaging Materials

| Category | Direction | Strategy | Details |
|----------|----------------------------------------------------------------------|-------------------------------------------------------------|-----------------------------------------------------------------------------------------------------------|
| Reduce | Reduce the use of raw packaging materials to reduce carbon emissions | Reduce the use of raw paper materials | Simplify paper box packaging Replace manuals with QR codes Reduce the weight of paper box materials |
| | | Reduce the use of raw pouch materials | Reduce aluminum thickness Apply printing technology to minimize environmental impact |
| Recycle | Improve sustainability by enhancing packaging recyclability | Replace metal caps | Reduce carbon emissions |
| | | Improve recyclability | Upgrade recycling grade evaluation |
| Replace | Improve packaging operations centered on the environment | Introduce eco-friendly shopping bags | Change paper types, remove lamination, use paper strings |
| | | Develop alternative materials to reduce the use of plastics | Switch to eco-friendly tray materials |
| | | Review compostable materials | Switch plastic containers to paper materials |
| | | Develop pouches that reduce environmental impact | Replace aluminum, verify content safety |

Expanding the Use of Sustainable Packaging Materials KGC quantifies the carbon emissions of major products based on their packaging types and materials, and builds a database to guide the development and improvement of packaging materials. Following these objective and rational standards, we worked on improving packaging materials for our flagship product, Red Ginseng Extract, and replaced an aluminum-blended metal cap with packaging materials minimize carbon emissions in April 2024. This new cap retains the premium image of the original while enhancing recyclability by reducing metal usage and simplifying the mold. Following 15 months of product safety, durability, and field suitability evaluations, it was applied to the final product. This improvement in metal cap packaging is expected to reduce metal usage by approximately 5.4 tons annually.

Improving Packaging Recyclability

KGC has been making continuous efforts to improve the recycling grade of its product packaging. In 2023, improvements were made to the packaging of Red Ginseng Extract product lines, switching them from a recycling grade of "difficult" to "excellent." The Red Ginseng Extract product line has long used labels made of a combination of metal and paper to maintain the product's tradition and image. However, through the recent packaging improvement, we have replaced them with "ECO labels" that contain no metal components. In the process, the label packaging cost increased by approximately 40%, but we achieved meaningful results in transitioning to eco-friendly packaging, such as improving the recycling grade to "excellent" and reducing CO₂ emissions.

For the trays used in gift sets such as Hong Sam Jin Bon, we have traditionally added separate colors to PET material to enhance the premium feel. However, we have improved this by switching to PP material, which is easier to recycle, and as a result, we have obtained an "excellent" recycling grade. Additionally, the application of water-soluble labels to products, including Zzin-senng (Red Ginseng Gummies), improved their recycling grade from "difficult" to "average."

| Red Ginseng Extract | Hong Sam Jin Bon | Zzin-senng (Red Ginseng Gummies) |
|----------------------------------|-----------------------------------------------------|-------------------------------------|
| | | |
| Application of Metal-free Labels | Change of Tray Material | Application of Water-soluble Labels |
| <p>Difficult → Excellent</p> | <p>RECYCLING GRADE</p> <p>Difficult → Excellent</p> | <p>Difficult → Average</p> |

Before Improvement AL + Plastic composite structure (4-piece)

↓

After Improvement Plastic composite structure (3-piece)

Reduction of 2.2 tons of AL and 36.1tCO₂eq of CO₂ emissions
(Based on 2023 sales of Red Ginseng Extract 240g)



Before Improvement AL + Paper (containing metal, difficult to recycle)

↓

After Improvement MPP (easily separated from glass bottles, excellent for recycling)

Reduction of 65.5kg of AL and 1.2tCO₂eq of CO₂ emissions
(based on 2023 sales of Red Ginseng Extract 240g)

ENHANCING PRODUCT ECO-FRIENDLINESS

Reduction of the Use of Packaging Materials

KGC has also achieved resource savings, including paper, by simplifying complex packaging structures. Starting in April 2023, paper inserts for products were replaced with QR codes to minimize unnecessary paper use. In December 2023, the packaging structures for various products, such as Cheon Nok Tonic, Hwa Ae Rak/Hong Cheon Woong, Hwangjindan, and Cheon Nok Extract, were simplified, and as a result, an annual reduction of 107.1 tons of paper, 6.9 tons of plastics, and 29 tons of MDF (wood packaging) is expected. Moving forward, KGC will continue to make sustained efforts to improve packaging across the entire lifecycle of products, from production to use and disposal.

Securing Sustainable Packaging Technology KGC is committed to reducing environmental impacts and creating new business opportunities by considering global environmental regulations and initiatives and by proactively responding to government packaging policies. To this end, we are focusing on developing technologies that minimize environmental impact through research on eco-friendly packaging materials, and our efforts and innovations have been externally recognized.

Korean Red Ginseng Vital Tonic Booster is a popular product of KGC, featuring a dual formulation packaging that allows convenient intake of liquid and tablet simultaneously. KGC has improved recyclability by applying a simpler paper structure than existing products, and it is expected to reduce paper usage by 28 tons per year. In recognition of these eco-friendly packaging development efforts, KGC was awarded the President's Award of the Korea Association of Packaging Professional Engineer at the Korea Packing Contest in April 2023. It was also selected for the Award for Packaging Excellence at the Worldstar Global Packaging Awards hosted by the World Packaging Organization (WPO) in January 2024. KGC also received an award for excellence in the Packaging Material Structure Improvement Contest hosted by the Korea Packaging Recycling Cooperative.

Introduction of Life Cycle Assessment

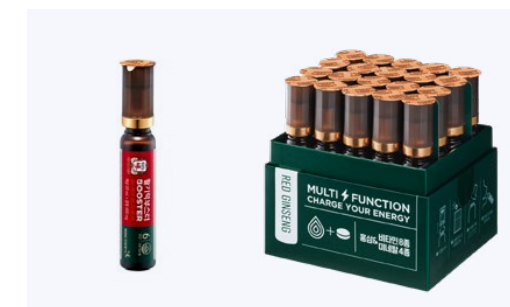
KGC has implemented life cycle assessment (LCA) for its major products in 2023 to assess their environmental impact throughout entire lifecycle, from raw material procurement to disposal after use. For the two products selected for LCA, Red Ginseng Extract (240g) and Red Ginseng Root (600g), we quantified the resources and emissions involved in the entire process, from the cultivation of ginseng by farmers, the production of red ginseng raw materials, the manufacturing of major products, to their use and disposal, and conducted a step-by-step environmental impact assessment. In the first stage, we conducted an LCA from the cultivation of ginseng by farmers to the production process of raw red ginseng, which was followed by the second stage, where we systematized the collection and acquisition of LCA-related data for each major product manufacturing process. Furthermore, through the FEMS (Factory Energy Management System) established in August 2023, we plan to secure annual data on energy consumption for each process by the second half of 2024 and complete the LCA for major products. Based on the final LCA results, KGC will quantify the environmental impact of major products, identify areas for improvement, and explore measures to reduce environmental impact.

Value Chain Emissions Inventory Management

KGC has established a Scope 3 inventory to calculate GHG emissions from upstream and downstream activities associated with its business operations, beyond direct operations. Based on the inventory established in 2023, we plan to advance and systematize the calculation methods to lay the foundation for achieving carbon neutrality. In addition, by identifying major emission sources within Scope 3, we will discover opportunities to reduce GHG emissions and implement measures accordingly.

| | Application of QR code | Cheon Nok Tonic | Hwa Ae Rak/ Hong Cheon Woong | Hwangjindan 12 Pills | 2 products, including Cheon Nok Extract | Red Ginseng Honey Paste |
|--------------------------------|-----------------------------|-------------------------------------------------------|------------------------------------------------------|----------------------|-----------------------------------------------------|----------------------------------------------------------|
| Packing materials | | | | | | |
| Improvement | Replacement of paper manual | Simplification of set box (paper, foamed pe) | | MDF → Paper | MDF → Paper PP tray → Paper | Simplification of spoon structure (2-piece → 1-piece) |
| Reduction of packing materials | Paper 65.6 tons ↓ | Paper 3.5 tons ↓ Plastics 4.4 tons ↓ | Paper 38 tons ↓ Plastics 2.2 tons ↓ | MDF 29 tons ↓ | MDF 3.5 tons ↓ Plastics 1.7 tons ↓ | Plastics 0.3 tons ↓ |

* Reduction amount: Calculated based on KGC's annual sales volume in 2023



Korean Red Ginseng Vital Tonic Booster received the Award for Packaging Excellence at the 2024 Worldstar Global Packaging Awards



Received an award for excellence in the Packaging Material Structure Improvement Contes hosted by the Korea Packaging Recycling Cooperative

I. FOOD QUALITY AND SAFETY MANAGEMENT

II. Food Quality Control Management

KGC operates a quality and safety information system based on robotic process automation (RPA) to ensure the provision of safe and superior products. This system focuses on proactive food safety and quality management. Furthermore, we continuously gather domestic and international food safety and quality information, assessing their impact on our operations. When necessary, proactive measures are promptly taken to mitigate potential risks. Additionally, key information is managed by integrating it into sector-specific operations or standards.

Additive Hazard Management Adhering to the principle of using only safe raw ingredients, KGC procures food additives from carefully selected manufacturers who meet internal standards. Food additives from external manufacturers are subject to preliminary quality and food safety evaluation. We have internal criteria to manage chemical, biological, and physical hazardous ingredients, and the usage standards, including those without legal standards.

Manufacturing Process Management Through trial and initial production to secure food safety and quality, KGC identifies risks such as food poisoning, foreign substances, and quality deterioration that may occur in the manufacturing process. We are operating process conditions and quality assurance equipment to realize optimal quality by controlling relevant hazards, while also monitoring in real-time and managing all major procedures.

Inspection on Warehousing, Processing and Outgoing Stages At KGC, all processes are inspected and monitored according to specification, and products that satisfy the food safety specification and quality standards are finally released. All raw and subsidiary materials, including worker hygiene products, manufacturing water, air, fuel, etc., are subject to inspection in the warehousing stage. Process conditions and the quality of processed products are analyzed thoroughly in the food manufacturing process. We also examine the quality of the finished products according to specification before shipment and ship only verified products.

Follow-up Management Separate from the manufacturing process, we have the inspection, analysis, and verification processes on raw ingredients, suppliers, and manufacturing processes. To enhance product quality even after product sales, we collect the voices of customers (VOC) through our expert counselors and the IT system and strive to incorporate VOCs into our products. Based on the accumulated database, we are developing and implementing improvement plans to prevent the same VOC from reoccurring, while also sharing the results with customers in a transparent manner. All health functional foods produced by KGC are recorded and managed flawlessly through the MFDS Food Traceability Management System, which is integrated with our IT system. This ensures that manufacturing and distribution history information is provided to consumers, thereby guaranteeing their right to know. If hazardous elements are detected, we promptly recall the products from the market to minimize potential consumer harm. We also conduct regular inspections as part of our ongoing commitment to food safety management.

Food Safety & Quality Management Process



I. FOOD QUALITY AND SAFETY MANAGEMENT

II. Legal Compliance and Certification

Recognized as an internationally accredited testing institute for analysis of crop protection agents, heavy metals, general food ingredients, and microorganisms in 2010, KGC complies with the Food Safety Modernization Act (FSMA) of the U.S. Food and Drug Administration. Moreover, we guarantee that we meet the global food safety requirements throughout the manufacturing process by acquiring objective quality certifications trusted by various consumers, such as the Food Safety Management System (FSSC 22000), Halal, Kosher, etc.

Agricultural Products For agricultural products like fresh ginseng, we have implemented the Positive List System (removing the provisional standard for unregistered pesticides, Ministry of Food and Drug Safety Notice No. 2022-84) to ensure safety. We conduct up to 430 types of inspections five times, from the soil at the planting site to the final product, to ensure safety.



Processed Food When manufacturing processed food, we adhere to the Food Sanitation Act and the Health Functional Foods Act. We design products and establish standards within the specified limits outlined in the documents attached to each law, which guide our manufacturing processes. Furthermore, we ensure compliance with regulations through adherence to HACCP and GMP standards.

In August 2022, KGC became the first in the health functional food industry to obtain a “Smart HACCP” certification¹⁾. Smart HACCP is a system that utilizes technologies such as Internet of Things (IoT) to digitize food safety information and automate monitoring of critical control points. Unlike the traditional HACCP system that manually records and manages monitoring data, Smart HACCP digitizes various documents, preventing tampering of data. Additionally, when hazards are detected, instant alerts are sent to administrators, enabling immediate corrective actions. We will further enhance our quality management capabilities by expanding the implementation of process analysis and real-time monitoring through our internal production management system.

Compliance with Food Safety Moderation Act KGC established and operates regular food safety plans to manage food safety proactively and preventively. The Food Safety Modernization Act (FSMA) is a law enacted in the U.S. to prevent incidents and accidents related to food safety. As a global exporting company, we comply with all relevant legal requirements, while also striving to prevent intentional and unintentional food contamination. Key personnel engaged in food safety management are certified as PCQI (Preventive Controls Qualified Individual) after completing relevant specialized training, and they are strategically positioned to provide full support for safety management. Through a food preventive management system encompassing manufacturing processes, hygiene, suppliers, and allergens, we prevent unintentional food contamination. Moreover, we operate a food defense and fraud prevention program to prevent deliberate food contamination. We will continue to monitor and assess both human and physical environments to ensure safety and put forth our best efforts to maintain a safe environment.

¹⁾ Wonju Plant: August 2022, Buyeo Plant: November 2022

Legal Compliance and Certification

| Classification | Content | |
|-------------------------------------------------------------------------------------------------------------|--------------------------------------|----------------------------------------------------------------------------------------------------------------------|
|  Law | International FoodSafety Regulations | Satisfied food safety and quality standards of HACCP (food) and GMP (health functional food) |
| | US FDA Food Safety Modernization Act | Satisfied food safety risk control and validation procedures |
|  Certification | FSSC 22000 | Satisfied global food safety requirements in the entire supply chain from development, manufacturing and sales, etc. |
| | Halal, Kosher | Satisfied quality certification standards set by Islamic and Jewish cultures |

ENHANCING CUSTOMER SATISFACTION

Consumer-Centric Management

KGC established and operates a management system centered around consumers and is spreading a consumer-oriented management culture. This effort has also been recognized externally. Since its initial selection as a CCM¹⁾-certified company in 2010, KGC has continuously maintained this certification. In 2023, we received the Commendation from the Chairman of the Fair Trade Commission and included in the CCM Hall of Fame for our contributions to advancing consumer rights and fostering a consumer-centered management culture.

The consistent acquisition of CCM certification by KGC can be attributed to the consumer-oriented mindset of its employees and the corporate culture that emphasizes customer value. To achieve this, we conduct tailored CCM education based on various VOC feedback collected from customer-facing staff, franchise operators, partner companies, and more. Additionally, we make efforts such as issuing newsletters, card news, and regular VOC reports to further enhance our consumer-centric approach.

Value Consumption Programs at Customer Touchpoints

KGC runs various programs to promote sustainable development and fulfill social responsibilities. In 2023, from May 1 to December 31, a promotional event titled “ECO LIFE, making health functional foods healthier” was held on the official online mall, “Jung Mall.” This event featured the sale of some 40 items, including eco-packaged Red Ginseng Tonic Gold using FSC-certified eco-friendly paper, and organic products from various vendors. During this period, 171 people joined in on healthy consumption with Jung Mall.

To celebrate Arbor Day, for a week starting from April 3, an event was held where the first 300 customers of Jung Mall received ginseng seed kits. Participants gained firsthand experience of the time and effort involved in ginseng cultivation, fostering a deeper appreciation for ginseng and, more broadly, the importance of trees. Additionally, on May 31, to mark Ocean Day, a Jung Mall social media event was held to raise awareness about the importance of the ocean, with over 600 followers participating through comments. From August 31 to December 31, a regional food hall featuring 133 items of local specialties was operated on Jung Mall, generating approximately 3,000 sales and KRW 140 million in revenue, promoting regional coexistence. Through these activities, KGC is practicing ESG management at customer touchpoints and creating a virtuous cycle that positively impacts society.

¹⁾ Consumer Centered Management: This system involves the Korea Consumer Agency evaluating every three years (from January 1st, 2025) whether a company aligns all its business activities, including product development, production, sales, and after-sales service, with a consumer-centered approach and the extent of its efforts for consumers. If the evaluation is successful, the Fair Trade Commission certifies the company. In the case of KGC, the re-certification process is scheduled for the year 2024.

STRENGTHENING HUMAN RIGHTS MANAGEMENT

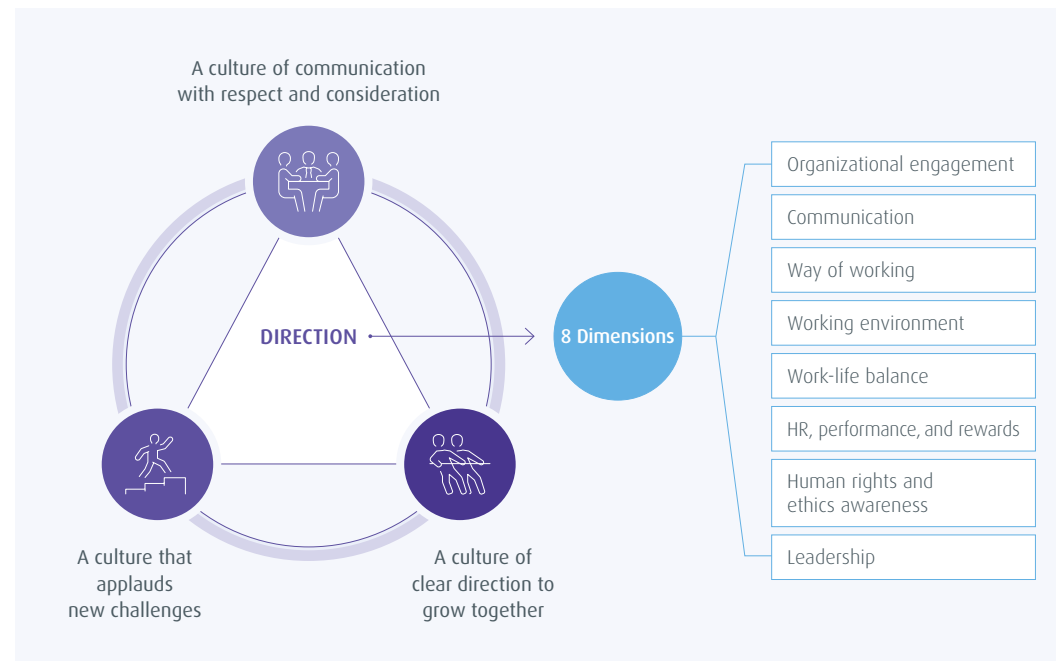
Creating a Happy Organizational Culture

Fair Recruitment KGC is implementing employment processes to hire talents focusing on their job capabilities for fair and reasonable employment, without considering any factors that might shape prejudice, such as family relations or nationalities. To facilitate capability-based interviews, we provide interviewers with prior training, and during the interview process, each candidate is assigned a blind code to ensure impartiality. For individuals eligible for employment protection, such as veterans and their family and persons with disabilities, we allocate additional points at each stage of the process.

Organization Culture Change

Organizational Culture Diagnosis | KGC conducted an organizational culture diagnosis for all employees in the second half of 2023 to systematically assess and build a healthy organizational culture. Through this process, the satisfaction levels and needs of employees regarding the company’s three key cultural objectives and eight dimensions were identified. Based on these results, we are focusing on improving areas such as “way of working,” “organizational engagement,” and “communication.” Additionally, each department is leading the charge in driving cultural change and innovation to accelerate improvements at the organizational level.

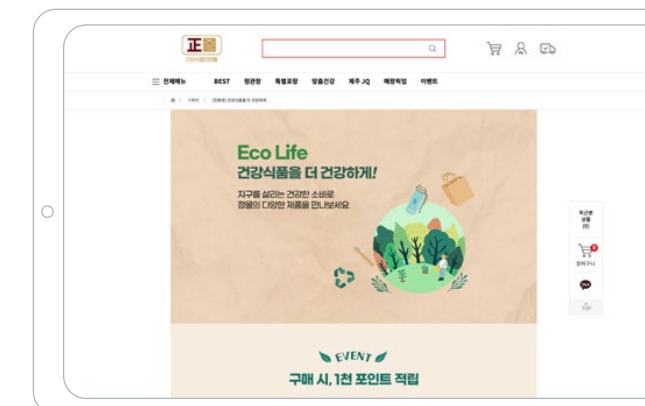
KGC’s 3 Core Organizational Culture Directions and 8 Dimensions



Jung Kwan Jang Value Consumption Events



- “ECO LIFE, making health functional foods healthier” event and “Local Food Hall” event held on the official Jung Kwan Jang online mall, “Jung Mall”
- Arbor Day Event: Distribution of ginseng seed kits to customers of Jung Mall



I. STRENGTHENING HUMAN RIGHTS MANAGEMENT

Moving forward, KGC will conduct annual organizational culture assessments regularly, which will enable us to continue manage and improve organizational culture by actively responding to the rapidly changing environment. In doing so, we will innovate to become an organization capable of sustainable growth, ultimately evolving into a "Great Work Place."

Organizational Culture Activation Measures Based on the results of the organizational culture diagnosis and feedback from employees, improvement directions for the organizational culture have been identified and subsequent actions are being implemented. Through these improvement activities, the goal is to create an environment where employees' voluntary engagement (loyalty) is fostered, and to develop into an organization that communicates freely and clearly, with cooperation, thereby enhancing organizational competitiveness.

KGC with Open Communication I We aim to establish a culture that values horizontal communication and collaboration to achieve our goals. Regular CEO card news is being published to create a culture where all members are aware of the organization's clear direction and collaborate for goal achievement. To strengthen the practice of the three core organizational culture directions, we are conducting organizational culture innovation workshops for leaders. Furthermore, web dramas consisting of three episodes and posters have been produced and distributed to promote internalization of the three focus areas aimed at encouraging employee engagement. The web dramas, created with input from employees and featuring their participation, garnered considerable empathy and positive feedback across the company.

Regular CEO town hall meetings are also held to share visions and enhance communication between the organization and its employees, thereby increasing employee loyalty. The company communicates its future vision, policies, culture, and growth strategies to align individual growth directions with those of the organization. The CEO also actively fosters an open culture by visiting manufacturing and sales sites to listen to employees' opinions. To improve organizational culture, we operated the second term of the META Junior Leaders, a communication council for the millennials and generation Z. In 2024, we plan to establish a "Generational Integration Communication Council" composed of employees from various age groups and with work experiences, to gather more needs and opinions from our members.

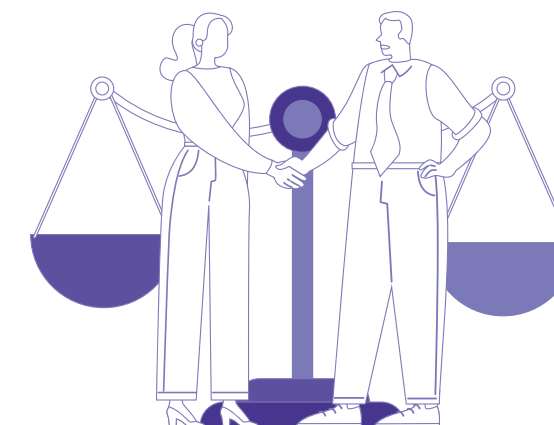
KGC, where Individuals and the Company Grow Together I KGC provides opportunities for its employees to enhance their capabilities, supporting individual growth. The company is making multifaceted efforts to ensure that the growth of its employees leads to increased organizational competitiveness. To this end, we have been holding the KGC Learning Day on the third Friday of every month since April 2023, providing various opportunities for members to develop their capabilities. Additionally, a Learning Day bulletin board has been established to manage the experiences gained by employees during Learning Days as organizational assets. In 2024, we will strengthen Learning Day operations with the goal of uncovering insights based on field experiences.

Human Rights Risk Management System

Human Rights Management Policy KGC respects the human rights of its employees and all stakeholders and strives to build a healthy organizational culture based on international guidelines to realize human rights management. To eliminate the three prohibited acts (sexual harassment, bullying, acceptance of money and entertainment), comprehensive improvement measures have been developed and implemented. Representative measures include strengthening central disciplinary and personnel reviews for perpetrators (holding Central Personnel Committee meetings and reviewing all appointment rights), introducing and operating professional external counseling programs (ensuring employee confidentiality and fully supporting counseling costs by the company), and conducting campaigns to change employee awareness.

In 2023, we expanded the period of limiting the appointment rights of offenders and established guidelines for separating spaces between victims and offenders to strengthen measures for victim protection. Through these efforts, we aim to raise awareness about the three prohibited acts, promote the daily recovery of victims, and facilitate their early stabilization of organizational adaptation. Going forward, we will strengthen our human rights management system and promote the qualitative growth of our organizational culture by identifying potential human rights issues and proactively addressing them to respect and protect the human rights of our employees.

Activities to Strengthen Human Rights Management KGC is enhancing human rights management by incorporating criteria related to respecting human rights into the comprehensive assessments conducted for managers. We aim to prevent further harm by enhancing the support and protection processes for victims of human rights violations. Additionally, we are fostering a healthy and robust organizational culture through company-wide training and employee awareness campaigns.



Activities to Strengthen Human Rights Management

| | | |
|--|----------------------------------------------------------------------------------------|--------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|
| | Strengthening multifaceted assessment for managers | <ul style="list-style-type: none"> • Adding evaluation items for "3 No's" behaviors to the multifaceted assessment for managers - Setting such new items as index for sexual harassment/bullying recognition sensitivity, prevention of 3 No's behaviors, and efforts for a healthy organizational culture |
| | Providing support for counseling/treatment programs by an external organization | <ul style="list-style-type: none"> • Offering counseling services with the external company (HUGU) to keep confidentiality for victims - Providing the entire counseling expense; and allowing victims to choose options to visit a center, have a counselor at the workplace, or get counseling via phone or online (156 locations across the nation) |
| | Running awareness-raising training and campaigns | <ul style="list-style-type: none"> • Providing training to prevent workplace bullying or sexual harassment to raise awareness (online training courses for all employees) |

I. OCCUPATIONAL SAFETY AND HEALTH

II. Safety and Health System

Integrated Safety and Health Regulations Under Article 25 of the Occupational Safety and Health Act (Preparation of Safety and Health Management Regulations), a business site with more than 100 employees must develop and manage safety and health management regulations. Four business sites of KGC are subject to the Act - Buyeo Plant, Wonju Plant, R&D Headquarters, and Metropolitan Business HQ Sales. KGC established standards applicable to all business sites and implemented company-wide integrated safety and health management regulations based on legal requirements, procedures, and management standards under the Serious Accidents Punishment Act. Individual business sites implement their guidelines for detailed management measures. In 2024, we plan to maintain zero major accidents, strengthen preventive activities by identifying hazardous and risky factors based on field observations, and implement enhanced risk assessments based on worker participation. Additionally, we will establish a health management system for workers to prevent musculoskeletal disorders and aim to raise the overall safety and health awareness across the organization.

Safety and Health Organization In accordance with the Article 4 (2) of the Enforcement Decree of the Serious Accident Punishment Act (Measures for Establishment of Safety and Health Management System and Implementation Thereof), KGC reshuffled its organizational structure to create the Industrial Safety Health Team to control related issues. We also established relevant safety and health regulations and manuals, based on which we are monitoring business sites on a constant basis and identifying improvement measures to upgrade the manuals and the safety and health management system.

Safety and Health Certification To proactively prevent and manage potential hazards that could arise in the workplace, KGC established and operates a safety and health system. In line with this effort, the Wonju Plant obtained ISO 45001 (Health and Safety Management System) certification in December 2020, and the Buyeo Plant obtained the same certification in July 2022. The Buyeo Plant not only received an "acceptable" rating in the second follow-up audit of ISO 45001 in 2023 but also completed corrective actions for the recommendations. The plant is scheduled for the third follow-up audit in July 2024. Additionally, the Buyeo Plant underwent the regular Process Safety Management (PSM) rating evaluation¹⁾ and achieved an "S" grade. The Wonju Plant also received an "acceptable" rating in the ISO 45001 recertification audit and is scheduled for a follow-up inspection of the certification in 2024. The R&D Headquarters obtained certification for the Hazard Prevention Plan in accordance with Article 43 of the Occupational Safety and Health Act and Article 48 of its Enforcement Rules in 2022 and received an "acceptable" notice following the on-site inspection of the hazard prevention plan in 2023.

¹⁾ A system that requires the preparation and submission of a process safety report to be reviewed and verified in order to prevent major industrial accidents caused by the release of hazardous substances, fires, and explosions. Based on the evaluation results, four grades (P, S, M+, M-) are assigned

Safety and Health Activities

Risk Assessment to Manage Potential Risk KGC conducts risk assessment at all business sites at least twice a year in accordance with the Article 36 of the Occupational Safety and Health Act (Conducting Risk Assessment) and Article 4 (3) of the Enforcement Decree of the Serious Accident Punishment Act (Measures for Establishment of Safety and Health Management System and Implementation Thereof). In 2023, in accordance with the revised and implemented "Notification on Workplace Risk Assessment," a guide for the updated risk assessment procedure was distributed to all business sites, and on-site training was conducted. Additionally, the company has been meticulously managing compliance with safety and health regulations through regular monitoring of activities such as Safety and Health Committee meetings, subcontractor consultations, workplace inspections, safety and health training, and employee feedback. In 2023, we have focused on managing small-scale workplaces, such as sales branches and raw material sites, which lack dedicated safety and health management organizations. By conducting on-site inspections concurrently, we are identifying and improving hazardous and risk factors, thereby strengthening our safety and health management system.

KGC is actively promoting safety and health awareness among its employees through initiatives such as sharing summarized versions of the Serious Accidents Punishment Act, disseminating accident cases, and providing education. Moving forward, we plan to analyze frequently occurring safety accidents and identify the causes of near miss accidents to implement site-specific safety and health campaigns based on these findings. We also intend to improve workplace environments and strengthen protective measures for hazardous equipment. In this way, KGC will continue to strengthen disaster prevention across all workplaces, enhance the safety and health management system, and expand safety investments in facilities and equipment, thereby making our utmost efforts to prevent serious industrial (civil) accidents.



Duties of Industrial Safety Health Team

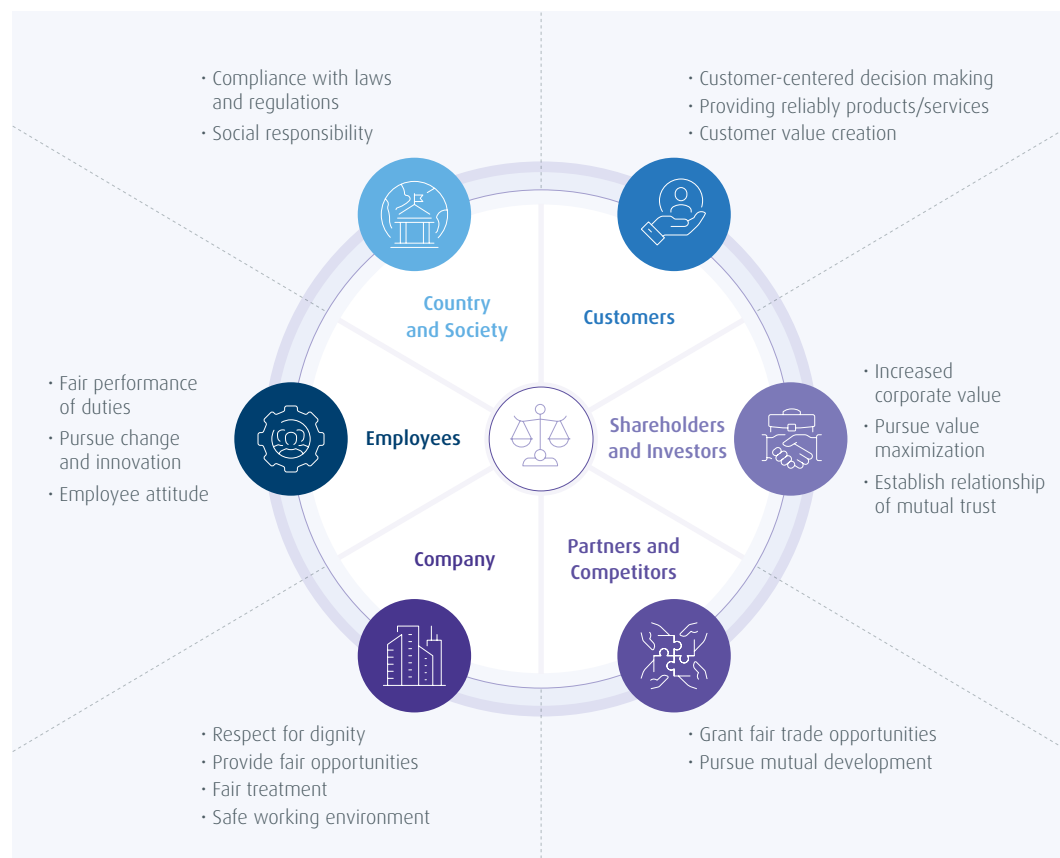
- Unify the communication channels of the safety and health management organization and establish the emergency management system
- Monitoring of company-wide safety and health management system and improvement Measures
- Management of safety and health regulations, guidelines, and manuals
- Appointment of safety and health officials
 - Provision of directions and R&R for safety and health officials
- Preparation and distribution of the company-wide industrial safety management organization chart
- Provision of employee training to raise awareness on safety and health
 - Regular training for managers/ workers, checking whether safety and health officials completed the job training
 - Regular/irregular safety and health promotion and posting of relevant legislation
- Safety and health certification support
 - Plants: PSM (Process Safety Management), ISO 45001
 - R&D: Hazard prevention plans for manufacturing industries, etc.
- Responses to the Serious Accident Punishment Act
 - Establishment of business policies, assignment of safety/health professionals, budget allocation, establishment of response procedures for serious accidents
 - Report safety and health management plans to the BOD and receive approvals

ETHICAL MANAGEMENT

Strengthening Ethical Management System

KGC believes that transparent and ethical management is the foundation for sustainable growth. With the core values of integrity and honesty as our highest priorities, we are committed to upholding and developing our corporate philosophy - Exemplary, Progressive, and Inclusive. Building upon this philosophy, we are dedicated to enhancing and reinforcing our ethical management system by aligning all employees with KT&G Group Business Ethics Charter and the Code of Ethics, which serve as the behavioral standards that every employee must adhere to. Guided by these principles, our entire workforce conducts their duties transparently, fairly, and with a responsibility to maintaining trust.

Direction of Ethical Management



Compliance Monitoring

KGC's Audit Office establishes annual audit plans to manage risks proactively. To conduct audits in specific fields, we categorize internal audits into preventive, theme-based, financial, and occasional audits according to the purpose. Additionally, the Audit Team evaluates the operation condition of the Internal Control Over Financial Reporting annually at the end of the year from an independent point of view. The Audit Team verifies the effectiveness of the design and operation of control activities across the company and reports the results to the auditors. In discussion with relevant departments, such as the Finance Office, it takes improvement measures on issues identified during the evaluation. The internal audit evaluation of the Internal Control Over Financial Reporting for the fiscal year 2023 was completed in February 2024.

Activities to Strengthen Ethical Management

| | |
|------------------------------------------------------------|--------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|
| Revision and company-wide sharing of Code of Ethics | <p>In March 2023, the revised KGC Code of Ethics, incorporating the amendment made to the KT&G Group Business Ethics Charter, was updated and shared throughout the entire organization.</p> <p>Code of Conduct & Code of Ethics</p> |
| Ethical management training | <p>To establish ethical management, we annually provide related training to all employees under our ethics regulations.</p> <ul style="list-style-type: none"> Employee education on business ethics (Dec. 22, 2023) Ethical management group training for managers (Mar. - Apr., 2023) Collective ethical management education for overseas branch managers from the Global Headquarters (Apr. 4, 2023) Establishment of ethical awareness among employees through the posting of the handbook of case studies on incidents and accidents related to job responsibilities (Feb. 16, 2023 and Dec. 12, 2023) |
| Pledge on ethics | <p>With pledges to practice ethics and promise compliance with the Code of Ethics, all employees renew their commitment to actively participating in the ethical management pursued by the company and becoming familiar with the Code of Ethics.</p> <ul style="list-style-type: none"> Signing of Ethics Pledge (Dec. 22, 2023) |
| Spreading ethics management to partners | <p>For fair business trades with partner companies, KGC includes special terms of ethical practice in contracts to ensure partners get familiar with and comply with the Code of Ethics.</p> |
| Shinmungo, web page to report unethical practices | <p>We are operating the Shinmungo, a system to report unethical practices, on our homepage to promote ethical management, create healthy corporate culture, and prevent unethical acts.</p> <p>KGC Shinmungo</p> |



I.

II.

III.

IV.

2023 FACTBOOK

- Financial Statements
- ESG Facts & Figures
- GRI Index
- SASB Index
- TNFD Index
- KT&G Green Taxonomy (EU Environmental Taxonomy)
- K-ESG Index
- ESG Certification Status
- GHG Emissions Assurance Statement
- Independent Assurance Statement
- Association Membership and Sponsorship

FINANCIAL STATEMENT

CONSOLIDATED STATEMENTS OF FINANCIAL POSITION

(Unit: KRW in millions)

| | 2021 | 2022 | 2023 |
|---------------------------------------------------------------|-----------|-----------|-----------|
| Assets | | | |
| Current assets | 6,255,861 | 6,509,585 | 6,418,374 |
| Cash and cash equivalents | 946,571 | 1,401,018 | 1,031,953 |
| Current other financial assets | 457,057 | 201,075 | 294,103 |
| Current financial assets at fair value through profit or loss | 965,384 | 393,106 | 342,933 |
| Trade and other receivables | 1,012,741 | 1,528,511 | 1,506,539 |
| Derivative assets | 580 | 23,069 | 7,751 |
| Inventories | 2,375,381 | 2,575,842 | 2,763,769 |
| Refund assets and others | 1,795 | 984 | 820 |
| Accrued tobacco excise and other taxes | 324,920 | 276,182 | 324,366 |
| Advance payments | 98,045 | 51,090 | 79,451 |
| Prepaid expenses | 53,263 | 58,708 | 66,689 |
| Assets held for sale | 20,124 | 0 | 0 |

(Unit: KRW in millions)

| | 2021 | 2022 | 2023 |
|----------------------------------------------------------------------------------------------|-------------------|-------------------|-------------------|
| Non-current assets | 5,381,410 | 5,792,131 | 6,354,078 |
| Long-term other financial assets | 9,001 | 42,826 | 84,462 |
| Long-term deposits in MSA Escrow Fund | 1,250,468 | 1,437,130 | 1,479,737 |
| Long-term financial assets measured at fair value through profit or loss | 304,816 | 320,429 | 344,455 |
| Long-term trade and other receivables | 94,760 | 108,476 | 149,670 |
| Long-term financial assets measured at fair value through other comprehensive income or loss | 228,398 | 206,494 | 233,058 |
| Property, plant and equipment | 242,992 | 274,534 | 471,327 |
| Tangible assets | 1,741,042 | 1,837,041 | 2,096,467 |
| Intangible assets | 145,719 | 167,851 | 175,028 |
| Investment properties | 1,150,980 | 1,071,463 | 1,018,434 |
| Right-of-use assets | 36,445 | 40,244 | 49,029 |
| Long-term advance payments | 104,560 | 113,066 | 105,725 |
| Long-term prepaid expenses | 8,539 | 7,131 | 12,663 |
| Deferred income tax assets | 52,555 | 55,758 | 74,949 |
| Net defined benefit assets | 11,135 | 109,688 | 59,074 |
| Total Assets | 11,637,271 | 12,301,716 | 12,772,452 |

I. FINANCIAL STATEMENT

II. CONSOLIDATED STATEMENTS OF FINANCIAL POSITION

(Unit: KRW in millions)

| | 2021 | 2022 | 2023 |
|---------------------------------------------|------------------|------------------|------------------|
| Liability | | | |
| Current liabilities | 2,063,946 | 2,527,315 | 2,672,414 |
| Short-term borrowings | 75,432 | 72,629 | 61,576 |
| Current portion of long-term borrowings | 2,166 | 4,126 | 27,521 |
| Trade and other payables | 971,121 | 1,505,796 | 1,684,673 |
| Current lease liabilities | 17,181 | 16,559 | 18,702 |
| Derivative liabilities | 908 | 0 | 0 |
| Advance receipts | 21,918 | 21,493 | 17,203 |
| Current refund liabilities and provisions | 26,130 | 21,563 | 33,213 |
| Current income tax liabilities | 236,397 | 218,730 | 191,016 |
| Tobacco excise and other taxes payables | 712,693 | 666,419 | 638,510 |
| Non-current liabilities | 364,463 | 415,821 | 805,103 |
| Long-term borrowings and bond | 53,195 | 78,808 | 469,813 |
| Long-term trade and other payables | 57,434 | 52,896 | 58,390 |
| Long-term lease liabilities | 19,377 | 21,050 | 27,776 |
| Long-term advance receipts | 5,077 | 2,567 | 4,177 |
| Net defined benefit liabilities | 57,736 | 32,478 | 36,038 |
| Long-term refund liabilities and provisions | 5,222 | 18,954 | 5,117 |
| Deferred income tax liabilities | 148,105 | 181,299 | 185,971 |
| Non-controlling interests liabilities | 18,317 | 27,769 | 17,821 |
| Total liabilities | 2,428,409 | 2,943,136 | 3,477,517 |

(Unit: KRW in millions)

| | 2021 | 2022 | 2023 |
|-------------------------------------|-------------------|-------------------|-------------------|
| Equity: | | | |
| Capital | 954,959 | 954,959 | 954,959 |
| Other capital surplus | 4,498 | 4,498 | 4,946 |
| Treasury shares | (879,982) | (1,236,933) | (1,236,933) |
| Gain on sale of treasury shares | 528,894 | 528,894 | 528,894 |
| Reserve | 6,490,161 | 6,812,286 | 7,230,300 |
| Retained earnings | 2,060,256 | 2,251,940 | 1,692,239 |
| Share capital | 9,158,786 | 9,315,644 | 9,174,405 |
| Non-controlling interests | 50,076 | 42,936 | 120,530 |
| Total equity | 9,208,862 | 9,358,580 | 9,294,935 |
| Total liabilities and equity | 11,637,271 | 12,301,716 | 12,772,452 |

I. FINANCIAL STATEMENT

II. CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME

(Unit: KRW in millions)

| | 2021 | 2022 | 2023 |
|-----------------------------------------------------------------------------------|-------------|-------------|-------------|
| Sales | 5,228,352 | 5,851,406 | 5,862,608 |
| Cost of sales | (2,350,180) | (2,891,166) | (3,054,393) |
| Gross profit | 2,878,172 | 2,960,240 | 2,808,215 |
| Sales, general and administrative expenses | (1,539,789) | (1,692,590) | (1,640,879) |
| Operating profit | 1,338,383 | 1,267,650 | 1,167,336 |
| Other income | 188,398 | 299,644 | 201,551 |
| Other expense | (144,991) | (230,629) | (194,022) |
| Financial income | 78,753 | 131,413 | 138,936 |
| Financial cost | (31,901) | (87,540) | (67,814) |
| Share of net profit of associates and joint ventures | 10,911 | 29,370 | 9,610 |
| Profits arising from net monetary assets | 0 | 19,611 | (7,215) |
| Profit before income tax | 1,439,553 | 1,429,519 | 1,248,382 |
| Corporate tax expense | (415,440) | (415,602) | (318,836) |
| Profit from continuing operations | 1,024,113 | 1,013,917 | 929,546 |
| Profit from discontinued operations | (52,354) | (8,590) | (7,185) |
| Profit for the year | 971,759 | 1,005,327 | 922,361 |
| Other comprehensive income (loss) after income tax | 89,479 | 77,246 | (21,542) |
| Item that will not be reclassified to profit or loss | 54,412 | 70,633 | (12,394) |
| Re-measurements of net defined benefit liabilities | 42,562 | 64,777 | (31,954) |
| Gain (loss) on valuation of fair value through other comprehensive income or loss | 11,843 | 5,818 | 19,629 |
| Item that will be reclassified to profit or loss | 7 | 38 | (69) |
| Exchange differences on translating foreign operations | 35,067 | 6,613 | (9,148) |
| Capital changes in equity method | (19) | (144) | (393) |

(Unit: KRW in millions)

| | 2021 | 2022 | 2023 |
|----------------------------------------------------------|-----------|-----------|---------|
| Total comprehensive income for the year | 1,061,238 | 1,082,573 | 900,819 |
| Profit attributable to: | | | |
| Owners of the Parent Company | 977,259 | 1,015,785 | 902,662 |
| Profit from continuing operations | 1,029,613 | 1,024,375 | 909,847 |
| Profit from discontinued operations | (52,354) | (8,590) | (7,185) |
| Non-controlling interests | (5,500) | (10,458) | 19,699 |
| Profit from continuing operations | (5,500) | (10,458) | 19,699 |
| Profit from discontinued operations | 0 | 0 | 0 |
| Other comprehensive income for the year attributable to: | | | |
| Owners of the Parent Company | 1,065,883 | 1,089,714 | 881,976 |
| Profit from continuing operations | 1,117,672 | 1,099,832 | 889,677 |
| Profit from discontinued operations | (51,789) | (10,118) | (7,701) |
| Non-controlling interests | (4,645) | (7,141) | 18,843 |
| Profit from continuing operations | (4,645) | (7,141) | 18,843 |
| Profit from discontinued operations | 0 | 0 | 0 |
| Earnings per Share | | | |
| Basic & Diluted (Unit: KRW) | 7,898 | 8,489 | 7,843 |
| Profit from continuing operations (Unit: KRW) | 8,321 | 8,561 | 7,905 |
| Profit from discontinued operations (Unit: KRW) | (423) | (72) | (62) |

I. FINANCIAL STATEMENT

II. CONSOLIDATED STATEMENTS OF CHANGES IN EQUITY

(Unit: KRW in millions)

| | Equity | | | | | | | Non-controlling interests | Total Capital |
|--------------------------------------------------------------------------------------------------------------|----------------|-----------------------|------------------|---------------------------------|------------------|-------------------|----------------------------------------------------------------|---------------------------|------------------|
| | Share Capital | | | | Reserve | Retained earnings | Total capital attributable to the owners of the Parent Company | | |
| | Capital | Other capital surplus | Treasury shares | Gain on sale of treasury shares | | | | | |
| Balance at January 1, 2021 | 954,959 | 4,498 | (531,618) | 528,894 | 5,977,643 | 2,102,475 | 9,036,851 | 54,721 | 9,091,572 |
| Total comprehensive income for the year | | | | | | | | | |
| Profit for the year | 0 | 0 | 0 | 0 | 0 | 977,259 | 977,259 | (5,500) | 971,759 |
| Other comprehensive income (loss) after income tax | | | | | | | | | |
| Re-measurements of net defined benefit liabilities | 0 | 0 | 0 | 0 | 0 | 41,586 | 41,586 | 976 | 42,562 |
| Gain (loss) on valuation of fair value through other comprehensive income or loss | 0 | 0 | 0 | 0 | 11,843 | 0 | 11,843 | 0 | 11,843 |
| Transfer from gain on disposal of fair value through other comprehensive income or loss to retained earnings | 0 | 0 | 0 | 0 | 843 | (843) | 0 | 0 | 0 |
| Exchange differences on translating foreign operations | 0 | 0 | 0 | 0 | 35,206 | 0 | 35,206 | (120) | 35,086 |
| Capital changes in equity method | 0 | 0 | 0 | 0 | (12) | 0 | (12) | 0 | (12) |
| Subtotal of other comprehensive income (loss) | 0 | 0 | 0 | 0 | 47,880 | 40,743 | 88,623 | 856 | 89,479 |
| Total comprehensive income (loss) for the year | 0 | 0 | 0 | 0 | 47,880 | 1,018,002 | 1,065,882 | (4,644) | 1,061,238 |
| Transactions with owners of the Parent Company: | | | | | | | | | |
| Dividends paid | 0 | 0 | 0 | 0 | 0 | (595,584) | (595,584) | 0 | (595,584) |
| Transfer to other reserve | 0 | 0 | 0 | 0 | 464,638 | (464,638) | 0 | 0 | 0 |
| Acquisition of treasury shares | 0 | 0 | (348,364) | 0 | 0 | 0 | (348,364) | 0 | (348,364) |
| Retirement of treasury shares | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 |
| Changes in non-controlling interest | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 |
| Share options | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 |
| Total transactions with owners of the Parent Company | 0 | 0 | (348,364) | 0 | 464,638 | (1,060,222) | (943,948) | 0 | (943,948) |
| Balance at December 31, 2021 | 954,959 | 4,498 | (879,982) | 528,894 | 6,490,161 | 2,060,255 | 9,158,785 | 50,077 | 9,208,862 |

I. FINANCIAL STATEMENT

II. CONSOLIDATED STATEMENTS OF CHANGES IN EQUITY

(Unit: KRW in millions)

| | Equity | | | | | | | Non-controlling interests | Total Capital |
|--------------------------------------------------------------------------------------------------------------|----------------|-----------------------|--------------------|---------------------------------|------------------|-------------------|----------------------------------------------------------------|---------------------------|------------------|
| | Share Capital | | | | Reserve | Retained earnings | Total capital attributable to the owners of the Parent Company | | |
| | Capital | Other capital surplus | Treasury shares | Gain on sale of treasury shares | | | | | |
| Balance at January 1, 2022 | 954,959 | 4,498 | (879,982) | 528,894 | 6,490,161 | 2,060,255 | 9,158,785 | 50,077 | 9,208,862 |
| Total comprehensive income for the year | | | | | | | | | |
| Profit for the year | 0 | 0 | 0 | 0 | 0 | 1,015,785 | 1,015,785 | (10,458) | 1,005,327 |
| Other comprehensive income (loss) after income tax | | | | | | | | | |
| Re-measurements of net defined benefit liabilities | 0 | 0 | 0 | 0 | 0 | 61,462 | 61,462 | 3,315 | 64,777 |
| Gain (loss) on valuation of fair value through other comprehensive income or loss | 0 | 0 | 0 | 0 | 5,818 | 0 | 5,818 | 0 | 5,818 |
| Transfer from gain on disposal of fair value through other comprehensive income or loss to retained earnings | 0 | 0 | 0 | 0 | 8,445 | (8,445) | 0 | 0 | 0 |
| Exchange differences on translating foreign operations | 0 | 0 | 0 | 0 | 6,755 | 0 | 6,755 | 2 | 6,757 |
| Capital changes in equity method | 0 | 0 | 0 | 0 | (106) | 0 | (106) | 0 | (106) |
| Subtotal of other comprehensive income (loss) | 0 | 0 | 0 | 0 | 20,912 | 53,017 | 73,929 | 3,317 | 77,246 |
| Total comprehensive income (loss) for the year | 0 | 0 | 0 | 0 | 20,912 | 1,068,802 | 1,089,714 | (7,141) | 1,082,573 |
| Transactions with owners of the Parent Company: | | | | | | | | | |
| Dividends paid | 0 | 0 | 0 | 0 | 0 | (575,904) | (575,904) | 0 | (575,904) |
| Transfer to other reserve | 0 | 0 | 0 | 0 | 301,213 | (301,213) | 0 | 0 | 0 |
| Acquisition of treasury shares | 0 | 0 | (356,951) | 0 | 0 | 0 | (356,951) | 0 | (356,951) |
| Retirement of treasury shares | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 |
| Changes in non-controlling interest | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 |
| Share options | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 |
| Total transactions with owners of the Parent Company | 0 | 0 | (356,951) | 0 | 301,213 | (877,117) | (932,855) | 0 | (932,855) |
| Balance at December 31, 2022 | 954,959 | 4,498 | (1,236,933) | 528,894 | 6,812,286 | 2,251,940 | 9,315,644 | 42,936 | 9,358,580 |

I. FINANCIAL STATEMENT

II. CONSOLIDATED STATEMENTS OF CHANGES IN EQUITY

(Unit: KRW in millions)

| | Equity | | | | | | | | Total Capital |
|--------------------------------------------------------------------------------------------------------------|----------------|-----------------------|--------------------|---------------------------------|------------------|-------------------|----------------------------------------------------------------|---------------------------|------------------|
| | Share Capital | | | | Reserve | Retained earnings | Total capital attributable to the owners of the Parent Company | Non-controlling interests | |
| | Capital | Other capital surplus | Treasury shares | Gain on sale of treasury shares | | | | | |
| Balance at January 1, 2023 | 954,959 | 4,498 | (1,236,933) | 528,894 | 6,812,286 | 2,251,940 | 9,315,644 | 42,936 | 9,358,580 |
| Total comprehensive income for the year | | | | | | | | | |
| Profit for the year | 0 | 0 | 0 | 0 | 0 | 902,662 | 902,662 | 19,699 | 922,361 |
| Other comprehensive income (loss) after income tax | | | | | | | | | |
| Re-measurements of net defined benefit liabilities | 0 | 0 | 0 | 0 | 0 | (31,098) | (31,098) | (856) | (31,954) |
| Gain (loss) on valuation of fair value through other comprehensive income or loss | 0 | 0 | 0 | 0 | 19,629 | 0 | 19,629 | 0 | 19,629 |
| Transfer from gain on disposal of fair value through other comprehensive income or loss to retained earnings | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 |
| Exchange differences on translating foreign operations | 0 | 0 | 0 | 0 | (8,755) | 0 | (8,755) | 0 | (8,755) |
| Capital changes in equity method | 0 | 0 | 0 | 0 | (462) | 0 | (462) | 0 | (462) |
| Subtotal of other comprehensive income (loss) | 0 | 0 | 0 | 0 | 10,412 | (31,098) | (20,686) | (856) | (21,542) |
| Total comprehensive income (loss) for the year | 0 | 0 | 0 | 0 | 10,412 | 871,564 | 881,976 | 18,843 | 900,819 |
| Transactions with owners of the Parent Company: | | | | | | | | | |
| Dividends paid | 0 | 0 | 0 | 0 | 0 | (720,935) | (720,935) | 0 | (720,935) |
| Transfer to other reserve | 0 | 0 | 0 | 0 | 407,602 | (407,602) | 0 | 0 | 0 |
| Acquisition of treasury shares | 0 | 0 | (302,728) | 0 | 0 | 0 | (302,728) | 0 | (302,728) |
| Retirement of treasury shares | 0 | 0 | 302,728 | 0 | 0 | (302,728) | 0 | 0 | 0 |
| Changes in non-controlling interest | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 58,751 | 58,751 |
| Share options | 0 | 448 | 0 | 0 | 0 | 0 | 448 | 0 | 448 |
| Total transactions with owners of the Parent Company | 0 | 448 | 0 | 0 | 407,602 | (1,431,265) | (1,023,215) | 58,751 | (964,464) |
| Balance at December 31, 2023 | 954,959 | 4,946 | (1,236,933) | 528,894 | 7,230,300 | 1,692,239 | 9,174,405 | 120,530 | 9,294,935 |

I. FINANCIAL STATEMENT

II. CONSOLIDATED STATEMENTS OF CASH FLOWS

(Unit: KRW in millions)

| | 2021 | 2022 | 2023 |
|----------------------------------------------------------------------------------------------------------|-----------|-----------|-----------|
| Consolidated statements of cash flows | 1,419,821 | 887,887 | 1,265,993 |
| Cash generated from operations | 1,832,611 | 1,310,291 | 1,646,282 |
| Income taxes paid | (412,790) | (422,404) | (380,289) |
| Cash flows from investing activities | (797,610) | 547,544 | (848,296) |
| Interest received | 10,842 | 31,996 | 55,856 |
| Dividends received | 28,903 | 32,682 | 27,515 |
| Decrease in other financial assets | 322,158 | 881,076 | 138,975 |
| Decrease in current financial assets measured at fair value through profit or loss | 158 | 661,016 | 403,273 |
| Decrease in long-term financial assets measured at fair value through profit or loss | 21,261 | 2,030 | 5,086 |
| Decrease in long-term financial assets measured at fair value through other comprehensive income or loss | 15,895 | 7,200 | 0 |
| Decrease in long-term deposits in MSA Escrow Fund | 461 | 0 | 0 |
| Disposal of property, plant and equipment | 5,326 | 3,744 | 7,253 |
| Disposal of intangible assets | 152 | 300 | 1,035 |
| Disposal of investment properties | 440 | 2,277 | 9,526 |
| Disposal of assets held for sale | 663 | 69,796 | 372 |
| Disposal of investments in associates and joint ventures | 0 | 42,882 | 41 |
| Receipt of government grant | 0 | 0 | 332 |
| Collection of loans | 21,163 | 22,494 | 24,309 |
| Collection of guarantee deposits | 5,939 | 543 | 3,232 |
| Collection of finance lease receivables | 79 | 0 | 0 |
| Increase in other financial assets | (371,913) | (658,997) | (276,186) |
| Increase in current financial assets measured at fair value through profit or loss | (41,743) | (19,799) | (300,950) |
| Increase in long-term financial assets measured at fair value through profit or loss | (80,708) | (64,701) | (62,038) |
| Increase in financial assets at fair value through other comprehensive income or loss | (3,500) | (3,000) | 0 |
| Increase in long-term deposits in MSA Escrow Fund | (247,624) | (96,556) | (1,635) |

| | 2021 | 2022 | 2023 |
|------------------------------------------------------------------|-----------|-----------|-------------|
| Acquisition of property, plant and equipment | (224,443) | (241,382) | (472,769) |
| Acquisition of intangible assets | (43,671) | (41,502) | (40,613) |
| Acquisition of investment properties | (109,650) | (27,906) | (22,392) |
| Acquisition of right-of-use assets | (181) | (3,295) | (1,440) |
| Acquisition of investments in associates and joint ventures | (79,786) | (34,489) | (191,978) |
| Increase in loans | (27,338) | (16,651) | (106,880) |
| Increase in guarantee deposits | (493) | (2,214) | (4,201) |
| Net cash outflows due to changes in scope of consolidation | 0 | 0 | (47,298) |
| Other increase in relation to investment properties | 0 | 0 | 3,279 |
| Cash flows from financing activities | (947,574) | (931,786) | (775,827) |
| Dividends paid | (595,584) | (575,904) | (776,434) |
| Interest paid | (3,205) | (10,205) | (25,407) |
| Repayment of lease liabilities | (23,278) | (20,341) | (23,849) |
| Acquisition of treasury shares | (348,364) | (356,951) | (302,728) |
| Repayment of borrowings | (144,221) | (218,193) | (1,823,639) |
| Proceeds in borrowings | 164,078 | 249,808 | 1,847,311 |
| Proceeds from issuance of bond | 0 | 0 | 328,919 |
| Increase in non-controlling interest | 3,000 | 0 | 0 |
| Net increase (decrease) in cash and cash equivalents | (325,363) | 503,645 | (358,130) |
| Cash and cash equivalents at the beginning of the year | 1,253,611 | 946,571 | 1,401,018 |
| Effect of exchange rate fluctuation on cash and cash equivalents | 18,323 | (49,198) | (10,935) |
| Cash and cash equivalents at the end of the year | 946,571 | 1,401,018 | 1,031,953 |

ESG FACTS & FIGURES

Group Subsidiaries **KT&G** KGC Yungjin Pharm COSMOCOS Tae-A Industrial KGCYebon

GHG emissions (Scope 1, 2)

| Scope | Subcategory | Unit | 2020 | 2021 | 2022 | 2023 |
|----------|-----------------------------------------------------|--------------------------|----------------|----------------|----------------|----------------|
| | Total (Scope 1+2) | tCO₂eq | 184,786 | 178,737 | 182,898 | 178,433 |
| Domestic | Direct emissions (Scope 1) | tCO ₂ eq | 71,724 | 67,969 | 70,654 | 67,803 |
| | Indirect emissions (Scope 2) | tCO ₂ eq | 113,062 | 110,768 | 112,244 | 110,630 |
| | Total (Scope 1+2) | tCO₂eq | 12,242 | 13,666 | 8,520 | 7,239 |
| Overseas | Direct emissions (Scope 1) | tCO ₂ eq | 2,860 | 2,923 | 3,604 | 4,284 |
| | Indirect emissions (Scope 2) | tCO ₂ eq | 9,383 | 10,743 | 4,916 | 2,955 |
| | Total (Scope 1+2) | tCO₂eq | 197,028 | 192,403 | 191,418 | 185,672 |
| Entire | Direct emissions (Scope 1) | tCO ₂ eq | 74,583 | 70,892 | 74,258 | 72,087 |
| | Indirect emissions (Scope 2) | tCO ₂ eq | 122,445 | 121,511 | 117,160 | 113,585 |
| | Reduction rate compared to the baseline year (2020) | % | | 2.35 | 2.85 | 5.76 |

* Based on market-based GHG emissions calculation method
 ** Scope of aggregation: All domestic business sites of KT&G (138 buildings including manufacturing sites (Daejeon Plant 1 and 2, Yeongju Plant, Gwangju Plant, etc.), leased buildings, branches, offices, etc.) and overseas manufacturing sites (Indonesia, Russia, Türkiye), and domestic and overseas manufacturing sites of subsidiaries
 *** Verification status: Third-party verification completed within the scope of aggregation
 **** Emission factor: In accordance with IEA (emission factor electric power at overseas sites) and IPCC (other than electric power) in connection with third-party verification
 ***** Renewable energy consumption: Sum of self-generation (solar power), PPA (Power Purchase Agreement), and Renewable Energy Certificates (REC), etc.

GHG emissions (Scope 3)

| | Unit | 2020 | 2021 | 2022 | 2023 |
|-------------------------------------|--------------------------|----------------|----------------|----------------|----------------|
| Total (Scope 3) | tCO₂eq | 613,499 | 565,572 | 857,279 | 516,237 |
| Procured products and services | tCO ₂ eq | 194,065 | 198,907 | 240,323 | 224,444 |
| Capital goods | tCO ₂ eq | 156,932 | 101,376 | 45,281 | 103,537 |
| Fuel & energy related activities | tCO ₂ eq | 20,639 | 21,692 | 23,508 | 23,423 |
| Upstream transport & distribution | tCO ₂ eq | 24,920 | 24,152 | 31,571 | 19,190 |
| Waste from business sites | tCO ₂ eq | 10,167 | 6,211 | 4,596 | 4,602 |
| Business trip | tCO ₂ eq | 903 | 779 | 2,548 | 3,453 |
| Employee commuting | tCO ₂ eq | 11,893 | 11,769 | 11,883 | 11,822 |
| Upstream lease assets | tCO ₂ eq | 508 | 671 | 654 | 696 |
| Downstream transport & distribution | tCO ₂ eq | 12,196 | 7,386 | 14,744 | 10,903 |
| Processing of sold products | tCO ₂ eq | 1,207 | 1,029 | 703 | 1,069 |
| Use of sold products | tCO ₂ eq | 53,668 | 52,090 | 398,866 | 57,830 |
| Disposal of sold products | tCO ₂ eq | 38,160 | 38,357 | 66,399 | 40,275 |
| Downstream lease assets | tCO ₂ eq | 152 | 2,819 | 2,457 | 1,347 |
| Franchises | tCO ₂ eq | 3,653 | 3,427 | 3,670 | 3,687 |
| Investment | tCO ₂ eq | 84,436 | 94,907 | 10,077 | 9,961 |

* Scope of aggregation: KT&G and its subsidiaries (KGC, Yungjin Pharm, COSMOCOS, Tae-A Industrial, KGCYebon)
 ** Verification status: Completed third-party verification for all business sites within the scope (Based on the GHG data management and collection, emission calculation, and reporting process)
 *** Verification principle: ISO 14064-1:2018 (WRI/WBCSD GHG Protocol: 2004, Corporate Value Chain (Scope 3) Accounting and Reporting Standard)

ESG FACTS & FIGURES

Group Subsidiaries **KT&G** KGC Yungjin Pharm COSMOCOS Tae-A Industrial KGCYebon

Energy use (TJ)

| Scope | Subcategory | Unit | 2020 | 2021 | 2022 | 2023 |
|----------|------------------------------------|-----------------------|--------------|--------------|--------------|--------------|
| | Total | TJ | 3,705 | 3,621 | 3,847 | 3,732 |
| Domestic | Fuel (Non-renewable energy) | TJ | 1,372 | 1,300 | 1,352 | 1,294 |
| | Steam (Non-renewable energy) | TJ | 21 | 28 | 31 | 35 |
| | Electricity (Non-renewable energy) | TJ | 2,310 | 2,290 | 2,318 | 2,284 |
| | Electricity (Renewable energy) | TJ | 2 | 3 | 147 | 119 |
| | Energy intensity | TJ/KRW 100 million | 0.07 | 0.07 | 0.07 | 0.06 |
| | Total | TJ | 206 | 228 | 308 | 356 |
| Overseas | Fuel (Non-renewable energy) | TJ | 53 | 54 | 68 | 81 |
| | Steam (Non-renewable energy) | TJ | 20 | 20 | 23 | 25 |
| | Electricity (Non-renewable energy) | TJ | 133 | 154 | 75 | 24 |
| | Electricity (Renewable energy) | TJ | - | - | 142 | 226 |
| | Total | TJ | 3,911 | 3,849 | 4,155 | 4,088 |
| Entire | Fuel (Non-renewable energy) | TJ | 1,425 | 1,354 | 1,420 | 1,375 |
| | Steam (Non-renewable energy) | TJ | 41 | 49 | 53 | 61 |
| | Electricity (Non-renewable energy) | TJ | 2,444 | 2,444 | 2,393 | 2,309 |
| | Electricity (Renewable energy) | TJ | 2 | 3 | 289 | 344 |

* Scope of aggregation: All domestic business sites of KT&G (138 buildings including manufacturing sites (Daejeon Plant 1 and 2, Yeongju Plant, Gwangju Plant, etc.), leased buildings, branches, offices, etc.) and overseas manufacturing sites (Indonesia, Russia, Türkiye), and domestic and overseas manufacturing sites of subsidiaries

** Verification status: Completed third-party verification for all business sites in the scope

*** Data reflection of changes in overseas manufacturing site's emissions factor (electric power IEA, other than electric power IPCC) in connection to third-party verification

**** When calculating electricity consumption, 9.6MJ/kWh is applied in accordance with the Guidelines for Reporting and Certification of Emissions under the Emissions Trading Scheme (Ministry of Environment Notice) in Korea.

Electricity consumption (MWh)

| Scope | Subcategory | Unit | 2020 | 2021 | 2022 | 2023 |
|----------|---------------------------------------------------------------|------------|----------------|----------------|----------------|----------------|
| | Total electricity consumption | MWh | 240,858 | 238,866 | 256,712 | 251,547 |
| Domestic | Renewable electricity consumption | MWh | 188 | 281 | 15,273 | 13,993 |
| | Percentage of renewable electricity consumption ¹⁾ | % | 0.1 | 0.1 | 5.9 | 5.6 |
| | Total electricity consumption | MWh | 13,867 | 16,003 | 22,668 | 26,030 |
| Overseas | Renewable electricity consumption | MWh | 0 | 0 | 14,818 | 23,494 |
| | Percentage of renewable electricity consumption | % | 0.0 | 0.0 | 65.4 | 90.3 |
| | Total electricity consumption | MWh | 254,725 | 254,869 | 279,380 | 277,577 |
| Entire | Renewable electricity consumption | MWh | 188 | 281 | 30,091 | 37,487 |
| | Percentage of renewable electricity consumption | % | 0.1 | 0.1 | 10.8 | 13.5 |

* Scope of aggregation: All domestic business sites of KT&G (138 buildings including manufacturing sites (Daejeon Plant 1 and 2, Yeongju Plant, Gwangju Plant, etc.), leased buildings, branches, offices, etc.) and overseas manufacturing sites (Indonesia, Russia, Türkiye), and domestic and overseas manufacturing sites of subsidiaries

** Verification status: Completed third-party verification for all business sites in the scope

¹⁾ Renewable electricity consumption rate: Percentage of electricity supplied by renewable energy among the total electricity consumption at business sites

ESG FACTS & FIGURES

Group Subsidiaries **KT&G** KGC Yungjin Pharm COSMOCOS Tae-A Industrial KGCYebon

GHG emissions (Scope 1, 2)

| Scope | Subcategory | Unit | 2020 | 2021 | 2022 | 2023 |
|----------|------------------------------------|-----------------------------------------|----------------|----------------|----------------|----------------|
| | Total (Scope 1+2) | tCO₂eq | 113,859 | 109,162 | 108,568 | 108,540 |
| Domestic | Direct emissions (Scope 1) | tCO ₂ eq | 36,430 | 33,744 | 34,964 | 34,335 |
| | Indirect emissions (Scope 2) | tCO ₂ eq | 77,429 | 75,418 | 73,604 | 74,205 |
| | GHG emission intensity (Scope 1+2) | tCO ₂ eq/ KRW 100 million | 3.31 | 3.13 | 2.94 | 3.03 |
| | Total (Scope 1+2) | tCO₂eq | 10,049 | 11,353 | 6,027 | 4,247 |
| Overseas | Direct emissions (Scope 1) | tCO ₂ eq | 2,854 | 2,878 | 3,597 | 4,247 |
| | Indirect emissions (Scope 2) | tCO ₂ eq | 7,194 | 8,475 | 2,431 | 0 |
| | Total (Scope 1+2) | tCO₂eq | 123,908 | 120,516 | 114,595 | 112,787 |
| Entire | Direct emissions (Scope 1) | tCO ₂ eq | 39,284 | 36,622 | 38,561 | 38,583 |
| | Indirect emissions (Scope 2) | tCO ₂ eq | 84,623 | 83,894 | 76,034 | 74,205 |

* Based on market-based GHG emissions calculation method
 ** Scope of aggregation: All domestic business sites of KT&G (138 buildings including manufacturing sites (Daejeon Plant 1 and 2, Yeongju Plant, Gwangju Plant, etc.), leased buildings, branches, offices, etc.) and overseas manufacturing sites (Indonesia, Russia, Türkiye)
 *** Verification status: Completed third-party verification for all business sites in the scope
 **** Emission factor: In accordance with IEA (emission factor electric power at overseas sites) and IPCC (other than electric power) in connection with third-party verification
 ***** Renewable energy consumption: Sum of self-generation (solar power), PPA (Power Purchase Agreement), and Renewable Energy Certificates (REC), etc.

GHG emissions (Scope 3)

| | Unit | 2020 | 2021 | 2022 | 2023 |
|---------------------------------------------------------------------------------------|--------------------------|----------------|----------------|----------------|----------------|
| Other Indirect emissions (Scope 3) | tCO₂eq | 451,093 | 421,864 | 697,091 | 326,621 |
| Procured products and services | tCO ₂ eq | 107,785 | 119,695 | 146,498 | 136,643 |
| Capital goods | tCO ₂ eq | 132,518 | 87,932 | 35,698 | 43,292 |
| Fuel & energy related activities (Excluding the contents related to Scope 1 and 2) | tCO ₂ eq | 12,639 | 13,621 | 15,525 | 15,893 |
| Upstream transport & distribution | tCO ₂ eq | 5,634 | 5,055 | 7,042 | 7,661 |
| Waste from business sites | tCO ₂ eq | 8,096 | 4,099 | 2,523 | 2,670 |
| Business trip | tCO ₂ eq | 319 | 405 | 1,965 | 2,471 |
| Employee commuting | tCO ₂ eq | 8,391 | 8,344 | 8,470 | 8,407 |
| Upstream lease assets | tCO ₂ eq | - | - | - | - |
| Downstream transport & distribution | tCO ₂ eq | 12,196 | 7,386 | 14,744 | 10,903 |
| Processing of sold products | tCO ₂ eq | - | - | - | - |
| Use of sold products | tCO ₂ eq | 53,668 | 52,090 | 398,866 | 57,830 |
| Disposal of sold products | tCO ₂ eq | 25,408 | 25,667 | 53,336 | 29,631 |
| Downstream lease assets | tCO ₂ eq | 0 | 2,660 | 2,328 | 1,221 |
| Franchises | tCO ₂ eq | 3 | 3 | 18 | 37 |
| Investments | tCO ₂ eq | 84,436 | 94,907 | 10,077 | 9,961 |

* Scope of aggregation: 13 categories excluding Category 8 (Upstream leased assets) and Category 10 (Processing of sold products)
 ** Verification status: Completed third-party verification for all business sites within the scope (Based on the GHG data management and collection, emission calculation, and reporting process)
 *** Verification principle: ISO 14064-1:2018 (WRI/WBCSD GHG Protocol:2004, Corporate Value Chain (Scope 3) Accounting and Reporting Standard)
 **** Due to the expansion of the scope of aggregation and the enhancement of calculation methods, there are discrepancies with the data disclosed in the previous year.

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Group Subsidiaries **KT&G** KGC Yungjin Pharm COSMOCOS Tae-A Industrial KGCYebon

Energy use (TJ)

| Scope | Subcategory | Unit | 2020 | 2021 | 2022 | 2023 |
|----------|------------------------------------|------------------------|--------------|--------------|--------------|--------------|
| | Total | TJ | 2,277 | 2,209 | 2,338 | 2,309 |
| Domestic | Fuel (Non-renewable energy) | TJ | 678 | 626 | 650 | 636 |
| | Steam (Non-renewable energy) | TJ | 21 | 28 | 31 | 35 |
| | Electricity (Non-renewable energy) | TJ | 1,577 | 1,552 | 1,510 | 1,523 |
| | Electricity (Renewable energy) | TJ | 2 | 3 | 147 | 115 |
| | Energy intensity | TJ/ KRW 100 million | 0.07 | 0.06 | 0.06 | 0.06 |
| | Total | TJ | 171 | 190 | 266 | 306 |
| Overseas | Fuel (Non-renewable energy) | TJ | 53 | 54 | 68 | 80 |
| | Steam (Non-renewable energy) | TJ | - | - | - | - |
| | Electricity (Non-renewable energy) | TJ | 118 | 136 | 56 | 0 |
| | Electricity (Renewable energy) | TJ | - | - | 142 | 226 |
| | Total | TJ | 2,448 | 2,399 | 2,604 | 2,615 |
| Entire | Fuel (Non-renewable energy) | TJ | 731 | 680 | 718 | 716 |
| | Steam (Non-renewable energy) | TJ | 21 | 28 | 31 | 35 |
| | Electricity (Non-renewable energy) | TJ | 1,694 | 1,688 | 1,567 | 1,523 |
| | Electricity (Renewable energy) | TJ | 2 | 3 | 289 | 341 |

* Scope of aggregation: All domestic business sites of KT&G (138 buildings including manufacturing sites (Daejeon Plant 1 and 2, Yeongju Plant, Gwangju Plant, etc.), leased buildings, branches, offices, etc.) and overseas manufacturing sites (Indonesia, Russia, Türkiye)

** Verification status: Completed third-party verification for all business sites in the scope

*** Data reflection of changes in overseas manufacturing site's emissions factor (electric power IEA, other than electric power IPCC) in connection to third-party verification

**** When calculating electricity consumption, 9.6MJ/kWh is applied in accordance with the Guidelines for Reporting and Certification of Emissions under the Emissions Trading Scheme (Ministry of Environment Notice) in Korea.

Electricity consumption (MWh)

| Scope | Subcategory | Unit | 2020 | 2021 | 2022 | 2023 |
|----------|---------------------------------------------------------------|------------|----------------|----------------|----------------|----------------|
| | Total electricity consumption | MWh | 164,433 | 161,921 | 172,604 | 172,260 |
| Domestic | Renewable electricity consumption | MWh | 188 | 281 | 15,273 | 13,609 |
| | Percentage of renewable electricity consumption ¹⁾ | % | 0.1 | 0.2 | 8.8 | 7.9 |
| | Total electricity consumption | MWh | 12,247 | 14,199 | 20,675 | 23,494 |
| Overseas | Renewable electricity consumption | MWh | 0 | 0 | 14,818 | 23,494 |
| | Percentage of renewable electricity consumption | % | 0 | 0 | 71.7 | 100.0 |
| | Total electricity consumption | MWh | 176,680 | 176,120 | 193,279 | 195,754 |
| Entire | Renewable electricity consumption | MWh | 188 | 281 | 30,091 | 37,103 |
| | Percentage of renewable electricity consumption | % | 0.1 | 0.2 | 15.6 | 19.0 |

* Scope of aggregation: All domestic business sites of KT&G (138 buildings including manufacturing sites (Daejeon Plant 1 and 2, Yeongju Plant, Gwangju Plant, etc.), leased buildings, branches, offices, etc.) and overseas manufacturing sites (Indonesia, Russia, Türkiye)

¹⁾ Renewable electricity consumption rate: Percentage of electricity supplied by renewable energy among the total electricity consumption at business sites

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Group Subsidiaries **KT&G** KGC Yungjin Pharm COSMOCOS Tae-A Industrial KGCYebon

Water resources management

| Scope | Subcategory | Unit | 2020 | 2021 | 2022 | 2023 |
|-------------------------------------------------------|-------------------------------------------------------|-------------------------------|----------------|----------------|----------------|----------------|
| Domestic | Total water withdrawal | ton | 594,269 | 538,346 | 522,708 | 534,285 |
| | Service water | ton | 489,651 | 444,569 | 453,298 | 478,377 |
| | Ground water | ton | 104,618 | 93,777 | 69,410 | 55,908 |
| | Total water discharge | ton | 171,993 | 151,236 | 153,218 | 144,829 |
| | Surface water (Fresh water) | ton | 57,702 | 51,548 | 48,246 | 46,257 |
| | Discharge to a third-party | ton | 114,291 | 99,688 | 104,972 | 98,572 |
| | Total water consumption (Withdrawal-discharge) | ton | 422,276 | 387,110 | 369,490 | 389,456 |
| | Water recycling amount | ton | - | 436 | 7,653 | 23,822 |
| | Water withdrawal intensity | ton/ KRW 100 million | 17.30 | 15.42 | 14.15 | 14.90 |
| | Overseas | Total water withdrawal | ton | 171,898 | 204,977 | 210,306 |
| Service water | | ton | 28,764 | 29,074 | 32,650 | 28,928 |
| Ground water | | ton | 143,134 | 175,903 | 177,656 | 136,015 |
| Total water discharge | | ton | 21,598 | 27,893 | 29,997 | 26,346 |
| Surface water (Fresh water) | | ton | - | - | 6,427 | 6,985 |
| Discharge to a third-party | | ton | 21,598 | 27,893 | 23,570 | 19,361 |
| Total water consumption (Withdrawal-discharge) | | ton | 150,300 | 177,084 | 180,309 | 138,597 |
| Water recycling amount | | ton | - | - | 1,320 | 6,287 |

| Scope | Subcategory | Unit | 2020 | 2021 | 2022 | 2023 |
|--------|-------------------------------------------------------|------------|----------------|----------------|----------------|----------------|
| Entire | Total water withdrawal | ton | 766,167 | 743,323 | 733,014 | 699,228 |
| | Service water | ton | 518,415 | 473,643 | 485,948 | 507,305 |
| | Ground water | ton | 247,752 | 269,680 | 247,066 | 191,923 |
| | Total water discharge | ton | 193,591 | 179,129 | 183,215 | 171,175 |
| | Surface water (Fresh water) | ton | 57,702 | 51,548 | 54,673 | 53,242 |
| | Discharge to a third-party | ton | 135,889 | 127,581 | 128,542 | 117,933 |
| | Total water consumption (Withdrawal-discharge) | ton | 572,576 | 564,194 | 549,799 | 528,053 |
| | Water recycling amount | ton | - | 436 | 8,973 | 30,109 |

* Scope of Aggregation: Domestic manufacturing sites (Daejeon 1, Daejeon 2, Yeongju, Gwangju, Cheonan, Gimcheon) and overseas manufacturing sites (Indonesia, Türkiye, Russia)
 ** Wastewater discharge: Wastewater discharge of all sites in the scope (Gimcheon is calculated as the amount of wastewater inflow)

Waste discharge (by type)

| Scope | Subcategory | Unit | 2020 | 2021 | 2022 | 2023 |
|------------|-------------------------------|------------|---------------|---------------|---------------|---------------|
| Domestic | Subtotal waste emitted | ton | 9,863 | 8,939 | 9,974 | 12,442 |
| | General | ton | 5,812 | 4,779 | 4,806 | 5,739 |
| | Designated | ton | 4,051 | 4,161 | 5,167 | 6,703 |
| | Subtotal waste emitted | ton | 1,647 | 1,442 | 2,206 | 2,668 |
| Overseas | General | ton | 1,613 | 1,398 | 2,154 | 2,599 |
| | Designated | ton | 34 | 44 | 52 | 69 |
| | Subtotal waste emitted | ton | 11,509 | 10,382 | 12,179 | 15,109 |
| | Entire | General | ton | 7,425 | 6,177 | 6,960 |
| Designated | | ton | 4,085 | 4,205 | 5,219 | 6,771 |

* Scope of Aggregation: Domestic manufacturing sites (Daejeon 1, Daejeon 2, Yeongju, Gwangju, Cheonan, Gimcheon) and overseas manufacturing sites (Indonesia, Türkiye, Russia)

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Waste discharge (by treatment)

| Scope | Subcategory | Unit | 2020 | 2021 | 2022 | 2023 |
|---------------------------------------|---------------------------------------------|-------------------------------|--------------|--------------|--------------|---------------|
| Domestic | Subtotal waste emitted | ton | 9,863 | 8,939 | 9,974 | 12,442 |
| | General (Incineration) | ton | 3,642 | 2,239 | 1,613 | 1,637 |
| | General (Landfill) | ton | - | - | 2 | - |
| | General (Recycling) | ton | 403 | 569 | 668 | 659 |
| | General (Recycling with energy recovery) | ton | 910 | 1,780 | 2,524 | 3,437 |
| | General (Non-recycling and others) | ton | 857 | 191 | - | - |
| | Designated (Incineration) | ton | 10 | 9 | 12 | 64 |
| | Designated (Landfill) | ton | 3 | 18 | 3 | 3 |
| | Designated (Recycling) | ton | 3,980 | 4,081 | 5,108 | 6,541 |
| | Designated (Recycling with energy recovery) | ton | 58 | 53 | 44 | 96 |
| | Designated (Non-recycling and others) | ton | - | - | - | - |
| | Construction (Landfill) | ton | - | - | - | 6 |
| | Waste recycling rate | % | 54.3 | 72.5 | 83.7 | 86.3 |
| | Waste emission intensity | ton/ KRW 100 million | 0.29 | 0.26 | 0.27 | 0.35 |
| | Overseas | Subtotal waste emitted | ton | 1,647 | 1,442 | 2,206 |
| General (Incineration) | | ton | - | 149 | 234 | 421 |
| General (Landfill) | | ton | 414 | 351 | 396 | 295 |
| General (Recycling) | | ton | 1,199 | 898 | 1,524 | 1,883 |
| General (Non-recycling and others) | | ton | - | - | - | - |
| Designated (Incineration) | | ton | 7 | 2 | 5 | 2 |
| Designated (Landfill) | | ton | - | - | - | - |
| Designated (Recycling) | | ton | 26 | 42 | 47 | 67 |
| Designated (Non-recycling and others) | | ton | - | - | - | - |
| Waste recycling rate | | % | 74.4 | 65.2 | 71.2 | 73.1 |

| Scope | Subcategory | Unit | 2020 | 2021 | 2022 | 2023 |
|--------|-------------------------------|------------|---------------|---------------|---------------|---------------|
| Entire | Subtotal waste emitted | ton | 11,509 | 10,382 | 12,179 | 15,109 |
| | General (Incineration) | ton | 3,642 | 2,388 | 1,847 | 2,059 |
| | General (Landfill) | ton | 414 | 351 | 399 | 295 |
| | General (Recycling) | ton | 2,512 | 3,247 | 4,715 | 5,979 |
| | General (Others) | ton | 857 | 191 | - | - |
| | Designated (Incineration) | ton | 17 | 11 | 16 | 65 |
| | Designated (Landfill) | ton | 3 | 18 | 3 | 3 |
| | Designated (Recycling) | ton | 4,065 | 4,176 | 5,199 | 6,703 |
| | Construction (Landfill) | ton | - | - | - | 6 |
| | Waste recycling rate | % | 57.1 | 71.5 | 81.4 | 83.9 |

* Scope of Aggregation: Domestic manufacturing sites (Daejeon 1, Daejeon 2, Yeongju, Gwangju, Cheonan, Gimcheon) and overseas manufacturing sites (Indonesia, Türkiye, Russia)

Air pollutant emissions

| Scope | Subcategory | Unit | 2020 | 2021 | 2022 | 2023 |
|----------|-------------|------|-------|-------|-------|-------|
| Domestic | Subtotal | ton | 11.66 | 18.69 | 28.27 | 18.68 |
| | NOx | ton | 9.18 | 14.82 | 23.66 | 14.53 |
| | SOx | ton | 0.05 | 0.02 | 0.28 | 0.19 |
| | Dust (PM) | ton | 2.43 | 3.85 | 4.33 | 3.95 |

* Scope: 6 domestic manufacturing sites (Daejeon Plant 2 was added in 2022)

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Group Subsidiaries **KT&G** KGC Yungjin Pharm COSMOCOS Tae-A Industrial KGCYebon

Water pollutant emissions

| Scope | Subcategory | Unit | 2020 | 2021 | 2022 | 2023 |
|----------|----------------------|------|------|------|------|------|
| Domestic | Subtotal | ton | 5.17 | 6.16 | 4.56 | 5.87 |
| | BOD | ton | 0.58 | 1.28 | 0.41 | 0.47 |
| | COD | ton | 2.11 | 1.97 | 0.00 | - |
| | Total organic carbon | ton | 0.00 | 0.00 | 1.46 | 1.54 |
| | SS | ton | 1.01 | 1.52 | 1.48 | 1.76 |
| | T-N | ton | 1.43 | 1.38 | 1.16 | 1.99 |
| | T-P | ton | 0.04 | 0.03 | 0.05 | 0.12 |

* Scope: Domestic manufacturing sites (Daejeon 1, Daejeon 2, Yeongju, Gwangju, Gimcheon, Cheonan), Daejeon Plant 2 has been included in the scope of aggregation since 2022.
 ** Verification status: Third party verification of Environmental Information Verification Center linked to Environmental Information Disclosure System completed.
 *** The data verification confirmation for the previous year is December of the following year, and the data may be corrected according to the verification results.

Environmental investment

| Scope | Subcategory | Unit | 2020 | 2021 | 2022 | 2023 |
|----------|-----------------------------------|-------------|-------|-------|--------|--------|
| Domestic | Environmental investment plan | KRW million | 6,379 | 5,374 | 8,724 | 39,949 |
| | Environmental investment practice | KRW million | 6,615 | 6,011 | 10,571 | 31,946 |
| | Execution rate | % | 103.7 | 111.9 | 121.2 | 80.0 |

* Scope of Environmental Investment: Domestic manufacturing sites (Daejeon 1, Daejeon 2, Yeongju, Gwangju, Gimcheon, Cheonan) and the headquarters site

Purchase of eco-friendly packaging materials Status

| Scope | Subcategory | Unit | 2020 | 2021 | 2022 | 2023 |
|----------|----------------------------------|------------------------|--------|--------|--------|--------|
| Domestic | Recyclable Packaging Materials | KRW 10 million | 11,132 | 11,513 | 18,042 | 18,803 |
| | | ton | 29,163 | 28,163 | 43,737 | 40,923 |
| | | Rate (in weight basis) | 93.0 | 93.5 | 95.9 | 96.3 |
| | Renewable packaging materials | KRW 10 million | 10,334 | 10,736 | 17,061 | 17,799 |
| | | ton | 27,298 | 26,402 | 41,832 | 39,018 |
| | | Rate (in weight basis) | 87.1 | 87.6 | 91.7 | 91.8 |
| | Eco-friendly packaging materials | KRW 10 million | 11,132 | 11,513 | 18,042 | 18,803 |
| | | ton | 29,163 | 28,163 | 43,737 | 40,923 |
| | | Rate (in weight basis) | 93.0 | 93.5 | 95.9 | 96.3 |
| | Total purchase amount | KRW 10 million | 11,768 | 12,163 | 19,033 | 19,687 |
| | | ton | 45,065 | 37,290 | 45,629 | 42,513 |
| | | Rate (in weight basis) | 100 | 100 | 100 | 100 |

* According to KT&G's Sustainable Product Policy, "eco-friendly materials" refer to externally eco-friendly certified materials, recycled materials, recyclable materials, renewable materials, biomass materials, and compostable materials.
 ** Due to the refinement of packaging material classification, changes occurred in the 2022 data.

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Packaging materials

| Scope | Subcategory | Unit | Scope (cost to sales cost) | Recycled and certified materials (relative to total weight) |
|----------|---------------------------|------|----------------------------|-------------------------------------------------------------|
| Domestic | Wood/paper fiber | % | 12.3 | 100.0 |
| | Metal (Aluminum or steel) | % | 0.7 | 0.0 |

* Use of 100% recycled and certified raw materials for wood/paper packaging by 2023

** As of 2023, metal packaging is currently being replaced with recyclable paper packaging, and the use of new metal packaging is being restricted.

Use of plastic packaging materials

| Scope | Subcategory | Unit | 2020 | 2021 | 2022 | 2023 |
|----------|-----------------------------------------------------|------|-------|-------|-------|-------|
| Domestic | Total weight of all plastic packaging ¹⁾ | ton | 1,903 | 1,795 | 2,044 | 1,994 |
| | Percentage of recyclable plastic packaging | % | 95 | 95.6 | 96.2 | 95.6 |

¹⁾ Due to the refinement of packaging material classification, changes occurred in the 2022 data.

Employment

| Scope | Subcategory | Unit | 2020 | 2021 | 2022 | 2023 |
|----------|----------------------------------|---------------|--------------|--------------|--------------|--------------|
| Domestic | Subtotal | person | 4,331 | 4,311 | 4,469 | 4,378 |
| | Türkiye | person | 77 | 84 | 111 | 159 |
| Overseas | Indonesia | person | 3,176 | 3,568 | 4,559 | 4,519 |
| | Russia | person | 133 | 180 | 247 | 357 |
| | Others | person | 177 | 57 | 62 | 154 |
| Entire | Total | person | 7,894 | 8,200 | 9,448 | 9,567 |
| | Percentage of overseas employees | % | 45.4 | 47.4 | 52.7 | 54.2 |

* Based on direct employment (full-time employees, contract workers)

Female employees

| Scope | Subcategory | Unit | 2020 | 2021 | 2022 | 2023 |
|----------|-------------------------------------------------------------------------------|------|------|------|------|------|
| Domestic | Percentage of female employees | % | 10.3 | 10.1 | 10.3 | 10.6 |
| | Percentage of female employees in departments ¹⁾ generating profit | % | 7.2 | 7.2 | 7.4 | 7.9 |
| | Percentage of female employees in STEM ²⁾ -related positions | % | 11.1 | 10.9 | 11 | 10.7 |
| Overseas | Percentage of female employees | % | 18.1 | 17.3 | 16.2 | 16.1 |
| | Percentage of female employees in departments generating profit | % | N/A | N/A | N/A | 9.8 |
| | Percentage of female employees in STEM-related positions | % | N/A | N/A | N/A | 31.3 |
| Entire | Percentage of female employees | % | 13.8 | 13.5 | 13.4 | 13.6 |
| | Percentage of female employees in departments generating profit | % | N/A | N/A | N/A | 9.1 |
| | Percentage of female employees in STEM-related positions | % | N/A | N/A | N/A | 17.2 |

* From the 2023 data onwards, overseas business sites are being aggregated.

¹⁾ Revenue-generating departments
 - Domestic: Sales, Marketing, NGP, Overseas Business Division, APAC & Eurasia CIC (including affiliated institutions)
 - Overseas: Marketing, Sales personnel (including Regional Office)

²⁾ STEM-related positions
 - Domestic: R&D, SCM (Raw Material Business Office, Gimcheon Plant), Manufacturing HQ (including affiliated institutions), APAC & Eurasia Manufacturing HQ, Platform Development Center in NGP HQ, IT HQ, New Material Development Center
 - Overseas: R&D, Manufacturing, IT personnel

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Manager position

| Scope | Subcategory | Unit | 2020 | 2021 | 2022 | 2023 | |
|-------------------------------|------------------------------------------------------|------------------------------------------------------|--------|-------|-------|-------|------|
| Domestic | Subtotal (Executives - Middle-level managers) | person | 2,009 | 1,936 | 1,903 | 1,849 | |
| | Subtotal (Executives - Junior managers) | person | 3,117 | 3,069 | 3,073 | 3,039 | |
| | Male executives | person | 60 | 52 | 44 | 55 | |
| | Male managers in charge | person | 289 | 304 | 317 | 322 | |
| | Male middle-level managers | person | 1,481 | 1,404 | 1,365 | 1,287 | |
| | Male junior managers | person | 980 | 1,006 | 1,032 | 1,047 | |
| | Female executives | person | 1 | 1 | 1 | 1 | |
| | Female managers in charge | person | 13 | 16 | 18 | 21 | |
| | Female middle-level managers | person | 165 | 159 | 158 | 163 | |
| | Female junior managers | person | 128 | 127 | 138 | 143 | |
| | Percentage of female managers | % | 8.9 | 9.1 | 9.3 | 10.0 | |
| | Overseas | Subtotal (Executives - Middle-level managers) | person | 412 | 510 | 626 | 784 |
| | | Subtotal (Executives - Junior managers) | person | 737 | 885 | 1073 | 1354 |
| | | Male executives | person | 3 | 2 | 1 | 1 |
| Male managers in charge | | person | 79 | 80 | 97 | 103 | |
| Male middle-level managers | | person | 264 | 350 | 417 | 513 | |
| Male junior managers | | person | 179 | 210 | 242 | 366 | |
| Female executives | | person | - | 1 | 1 | 1 | |
| Female managers in charge | | person | 19 | 15 | 18 | 33 | |
| Female middle-level managers | | person | 47 | 62 | 92 | 133 | |
| Female junior managers | | person | 146 | 165 | 205 | 204 | |
| Percentage of female managers | | % | 16.0 | 15.3 | 17.7 | 21.3 | |

| Scope | Subcategory | Unit | 2020 | 2021 | 2022 | 2023 |
|--------|------------------------------------------------------|--------|-------|-------|-------|-------|
| Entire | Subtotal (Executives - Middle-level managers) | person | 2,421 | 2,446 | 2,529 | 2,633 |
| | Subtotal (Executives - Junior managers) | person | 3,854 | 3,954 | 4,146 | 4,393 |
| | Male executives | person | 63 | 54 | 45 | 56 |
| | Male managers in charge | person | 368 | 384 | 414 | 425 |
| | Male middle-level managers | person | 1,745 | 1,754 | 1,782 | 1,800 |
| | Male junior managers | person | 1,159 | 1,216 | 1,274 | 1,413 |
| | Female executives | person | 1 | 2 | 2 | 2 |
| | Female managers in charge | person | 32 | 31 | 36 | 54 |
| | Female middle-level managers | person | 212 | 221 | 250 | 296 |
| | Female junior managers | person | 274 | 292 | 343 | 347 |
| | Percentage of female managers | % | 10.1 | 10.4 | 11.4 | 13.4 |

* Management positions: Executives, Managers, Middle Managers

** Middle-level managers include domestic grades 1 to 4 and equivalent positions, and overseas G3/M3, excluding managers in charge.

Equal wage (percentage of the average wage of women to men, %)

| Scope | Subcategory | Unit | 2020 | 2021 | 2022 | 2023 |
|----------|---------------------------------------|------|------|------|------|------|
| Domestic | Average gender wage gap ¹⁾ | % | 0.5 | 1.7 | -1.0 | 0.1 |
| | Median gender wage gap | % | 0.8 | 0.4 | 0.0 | -0.4 |
| | Average gender incentive gap | % | 5.1 | 2.0 | 2.2 | 0.3 |
| | Median gender incentive gap | % | 2.4 | 0.4 | 1.3 | 0.2 |

¹⁾ Based on level-4 basic salary + service allowance based on direct employment

** Calculation method: (Average wage of men-average wage of women)/average wage of men*100

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Group Subsidiaries **KT&G** KGC Yungjin Pharm COSMOCOS Tae-A Industrial KGCYebon

Average service period

| Scope | Subcategory | Unit | 2020 | 2021 | 2022 | 2023 |
|----------|-------------|------|------|------|------|------|
| Domestic | Male | year | 17.7 | 17.5 | 17.0 | 17.0 |
| | Female | year | 15.1 | 14.9 | 14.3 | 14.5 |
| Overseas | Male | year | N/A | N/A | N/A | 3.7 |
| | Female | year | N/A | N/A | N/A | 9.9 |

* Calculating years of service based on the date of joining, for direct employment (full-time, contract)
 ** Aggregation for overseas business sites began in 2023.

Employment of persons with disabilities

| Scope | Subcategory | Unit | 2020 | 2021 | 2022 | 2023 |
|----------|-----------------------------------------------|--------|------|------|------|------|
| Domestic | Employees with disabilities | person | 126 | 104 | 103 | 91 |
| | Employment rate for persons with disabilities | % | 2.9 | 2.4 | 2.3 | 2.1 |
| | Subcategory: Internal recruiting | % | 95.9 | 98.7 | 95.2 | 93.8 |

* Based on direct employment (full-time employees, contract workers)

Age

| Scope | Subcategory | Unit | 2020 | 2021 | 2022 | 2023 |
|----------|--------------|---------------|--------------|--------------|--------------|--------------|
| Domestic | Total | person | 4,331 | 4,311 | 4,469 | 4,378 |
| | Under 30 | person | 489 | 539 | 677 | 668 |
| | 30-49 | person | 2,349 | 2,226 | 2,089 | 2,050 |
| | 50 and older | person | 1,493 | 1,546 | 1,703 | 1,660 |
| Overseas | Total | person | - | - | - | 5,189 |
| | Under 30 | person | - | - | - | 2,074 |
| | 30-49 | person | - | - | - | 2,900 |
| | 50 and older | person | - | - | - | 215 |

* Based on direct employment (full-time employees, contract workers)
 ** Aggregation for overseas business sites began in 2023.

New employment

| Scope | Subcategory | Unit | 2020 | 2021 | 2022 | 2023 | |
|----------|---------------------|--------------------------------|--------------|--------------|--------------|--------------|-----|
| Domestic | Total | person | 163 | 233 | 376 | 199 | |
| | By gender | Male | person | 116 | 192 | 309 | 163 |
| | | Female | person | 47 | 41 | 67 | 36 |
| | By age | Under 30 | person | 33 | 132 | 225 | 76 |
| | | 30-49 | person | 90 | 58 | 116 | 100 |
| | | 50 and older | person | 40 | 43 | 35 | 23 |
| | By position | Executives | person | - | - | - | 1 |
| | | Managers in charge | person | 1 | 2 | 2 | 5 |
| | | Middle-level managers | person | 13 | 3 | 3 | 12 |
| | | Junior managers and associates | person | 149 | 228 | 371 | 181 |
| | Internal recruiting | % | 95.9 | 98.7 | 95.2 | 93.8 | |
| Overseas | Total | person | 1,674 | 1,723 | 2,519 | 2,519 | |

* Based on direct employment (full-time employees, contract workers)

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Group Subsidiaries **KT&G** KGC Yungjin Pharm COSMOCOS Tae-A Industrial KGCYebon

Turnover

| Scope | Subcategory | Unit | 2020 | 2021 | 2022 | 2023 |
|----------|---------------------------------------|---------------|------------|------------|------------|------------|
| | Total | person | 197 | 244 | 312 | 183 |
| | Male | person | 145 | 197 | 270 | 155 |
| | Female | person | 52 | 47 | 42 | 28 |
| | Under 30 | person | 18 | 22 | 43 | 35 |
| | 30-49 | person | 33 | 39 | 58 | 41 |
| | 50 and older | person | 146 | 183 | 211 | 107 |
| Domestic | Executives | person | 6 | 12 | 10 | 3 |
| | Managers in charge | person | 2 | 4 | 19 | 2 |
| | Middle-level managers | person | 109 | 121 | 135 | 82 |
| | Junior managers and associates | person | 80 | 107 | 148 | 96 |
| | Turnover rate | % | 4.5 | 5.7 | 7.0 | 4.2 |
| | Voluntary turnover rate ¹⁾ | % | 0.3 | 0.6 | 1.3 | 1.2 |
| | Female employee turnover rate | % | 26.4 | 19.3 | 13.5 | 15.3 |

¹⁾ Voluntary turnover rate: No. of persons who left the company based on direct employment / total employees

Promotion

| Scope | Subcategory | Unit | 2020 | 2021 | 2022 | 2023 |
|----------|-----------------------------------------------------|------|------|------|------|------|
| Domestic | Proportion of female employees among those promoted | % | 9.6 | 8.0 | 8.9 | 7.1 |

CI (Culture Index) diagnosis results

| Scope | Subcategory | Unit | 2020 | 2022 | 2023 |
|----------|---------------------------------|------|------|-------|-------|
| Domestic | Engagement of corporate culture | % | 80.9 | 81.33 | 81.75 |

^{*} CI: Index to diagnose KT&G's corporate culture that consists of five areas, including corporate vision, leadership, work, and D&I, since 2022. It is assessed every other year. Target for 2022: 80.0 points

^{**} CI diagnosis not conducted in 2021

Childbirth leave and childcare leave

| Scope | Subcategory | Unit | 2020 | 2021 | 2022 | 2023 |
|----------|---------------------------------------------------------------------------------------|--------|------|------|------|------|
| | Male employees taking childbirth leave | person | 54 | 75 | 79 | 61 |
| | Female employees taking childbirth leave | person | 20 | 17 | 13 | 14 |
| | Rate of male returning to work after childbirth leave | % | 100 | 100 | 100 | 100 |
| | Rate of female returning to work after childbirth leave | % | 100 | 100 | 100 | 100 |
| | Male employees taking childcare leave | person | 12 | 22 | 30 | 47 |
| | Female employees taking childcare leave | person | 23 | 24 | 19 | 29 |
| | Male employees who returned after parental leave | person | 12 | 21 | 28 | 45 |
| Domestic | Female employees who returned after parental leave | person | 23 | 22 | 19 | 28 |
| | Parental leave retention rate of male employees ¹⁾ | % | 100 | 95.5 | 93.3 | 95.7 |
| | Parental leave retention rate of female employees ¹⁾ | % | 100 | 91.7 | 100 | 96.6 |
| | Rate of male retiring within 12 months after returning to work from childcare leave | % | 8.3 | 9.1 | - | 4.3 |
| | Rate of female retiring within 12 months after returning to work from childcare leave | % | - | - | - | 3.4 |
| | Paid primary parental leave weeks count | week | 104 | 104 | 104 | 104 |
| | Paid primary secondary leave weeks count | week | 104 | 104 | 104 | 104 |

¹⁾ Percentage of employees who remain employed for more than one year after returning from parental leave

^{*} There may be some changes according to employees' leave end date and aggregation criteria.

^{**} Paid parental leave for employees(primary and non-primary caregivers) is available for two years per child.

Union membership

| Scope | Subcategory | Unit | 2020 | 2021 | 2022 | 2023 |
|----------|-----------------------------------|--------|-------|-------|-------|-------|
| | Employees eligible for membership | person | 3,679 | 3,583 | 3,640 | 3,698 |
| Domestic | Union members | person | 3,679 | 3,583 | 3,640 | 3,698 |
| | Union membership rate | % | 100 | 100 | 100 | 100 |

ESG FACTS & FIGURES

Group Subsidiaries **KT&G** KGC Yungjin Pharm COSMOCOS Tae-A Industrial KGCYebon

Employee training

| Scope | Subcategory | Unit | 2020 | 2021 | 2022 | 2023 |
|----------|-----------------------------------------------------------|----------------------------------------|---------------|---------------|---------------|---------------|
| | Total number of trainees | person | 61,054 | 67,311 | 56,329 | 66,296 |
| | Male | person | - | 59,894 | 49,861 | 58,225 |
| | Female | person | - | 7,417 | 6,468 | 8,071 |
| | Annual average training expense per employee | KRW thousand | 1,030 | 1,079 | 855 | 1,370 |
| | Male | KRW thousand/person | - | 1,075 | 845 | 1,355 |
| | Female | KRW thousand/person | - | 1,122 | 950 | 1,508 |
| | Executives | KRW thousand/person | - | - | 8,817 | 8,676 |
| | Managers in charge | KRW thousand/person | - | - | 1,840 | 4,662 |
| | Middle-level managers | KRW thousand/person | - | - | 758 | 1,480 |
| | Junior managers | KRW thousand/person | - | - | 766 | 911 |
| | Staff | KRW thousand/person | - | - | 430 | 377 |
| Domestic | On the job training | KRW thousand/person | - | 550 | 350 | 384 |
| | Leadership training | KRW thousand/person | - | 260 | 114 | 172 |
| | General competency training | KRW thousand/PerKRW thousand/personson | - | 487 | 391 | 814 |
| | Annual average time spent on training per employee | hour/person | 172 | 110 | 103 | 115 |
| | Male | hour/person | - | 107 | 100 | 110 |
| | Female | hour/person | - | 138 | 137 | 159 |
| | Executives | hour/person | - | - | 161 | 212 |
| | Managers in charge | hour/person | - | - | 112 | 157 |
| | Middle-level managers | hour/person | - | - | 98 | 111 |
| | Junior managers | hour/person | - | - | 125 | 139 |
| | Executives | hour/person | - | 43 | 23 | 21 |
| | Managers in charge | hour/person | - | 7 | 9 | 5 |
| | Middle-level managers | hour/person | - | 60 | 72 | 88 |

Performance evaluation

| Scope | Subcategory | Unit | 2020 | 2021 | 2022 | 2023 |
|----------|-----------------------------------------------|--------|-------|-------|-------|-------|
| Domestic | Employees subject to evaluation ¹⁾ | person | 3,886 | 3,849 | 3,825 | 4,027 |
| | Percentage of employees evaluated | % | 100 | 100 | 100 | 100 |

¹⁾ All level-1 and lower employees subject to performance/capability evaluations, excluding persons on leave, new employees, employees planning to retire, and separately evaluated personnel according to company regulations (dispatched to the Group subsidiaries, etc.)

Human rights protection

| Scope | Subcategory | Unit | 2020 | 2021 | 2022 | 2023 |
|----------|-----------------------------------------------------------|------|------|------|------|------|
| Domestic | Sexual harassment prevention training | time | 1 | 2 | 1 | 3 |
| | Completion ratio of sexual harassment prevention training | % | 98.5 | 99.4 | 98.3 | 97.6 |

* Based on employees in office (full-time employees)

Industrial accident

| Scope | Subcategory | Unit | 2020 | 2021 | 2022 | 2023 |
|----------|---------------------------------|--------|------------|------------|------------|------------|
| Domestic | Number of victims ¹⁾ | person | 2 | 5 | 5 | 9 |
| | Industrial accident rate | % | 0.042 | 0.106 | 0.112 | 0.202 |
| Overseas | Number of victims | person | 4 | 6 | 11 | 5 |
| | Industrial accident rate | % | 0.117 | 0.178 | 0.232 | 0.118 |
| Entire | Number of victims | person | 6 | 11 | 16 | 14 |
| | Industrial accident rate | % | 0.073 | 0.136 | 0.174 | 0.161 |
| | Total working hour | hour | 16,649,929 | 21,629,938 | 18,464,789 | 16,905,298 |

* Due to the enhancement of calculation standards for the number of industrial accident victims at overseas business sites and correction of data errors, there are discrepancies with the data disclosed in the previous year.

¹⁾ Including full-time employees, contract workers, daily workers

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Group Subsidiaries **KT&G** KGC Yungjin Pharm COSMOCOS Tae-A Industrial KGCYebon

Work loss

| Scope | Subcategory | Unit | 2020 | 2021 | 2022 | 2023 |
|----------|-------------------------------|------|-------|-------|-------|-------|
| Domestic | (Employee) LTIR ¹⁾ | - | 0.051 | 0.130 | 0.107 | 0.205 |
| | (Partners) LTIR | - | 0.309 | 0.568 | 0.639 | 0.448 |
| Overseas | (Employee) LTIR | - | 0.091 | 0.086 | 0.241 | 0.123 |
| | (Partners) LTIR | - | - | - | - | - |
| Entire | (Employee) Total of LTIR | - | 0.072 | 0.102 | 0.173 | 0.166 |
| | (Partners) Total of LTIR | - | 0.309 | 0.568 | 0.607 | 0.439 |

* Including full-time employees, contract workers, daily workers. In case of partner companies, it refers to resident subcontractors.

** No casualty accidents at domestic or overseas business sites between 2020-2023

¹⁾ LTIR (Lost Time Injuries Rate) = (Number of accidents / Total labor hour) x 200,000

ISO certification status

| Scope | Subcategory | Unit | 2020 | 2021 | 2022 | 2023 |
|----------------------------------------------------|----------------------------------------------------|------|------|------|------|------|
| Domestic | ISO 14001 certification | | | | | |
| | Certification rate | % | 66.7 | 83.3 | 83.3 | 100 |
| | Number of business site obtained the certification | site | 4 | 5 | 5 | 6 |
| | Number of business site eligible to obtain | site | 6 | 6 | 6 | 6 |
| | ISO 9001 certification | | | | | |
| | Certification rate | % | 83.3 | 83.3 | 83.3 | 100 |
| | Number of business site obtained the certification | site | 5 | 5 | 5 | 6 |
| | Number of business site eligible to obtain | site | 6 | 6 | 6 | 6 |
| | ISO 45001 certification | | | | | |
| Certification rate | % | - | 83.3 | 83.3 | 100 | |
| Number of business site obtained the certification | site | - | 5 | 5 | 6 | |
| Number of business site eligible to obtain | site | - | 6 | 6 | 6 | |

| Scope | Subcategory | Unit | 2020 | 2021 | 2022 | 2023 |
|------------------------------------------------------------------------|----------------------------------------------------|------|------|------|------|------|
| Domestic | ISO 50001 certification | | | | | |
| | Certification rate | % | - | 83.3 | 83.3 | 83.3 |
| | Number of business site obtained the certification | site | - | 5 | 5 | 5 |
| | Number of business site eligible to obtain | site | - | 6 | 6 | 6 |
| | ISMS-P certification | | | | | |
| | Certification rate | % | 100 | 80.0 | 100 | 100 |
| | Number of business site obtained the certification | site | 4 | 4 | 5 | 5 |
| | Number of business site eligible to obtain | site | 4 | 5 | 5 | 5 |
| | ISO 27001 certification | | | | | |
| | Certification rate | % | 100 | 100 | 100 | 100 |
| | Number of business site obtained the certification | site | 5 | 6 | 6 | 6 |
| | Number of business site eligible to obtain | site | 5 | 6 | 6 | 6 |
| Business Continuity Management System (ISO 22301) certification | | | | | | |
| Certification rate | % | - | - | 100 | 100 | |
| Number of worksites obtained the certification | site | - | - | 4 | 4 | |
| Number of worksites eligible to obtain | site | - | - | 4 | 4 | |

* Added "SangSang Planet" to the ISMS-P and ISO 27001 acquisition target in 2021

** Reacquired ISO 22301 in 2022 (ISO 22301 certified sites: IDC (Internet Data Center), Daejeon Plant, Yeongju Plant, and Gwangju Plant, which have IT servers)

Purchase and use of raw materials

| Scope | Subcategory | Unit | 2020 | 2021 | 2022 | 2023 |
|----------|---------------------------------------------------------------------------------------------|-------------|---------|---------|---------|---------|
| Domestic | Purchasing of raw materials (leaf tobacco, tobacco sheet, auxiliary material) ¹⁾ | KRW million | 292,987 | 255,138 | 251,281 | 314,763 |
| | Raw materials consumption | ton | 41,665 | 38,579 | 43,316 | 40,635 |

* Some purchase details or raw materials based on domestic sites are sourced through overseas sites.

¹⁾ Due to changes in aggregation criteria, it differs from the publicly disclosed data of previous years (same as the business report, excluding processing costs of Tae-A Industrial)

ESG FACTS & FIGURES

Group Subsidiaries **KT&G** KGC Yungjin Pharm COSMOCOS Tae-A Industrial KGCYebon

Leaf tobacco partner

| Scope | Subcategory | Unit | 2020 | 2021 | 2022 | 2023 |
|----------|---------------------------------------------|-----------------|-------|-------|-------|-------|
| Domestic | Domestic partners (farmers) | person | 2,960 | 2,854 | 2,706 | 2,365 |
| | Amount of domestic purchasing ¹⁾ | KRW 100 million | 961 | 1,071 | 1,124 | 1,009 |
| | Overseas partners | company | 19 | 20 | 17 | 18 |
| | Amount of overseas purchasing | KRW 100 million | 1,969 | 1,480 | 1,389 | 2,139 |
| | Total amount of purchasing | KRW 100 million | 2,930 | 2,551 | 2,513 | 3,148 |

¹⁾ Including purchasing of tobacco sheet from Tae-a Industrial (toll processing cost)

Purchase of entire domestic leaf tobacco

| Scope | Subcategory | Unit | 2020 | 2021 | 2022 | 2023 |
|----------|-------------------|-----------------|-------|-------|-------|-------|
| Domestic | Purchasing volume | ton | 7,741 | 8,013 | 7,224 | 6,240 |
| | Purchasing amount | KRW 100 million | 745 | 802 | 718 | 655 |

NTM (Non-Tobacco Material) partners

| Scope | Subcategory | Unit | 2020 | 2021 | 2022 | 2023 |
|----------|----------------------------|-----------------|-------|-------|--------|-------|
| Domestic | Domestic partners | company | 70 | 76 | 82 | 89 |
| | Domestic purchasing | KRW 100 million | 5,173 | 6,871 | 10,261 | 9,050 |
| | Overseas partners | company | 10 | 11 | 10 | 12 |
| | Overseas purchasing | KRW 100 million | 445 | 395 | 384 | 291 |
| | Total number of partners | company | 80 | 87 | 92 | 101 |
| | Total amount of purchasing | KRW 100 million | 5,618 | 7,266 | 10,645 | 9,341 |

Support for partners

| Scope | Subcategory | Unit | 2020 | 2021 | 2022 | 2023 |
|----------|------------------------------------|-------------|--------|--------|--------|---------|
| Domestic | Early payment of purchasing amount | KRW million | 27,234 | 64,383 | 96,610 | 158,023 |

Partner opinion collection channels

| Scope | Subcategory | Unit | 2020 | 2021 | 2022 | 2023 |
|----------|---------------------------------------------|------|------|------|------|------|
| Domestic | Channel operations (workshop, survey, etc.) | time | 1 | 1 | 2 | 2 |
| | Cases received ¹⁾ | case | - | - | 67 | 14 |
| | Handling rate | % | - | - | 36 | 100 |

¹⁾ No. of cases of partner opinions collected through a survey in 2023

Haearin project

| Scope | Subcategory | Unit | 2020 | 2021 | 2022 | 2023 |
|----------|---------------------------------------|-----------------|--------|--------|-------|-------|
| Domestic | Number of farmers | person | 22 | 19 | 21 | 20 |
| | Purchasing of dried red pepper | kg | 11,640 | 10,680 | 9,750 | 9,810 |
| | Purchasing amount of dried red pepper | KRW 100 million | 3.0 | 2.0 | 1.9 | 2.1 |

Contributions and other expenditures

| Scope | Subcategory | Unit | 2020 | 2021 | 2022 | 2023 |
|----------|-------------------------|-------------|-------|--------|-------|-------|
| Domestic | Lobbying | KRW million | - | - | - | - |
| | Political contributions | KRW million | - | - | - | - |
| | Industry associations | KRW million | 26 | 27 | 175 | 276 |
| | Charitable donations | KRW million | 5,085 | 40,178 | 5,235 | 3,925 |

^{*} Donations, sponsorships, political funds, election funds related to voting, and lobbying funds for political organizations for political purposes are strictly prohibited in accordance with Article 31 of the Political Funds Act of the Republic of Korea (which prohibits political contributions from foreigners, domestic and foreign corporations or organizations, and restricts political contributions made with funds related to corporations or organizations) and the KT&G Group Ethics Charter.

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Group Subsidiaries **KT&G** KGC Yungjin Pharm COSMOCOS Tae-A Industrial KGCYebon

Board of Directors (BOD)

| Scope | Subcategory | Unit | 2020 | 2021 | 2022 | 2023 |
|----------|--------------------------------------------|------|-------|------|-------|-------|
| Domestic | Number of BOD meetings held | time | 14 | 13 | 12 | 16 |
| | Attendance rate of non-executive directors | % | 100.0 | 97.2 | 100.0 | 100.0 |

Compensation

| Scope | Subcategory | Unit | 2020 | 2021 | 2022 | 2023 |
|----------|----------------------------------------------------|-------------|-------|-------|-------|-------|
| Domestic | Director compensation (all directors and auditors) | KRW million | 2,330 | 5,111 | 2,709 | 3,050 |
| | CEO salary | KRW million | 1,173 | 2,557 | 1,548 | 1,677 |
| | Average salary of employees | KRW million | 88 | 90 | 90 | 99 |
| | CEO salary compared with average employee salary | % | 7.50 | 3.52 | 5.81 | 5.90 |
| | | time | 13 | 28 | 17 | 17 |

ESG evaluation

| Scope | Subcategory | Unit | 2020 | 2021 | 2022 | 2023 |
|----------|---------------------------|--------|------|------|------|------|
| Domestic | KCGS | rating | A | A | A | A+ |
| | MSCI | rating | A | AA | AA | AA |
| | CDP Climate Change | rating | - | C | A- | A- |
| | CDP Water | rating | - | B | A- | A |
| | Sustainvest ¹⁾ | rating | AA | AA | AA | A |

¹⁾ Based on overall grades

R&D

| Scope | Subcategory | Unit | 2020 | 2021 | 2022 | 2023 |
|----------|-------------------------------|-------------|--------|--------|--------|--------|
| Domestic | R&D investment | KRW million | 26,317 | 39,206 | 23,063 | 25,068 |
| | R&D performance | case | 59 | 61 | 67 | 65 |
| | R&D reseacher | person | 180 | 185 | 187 | 188 |
| | Patents (owned) ¹⁾ | case | 514 | 781 | 1,258 | 1,853 |

¹⁾ Including overseas patents

Violation of laws and regulations

| Scope | Subcategory | Unit | 2020 | 2021 | 2022 | 2023 |
|----------|-------------------------------------------------------------------------|-------------|------|------|------|------|
| Domestic | Fair trade related legal sanctions | case | - | - | - | - |
| | Monetary sanctions of administrative/public organizations (environment) | KRW million | 8.4 | 0.8 | 5.3 | 5.6 |
| | Monetary sanctions of administrative/public organizations (safety) | KRW million | 5.1 | 2.0 | 15.5 | 3.4 |
| | Violation of display advertising regulation | case | - | - | - | - |
| | Personal information infringement | case | - | - | - | - |

* There are no unfair trade-related investigations under progress.

Reports received through the unethical conduct reporting channel in 2023

| Scope | Unit | Corruption/ bribery | Discrimination, harassment, sexual harassment | Customer information leak | Conflict of interests | Money laundering/ internal trading | Others ¹⁾ | Total |
|----------|------|---------------------|-----------------------------------------------|---------------------------|-----------------------|------------------------------------|----------------------|-------|
| Domestic | Case | 4 | 8 | - | - | - | 77 | 89 |

* The number of incidents and accidents received by the existing audit planning team has been changed to the number of cases received through the "unethical behavior reporting channel."

¹⁾ Issues related to Group subsidiaries and partners, customer and consumer complaints, and other non-unethical issues, etc.

Actions taken through the unethical behavior reporting channel in 2023

| Scope | Unit | Disciplinary actions | Caution/Warning | Others ¹⁾ | Total |
|----------|------|----------------------|-----------------|----------------------|-------|
| Domestic | Case | 3 | 1 | 85 | 89 |

¹⁾ Issues related to the Group subsidiaries and partners, matters found not to constitute unethical behavior, or issues deemed unnecessary for action, etc.

ESG FACTS & FIGURES

Group Subsidiaries **KT&G** KGC Yungjin Pharm COSMOCOS Tae-A Industrial KGCYebon

NGP

| Scope | Subcategory | Unit | 2020 | 2021 | 2022 | 2023 |
|--------|------------------------------------------------|--------------------|-------|-------|-------|--------|
| Entire | Unit sales of sticks ¹⁾ | 100 million sticks | 30.6 | 71.8 | 107 | 139 |
| | Market share in the stick market (Domestic) | % | 34 | 40 | 48 | 47 |
| | NGP sales | KRW 100 million | 2,792 | 5,040 | 8,763 | 7,794 |
| | NGP sales growth (YoY) | % | 23.3 | 80.5 | 73.9 | - 11.1 |
| | NGP's sales proportion in the tobacco business | % | 9.5 | 18.3 | 24.5 | 21.5 |
| | NGP sales markets | countries | 4 | 24 | 32 | 32 |
| | NGP patents applied | item | 992 | 1,010 | 1,339 | 2,025 |
| | Domestic | item | 336 | 361 | 397 | 404 |
| | Overseas | item | 656 | 649 | 942 | 1,621 |
| | NGP trademarks applied | item | 688 | 354 | 392 | 315 |
| | Domestic | item | 56 | 17 | 23 | 32 |
| | Overseas | item | 632 | 337 | 369 | 283 |
| | NGP design rights applied | item | 71 | 87 | 31 | 35 |
| | Domestic | item | 25 | 28 | 19 | 35 |
| | Overseas | item | 46 | 59 | 12 | - |

¹⁾ Based on market sales

Customer satisfaction

| Scope | Subcategory | Unit | 2020 | 2021 | 2022 | 2023 |
|----------|-----------------------------------|------|------|------|------|------|
| Domestic | Customer satisfaction rate (NCSI) | % | 78 | 79 | 79 | 78 |

^{*} 2023 Target: 77%

Customer communication channel

| Scope | Subcategory | Unit | 2020 | 2021 | 2022 | 2023 |
|----------|-------------------------------|--------------|------------|------------|------------|------------|
| Domestic | Total channels | place | 249 | 262 | 474 | 624 |
| | lil MINIMUMIUM | place | 8 | 4 | 5 | 5 |
| | Customer service (A/S) center | place | 17 | 25 | 28 | 28 |
| | lil station | place | 98 | 100 | 319 | 517 |
| | Visiting A/S ¹⁾ | place | 121 | 119 | 108 | - |
| | Branch visit A/S | place | - | - | - | 60 |
| | Homepage | place | 1 | 1 | 1 | 1 |
| | Online customer center | place | 1 | 1 | 1 | 1 |
| | Kakao channel | place | 1 | 1 | 1 | 1 |
| | Online mall | place | 1 | 10 | 10 | 10 |
| | CS center | place | 1 | 1 | 1 | 1 |

^{*} Due to the omission of lil station figures in 2022, data has been corrected and the 2021 total has been revised.

^{**} In 2023, estimated percentage of NGP device online customers is 18%, percentage of NGP device online revenue is 15% (domestic)

¹⁾ Starting from 2023, the "On-site A/S" was changed to "Branch visit A/S."

VOCs by channel

| Scope | Subcategory | Unit | 2020 | 2021 | 2022 | 2023 |
|----------|----------------------------|-------------|----------------|----------------|----------------|----------------|
| Domestic | Total VOCs received | case | 221,430 | 193,319 | 185,845 | 177,534 |
| | Phone counseling | case | 183,585 | 134,050 | 125,610 | 127,565 |
| | ARS | case | 26,402 | 36,144 | 34,353 | 27,356 |
| | 1:1 counseling | case | 10,258 | 17,834 | 19,276 | 17,635 |
| | Chat counseling | case | 1,185 | 5,291 | 6,606 | 4,978 |

ESG FACTS & FIGURES

Group Subsidiaries **KT&G** KGC Yungjin Pharm COSMOCOS Tae-A Industrial KGCYebon

VOCs by type

| Scope | Subcategory | Unit | 2020 | 2021 | 2022 | 2023 |
|----------|--------------------------------------------|-------------|----------------|----------------|----------------|----------------|
| | Total VOCs received | case | 221,430 | 193,319 | 185,845 | 177,534 |
| Domestic | Inquiry of product purchasing and location | case | 21,157 | 11,702 | 32,563 | 28,217 |
| | Discount coupon and homepage | case | 9,443 | 5,039 | 4,156 | 4,113 |
| | Inquiry of customer service (A/S) | case | 174,380 | 165,792 | 137,045 | 129,348 |
| | Claim on cigarettes | case | 697 | 847 | 963 | 2,040 |
| | Others (phone number, general) | case | 15,753 | 9,939 | 11,118 | 13,816 |

Customer Information Protection

| Scope | Subcategory | Unit | 2020 | 2021 | 2022 | 2023 |
|----------|---------------------|------|------|------|------|------|
| Domestic | Information leakage | case | - | - | - | - |

Social contribution

| Scope | Subcategory | Unit | 2020 | 2021 | 2022 | 2023 |
|---------------------------|------------------------------------------------------------------------------|------------------------|--------------|--------------|--------------|--------------|
| | Total | KRW 100 million | 671.6 | 540.1 | 620.4 | 678.6 |
| Domestic (by category) | Social contribution investment to sales | % | 2.0 | 1.5 | 1.7 | 1.9 |
| | Social responsibility (youth startup, SangSang Fund, CSR, sponsorship, etc.) | KRW 100 million | 198.0 | 127.7 | 178.3 | 195.1 |
| | Arts & culture (SangSang Madang, SangSang Univ., etc.) | KRW 100 million | 297.7 | 218.1 | 249.4 | 285.7 |
| | Scholarship foundation, welfare foundation, etc. | KRW 100 million | 175.9 | 194.3 | 192.7 | 197.8 |

ESG FACTS & FIGURES

Group Subsidiaries **KT&G** **KGC** Yungjin Pharm COSMOCOS Tae-A Industrial KGCYebon

GHG emissions (Scope 1, 2)

| Scope | Subcategory | Unit | 2020 | 2021 | 2022 | 2023 |
|----------|------------------------------------|-----------------------------------------|---------------|---------------|---------------|---------------|
| | Total (Scope 1+2) | tCO₂eq | 38,826 | 37,225 | 37,981 | 33,071 |
| Domestic | Direct emissions (Scope 1) | tCO ₂ eq | 18,856 | 17,221 | 17,393 | 15,316 |
| | Indirect emissions (Scope 2) | tCO ₂ eq | 19,970 | 20,003 | 20,589 | 17,755 |
| | GHG emission intensity (Scope 1+2) | tCO ₂ eq/ KRW 100 million | 2.91 | 2.88 | 2.91 | 2.70 |
| | Total (Scope 1+2) | tCO₂eq | 2,194 | 2,313 | 2,493 | 2,992 |
| Overseas | Direct emissions (Scope 1) | tCO ₂ eq | 5 | 45 | 7 | 37 |
| | Indirect emissions (Scope 2) | tCO ₂ eq | 2,188 | 2,268 | 2,486 | 2,955 |
| | Total (Scope 1+2) | tCO₂eq | 41,020 | 39,537 | 40,474 | 36,063 |
| Entire | Direct emissions (Scope 1) | tCO ₂ eq | 18,861 | 17,266 | 17,400 | 15,352 |
| | Indirect emissions (Scope 2) | tCO ₂ eq | 22,158 | 22,271 | 23,074 | 20,710 |

* Based on market-based GHG emissions calculation method
 ** Scope: Domestic manufacturing sites (Buyeo, Wonju), overseas manufacturing site (China)
 *** Verification status: Third-party verification completed for all business sites within the scope of aggregation
 **** Due to the refinement of emission factors for overseas business sites, there are some discrepancies with the data disclosed in the previous year.

GHG emissions (Scope 3)

| | Unit | 2020 | 2021 | 2022 | 2023 |
|---------------------------------------------------------------------------------------|--------------------------|----------------|---------------|----------------|----------------|
| Other Indirect emissions (Scope 3) | tCO₂eq | 117,038 | 94,564 | 107,043 | 134,183 |
| Procured products and services | tCO ₂ eq | 60,395 | 51,909 | 61,016 | 49,632 |
| Capital goods | tCO ₂ eq | 18,754 | 6,115 | 3,741 | 58,415 |
| Fuel & energy related activities (Excluding the contents related to Scope 1 and 2) | tCO ₂ eq | 4,810 | 4,651 | 4,151 | 3,645 |
| Upstream transport & distribution | tCO ₂ eq | 15,708 | 15,198 | 21,021 | 7,782 |
| Waste from business sites | tCO ₂ eq | 955 | 876 | 824 | 657 |
| Business trip | tCO ₂ eq | 475 | 272 | 466 | 781 |
| Employee commuting | tCO ₂ eq | 2,189 | 2,102 | 2,067 | 2,031 |
| Upstream lease assets | tCO ₂ eq | 505 | 671 | 654 | 696 |
| Downstream transport & distribution | tCO ₂ eq | - | - | - | - |
| Processing of sold products | tCO ₂ eq | 7 | 4 | 3 | 4 |
| Use of sold products | tCO ₂ eq | - | - | - | - |
| Disposal of sold products | tCO ₂ eq | 9,434 | 9,185 | 9,320 | 6,763 |
| Downstream lease assets | tCO ₂ eq | 152 | 159 | 129 | 126 |
| Franchises | tCO ₂ eq | 3,650 | 3,424 | 3,651 | 3,649 |
| Investments | tCO ₂ eq | - | - | - | - |

* Scope of aggregation: 13 categories excluding Category 11 (Use of sold products) and Category 15 (Investments)
 ** Verification status: Completed third-party verification for all business sites within the scope (Based on the GHG data management and collection, emission calculation, and reporting process)
 *** Verification principle: ISO 14064-1:2018 (WRI/WBCSD GHG Protocol:2004, Corporate Value Chain (Scope 3) Accounting and Reporting Standard)

ESG FACTS & FIGURES

Group Subsidiaries **KT&G** **KGC** Yungjin Pharm COSMOCOS Tae-A Industrial KGCYebon

Energy use (TJ)

| Scope | Subcategory | Unit | 2020 | 2021 | 2022 | 2023 |
|----------|-----------------------------------|------------------------|------------|------------|------------|------------|
| | Total | TJ | 782 | 757 | 773 | 676 |
| Domestic | Fuel (LNG) | TJ | 371 | 339 | 343 | 301 |
| | Electricity(Non-renewable energy) | TJ | 411 | 418 | 430 | 371 |
| | Others (steam, etc.) | TJ | - | - | - | - |
| | Renewable energy | TJ | - | - | - | 3.7 |
| | Energy use Intensity | TJ/ KRW 100 million | 0.06 | 0.06 | 0.06 | 0.06 |
| | Total | TJ | 36 | 38 | 42 | 50 |
| Overseas | Fuel (LNG) | TJ | 0.1 | 0.6 | 0.1 | 0.5 |
| | Electricity(Non-renewable energy) | TJ | 16 | 17 | 19 | 24 |
| | Others (steam, etc.) | TJ | 20 | 20 | 23 | 25 |
| | Renewable energy | TJ | - | - | - | - |
| | Total | TJ | 818 | 796 | 815 | 726 |
| Entire | Fuel (LNG) | TJ | 371 | 340 | 343 | 301 |
| | Electricity | TJ | 427 | 435 | 449 | 395 |
| | Others (steam, etc.) | TJ | 20 | 20 | 23 | 25 |
| | Renewable energy | TJ | - | - | - | 3.7 |

* Scope: Domestic manufacturing sites (Buyeo, Wonju), overseas manufacturing site (China)
 ** Verification status: Completed third-party verification for all business sites in the scope
 *** Reflected data due to third-party verification and modification of emission factors for overseas manufacturing sites (electricity IEA, non-electricity IPCC)
 **** When calculating electricity consumption, 9.6MJ/kWh is applied in accordance with the Guidelines for Reporting and Certification of Emissions under the Emissions Trading Scheme (Ministry of Environment Notice) in Korea.

Electricity consumption (MWh)

| Scope | Subcategory | Unit | 2020 | 2021 | 2022 | 2023 |
|----------|---------------------------------------------------------------|------------|---------------|---------------|---------------|---------------|
| | Total electricity consumption | MWh | 42,831 | 43,541 | 44,814 | 38,648 |
| Domestic | Renewable electricity consumption | MWh | - | - | - | 384 |
| | Percentage of renewable electricity consumption ¹⁾ | % | - | - | - | 1.0 |
| | Total electricity consumption | MWh | 1,620 | 1,803 | 1,993 | 2,536 |
| Overseas | Renewable electricity consumption | MWh | - | - | - | - |
| | Percentage of renewable electricity consumption | % | - | - | - | - |
| | Total electricity consumption | MWh | 44,451 | 45,345 | 46,807 | 41,184 |
| Entire | Renewable electricity consumption | MWh | - | - | - | 384 |
| | Percentage of renewable electricity consumption | % | - | - | - | 0.9 |

* Scope: Domestic manufacturing sites (Buyeo, Wonju), overseas manufacturing site (China)
¹⁾ Percentage of electricity supplied by renewable energy among the total electricity consumption at business sites

Environmental investment

| Scope | Subcategory | Unit | 2020 | 2021 | 2022 | 2023 |
|----------|-----------------------------------|-------------|--------|--------|----------|--------|
| Domestic | Environmental investment plan | KRW million | 205.90 | 817.10 | 1,063.61 | 1958.5 |
| | Environmental investment practice | KRW million | 585.90 | 888.40 | 746.89 | 1893.8 |
| | Execution rate | % | 284.6 | 108.7 | 70.2 | 96.7 |

* Scope: Domestic manufacturing sites(Buyeo, Wonju)

ESG FACTS & FIGURES

Group Subsidiaries **KT&G** **KGC** Yungjin Pharm COSMOCOS Tae-A Industrial KGCYebon

Water resources management

| Scope | Subcategory | Unit | 2020 | 2021 | 2022 | 2023 |
|----------|--------------------------------------|-------------------------|----------------|----------------|----------------|----------------|
| Domestic | Total water consumption (A-B) | ton | 128,480 | 150,562 | 173,478 | 206,713 |
| | Service water | ton | 779,119 | 731,235 | 700,524 | 626,117 |
| | Ground water | ton | 1,078 | 692 | 782 | 572 |
| | Water withdrawal (A) | ton | 780,197 | 731,927 | 701,306 | 626,689 |
| | Waste water and water discharge (B) | ton | 651,717 | 581,365 | 527,828 | 419,976 |
| | Water recycling | ton | 54,576 | 43,463 | 72,812 | 55,337 |
| | Water withdrawal intensity | ton/ KRW 100 million | 58.5 | 56.6 | 53.7 | 51.2 |
| Overseas | Total water consumption (A-B) | ton | 7,016 | 6,982 | 9,914 | 9,344 |
| | Service water | ton | 38,979 | 46,548 | 57,582 | 51,907 |
| | Ground water | ton | - | - | - | - |
| | Water withdrawal (A) | ton | 38,979 | 46,548 | 57,582 | 51,907 |
| | Waste water and water discharge (B) | ton | 31,963 | 39,566 | 47,668 | 42,563 |
| | Water recycling | ton | - | - | - | - |
| Entire | Total water consumption (A-B) | ton | 135,496 | 157,544 | 183,392 | 216,057 |
| | Service water | ton | 818,098 | 777,783 | 758,106 | 678,024 |
| | Ground water | ton | 1,078 | 692 | 782 | 572 |
| | Water withdrawal (A) | ton | 819,176 | 778,475 | 758,888 | 678,596 |
| | Waste water and water discharge (B) | ton | 683,680 | 620,931 | 575,496 | 462,539 |
| | Water recycling | ton | 54,576 | 43,463 | 72,812 | 55,337 |

* Scope: Domestic manufacturing sites (Buyeo, Wonju), overseas manufacturing site (China)

** Internal verification based on all business sites' bills and internal meter-reading proof documents

*** Due to the expansion of the aggregation scope (addition of wastewater and discharge data from overseas sites) and correction of data errors, there are discrepancies with the data disclosed in the previous year.

Waste discharge

| Scope | Subcategory | Unit | 2020 | 2021 | 2022 | 2023 |
|----------|------------------------------------------------------------------------|-------------------------|--------------|--------------|--------------|--------------|
| Domestic | Subtotal waste emitted (Incineration+Landfill+Recycling+Others) | ton | 4,762 | 4,788 | 5,369 | 3,507 |
| | Incineration | ton | 20 | 15 | 20 | 9.27 |
| | Landfill | ton | 298 | 218 | 254 | 71 |
| | Recycling | ton | 4,443 | 4,549 | 5,088 | 3,428 |
| | Others | ton | 0.0 | 6.2 | 6.4 | 4.8 |
| | Waste recycling rate | % | 93.3 | 95.1 | 94.8 | 97.6 |
| | Waste emission intensity | ton/ KRW 100 million | 0.36 | 0.37 | 0.41 | 0.29 |
| Overseas | Subtotal waste emitted(Incineration) | ton | 75 | 80 | 132 | 173 |
| | Incineration | ton | 75 | 80 | 132 | 173 |
| Entire | Subtotal waste emitted | ton | 4,837 | 4,863 | 5,498 | 3,680 |
| | Incineration | ton | 95 | 95 | 152 | 182 |
| | Landfill | ton | 298 | 218 | 254 | 71 |
| | Recycling | ton | 4,443 | 4,549 | 5,088 | 3,422 |
| | Others | ton | - | 1 | 3 | 5 |
| | Waste recycling rate | % | 91.9 | 93.6 | 92.6 | 93.0 |

* Scope: Domestic manufacturing sites (Buyeo, Wonju), overseas manufacturing site (China)

ESG FACTS & FIGURES

Group Subsidiaries **KT&G** **KGC** Yungjin Pharm COSMOCOS Tae-A Industrial KGCYebon

Air pollutant emissions

| Scope | Subcategory | Unit | 2020 | 2021 | 2022 | 2023 |
|----------|-----------------------------------|------|------|------|------|------|
| Domestic | NOx | ton | 9.5 | 8.5 | 8.2 | 7.1 |
| | SOx | ton | 0.0 | 0.0 | 0.0 | 0.1 |
| | Dust (PM) | ton | 0.6 | 0.5 | 0.9 | 0.4 |
| | Volatile Organic Compounds (VOCs) | ton | 0.0 | 0.0 | 0.0 | 0 |

* Scope: Domestic manufacturing sites (Buyeo, Wonju)

** Due to the correction of aggregation errors in 2022, there are discrepancies with the data disclosed in the previous year.

Water pollutant emissions

| Scope | Subcategory | Unit | 2020 | 2021 | 2022 | 2023 |
|----------|----------------------|------|------|------|------|------|
| Domestic | Subtotal | ton | 14.9 | 13.3 | 13.1 | 9.3 |
| | BOD | ton | 1.6 | 1.8 | 1.8 | 0.67 |
| | COD | ton | 2.4 | 0.0 | 0.0 | 0 |
| | Total organic carbon | ton | 5.2 | 6.8 | 6.6 | 5.16 |
| | SS | ton | 3.3 | 2.9 | 2.6 | 1.73 |
| | T-N | ton | 2.2 | 1.6 | 1.9 | 1.69 |
| | T-P | ton | 0.2 | 0.2 | 0.1 | 0.09 |

* Scope: Domestic manufacturing sites (Buyeo, Wonju)

** Due to the correction of unit conversion errors in 2021 and 2022, there are discrepancies with the data disclosed in the previous year.

Employment

| Scope | Subcategory | Unit | 2020 | 2021 | 2022 | 2023 |
|----------|-----------------|---------------|--------------|--------------|--------------|--------------|
| Domestic | Subtotal | person | 1,677 | 1,665 | 1,633 | 1,606 |
| | Male | person | 914 | 898 | 890 | 883 |
| | Female | person | 763 | 767 | 743 | 723 |
| | Under 30 | person | 169 | 157 | 152 | 118 |
| | 30-49 | person | 1,007 | 968 | 936 | 910 |
| | 50 and older | person | 501 | 540 | 545 | 578 |

* Based on direct employment (full-time employees, contract workers)

Female employees

| Scope | Subcategory | Unit | 2020 | 2021 | 2022 | 2023 |
|----------|--------------------------------|------|------|------|------|------|
| Domestic | Percentage of female employees | % | 45.5 | 46.1 | 45.5 | 45.0 |
| Overseas | Percentage of female employees | % | 5.9 | 10.0 | 8.7 | 8.3 |
| Entire | Percentage of female employees | % | 45.1 | 45.6 | 45.0 | 44.5 |

* Based on direct employment (full-time employees, contract workers)

Employment of persons with disabilities

| Scope | Subcategory | Unit | 2020 | 2021 | 2022 | 2023 |
|----------|-----------------------------------------------|--------|------|------|------|------|
| Domestic | Employees with disabilities | person | 16 | 14 | 13 | 14 |
| | Employment rate for persons with disabilities | % | 0.95 | 0.84 | 0.78 | 0.86 |

ESG FACTS & FIGURES

Group Subsidiaries **KT&G** **KGC** Yungjin Pharm COSMOCOS Tae-A Industrial KGCYebon

Average service period

| Scope | Subcategory | Unit | 2020 | 2021 | 2022 | 2023 |
|----------|-------------|------|------|------|------|------|
| Domestic | Male | year | 14.2 | 14.4 | 14.3 | 14.7 |
| | Female | year | 14.0 | 14.4 | 14.5 | 15.2 |

* Based on direct employment (full-time employees, contract workers)

New employment

| Scope | Subcategory | Unit | 2020 | 2021 | 2022 | 2023 |
|----------|--------------|---------------|-----------|-----------|------------|------------|
| Domestic | Total | person | 55 | 67 | 126 | 124 |
| | Male | person | 32 | 30 | 65 | 51 |
| | Female | person | 23 | 37 | 61 | 73 |
| | Under 30 | person | 23 | 31 | 55 | 45 |
| | 30-49 | person | 20 | 24 | 42 | 54 |
| | 50 and older | person | 12 | 12 | 29 | 25 |

* Based on direct employment (full-time employees, contract workers)

Turnover

| Scope | Subcategory | Unit | 2020 | 2021 | 2022 | 2023 |
|----------|-------------------------|---------------|-----------|-----------|-----------|-----------|
| Domestic | Total | person | 16 | 25 | 78 | 71 |
| | Male | person | 7 | 16 | 41 | 40 |
| | Female | person | 9 | 9 | 37 | 31 |
| | Turnover rate | % | 1.0 | 1.6 | 5.0 | 4.6 |
| | Voluntary turnover rate | % | 1.0 | 1.6 | 5.0 | 4.5 |

* Based on direct employment (full-time employees, contract workers)

Childbirth leave and childcare leave

| Scope | Subcategory | Unit | 2020 | 2021 | 2022 | 2023 |
|----------|---------------------------------------------------------------------------------------|--------|-------|-------|-------|-------|
| Domestic | Male employees taking childbirth leave | person | 32 | 30 | 22 | 15 |
| | Female employees taking childbirth leave | person | 28 | 18 | 17 | 13 |
| | Rate of male returning to work after childbirth leave | % | 100.0 | 100.0 | 100.0 | 100.0 |
| | Rate of female returning to work after childbirth leave | % | 96.4 | 100.0 | 100.0 | 100.0 |
| | Male employees taking childcare leave | person | 6 | 3 | 11 | 11 |
| | Female employees taking childcare leave | person | 35 | 24 | 43 | 44 |
| | Rate of male returning to work after childcare leave | % | 100.0 | 100.0 | 90.9 | 91.0 |
| | Rate of female returning to work after childcare leave | % | 100.0 | 100.0 | 100.0 | 100.0 |
| | Rate of male retiring within 12 months after returning to work from childcare leave | % | - | - | - | 10.0 |
| | Rate of female retiring within 12 months after returning to work from childcare leave | % | 5.7 | - | - | - |

* Based on direct employment (full-time employees, contract workers)

Union membership

| Scope | Subcategory | Unit | 2020 | 2021 | 2022 | 2023 |
|----------|-----------------------------------|--------|-------|-------|-------|-------|
| Domestic | Employees eligible for membership | person | 1,369 | 1,371 | 1,330 | 1,293 |
| | Union members | person | 1,369 | 1,371 | 1,330 | 1,293 |
| | Union membership rate | % | 100.0 | 100.0 | 100.0 | 100.0 |

ESG FACTS & FIGURES

Group Subsidiaries **KT&G** **KGC** Yungjin Pharm COSMOCOS Tae-A Industrial KGCYebon

Employee training

| Scope | Subcategory | Unit | 2020 | 2021 | 2022 | 2023 |
|----------|-----------------------------------------------------------|---------------------|---------------|---------------|---------------|---------------|
| Domestic | Total number of trainees | person | 15,436 | 21,969 | 20,282 | 18,340 |
| | Male | person | 8,148 | 11,681 | 10,933 | 10,381 |
| | Female | person | 7,288 | 10,288 | 9,349 | 7,959 |
| | Annual average training expense per employee | KRW thousand | 1,030 | 605 | 911 | 803 |
| | Male | KRW thousand | 1,030 | 605 | 911 | 803 |
| | Female | KRW thousand | 1,030 | 605 | 911 | 803 |
| | Annual average time spent on training per employee | hour | 27.3 | 50.6 | 29.7 | 58.6 |
| | Male | hour | 27.3 | 47.0 | 32.1 | 61.9 |
| | Female | hour | 27.3 | 54.7 | 26.9 | 54.3 |

Performance evaluation

| Scope | Subcategory | Unit | 2020 | 2021 | 2022 | 2023 |
|----------|-----------------------------------|--------|-------|-------|-------|-------|
| Domestic | Employees subject to evaluation | person | 1,557 | 1,542 | 1,521 | 1,513 |
| | Percentage of employees evaluated | % | 96.0 | 94.0 | 90.1 | 93.9 |

* All level-1 and lower employees subject to performance/capability evaluations, excluding persons on leave, new employees, employees planning to retire, and separately evaluated personnel according to company regulations (dispatched to the Group subsidiaries, etc.)

Human rights protection

| Scope | Subcategory | Unit | 2020 | 2021 | 2022 | 2023 |
|----------|-----------------------------------------------------------|--------|-------|-------|-------|-------|
| Domestic | Sexual harassment prevention training | time | 1 | 1 | 1 | 1 |
| | Completion ratio of sexual harassment prevention training | person | 1,444 | 1,694 | 1,462 | 1,623 |

Industrial accident

| Scope | Subcategory | Unit | 2020 | 2021 | 2022 | 2023 |
|----------|---------------------------|--------|-----------|-----------|-----------|-----------|
| Domestic | Number of victims | person | 2 | 3 | 5 | 1 |
| | Industrial accident rate | % | 0.10 | 0.18 | 0.30 | 0.06 |
| | accident-related injuries | case | 2 | 3 | 5 | 1 |
| | disease-related injuries | case | 0 | 0 | 0 | 0 |
| | Total working hour | hour | 3,521,440 | 3,344,520 | 3,273,680 | 3,247,122 |

* Including full-time employees, contract workers, daily workers

Work loss

| Scope | Subcategory | Unit | 2020 | 2021 | 2022 | 2023 |
|----------|-------------------------------|------|------|------|------|------|
| Domestic | (Employee) LTIR ¹⁾ | - | 0.57 | 0.90 | 1.53 | 0.31 |
| | (Partners) LTIR | - | 0.33 | 0.00 | 0.00 | 0.00 |

* Including full-time employees, contract workers, daily workers

** No casualty accidents at domestic or overseas business sites between 2020-2023

¹⁾ LTIR (Lost Time Injuries Rate) = (Number of Accidental Injuries / Total Working Hours) X 200,000

Social contribution

| Scope | Subcategory | Unit | 2020 | 2021 | 2022 | 2023 |
|----------|-----------------------------------------|-----------------|------|------|------|------|
| Domestic | Total social contribution investment | KRW 100 million | 9.2 | 10.1 | 13.5 | 19.6 |
| | Social contribution investment to sales | % | 0.07 | 0.08 | 0.10 | 0.16 |

Board of Directors (BOD)

| Scope | Subcategory | Unit | 2020 | 2021 | 2022 | 2023 |
|----------|--------------------------------------------|------|-------|-------|-------|-------|
| Domestic | Number of BOD meetings held | time | 8 | 10 | 9 | 10 |
| | Attendance rate of non-executive directors | % | 100.0 | 100.0 | 100.0 | 100.0 |

ESG FACTS & FIGURES

Group Subsidiaries **KT&G** **KGC** Yungjin Pharm COSMOCOS Tae-A Industrial KGCYebon

Violation of laws and regulations

| Scope | Subcategory | Unit | 2020 | 2021 | 2022 | 2023 |
|----------|---------------------------------------------|--------------|------|-------|------|------|
| Domestic | Fair trade related legal sanctions | case | - | - | - | - |
| | Environment-related penalty | KRW thousand | - | 4,400 | - | - |
| | Violation of display advertising regulation | case | - | - | - | - |
| | Personal information infringement | case | - | - | - | - |

* Due to errors in the 2021 environmental-related fines and penalties data, corrections have been made.

R&D

| Scope | Subcategory | Unit | 2020 | 2021 | 2022 | 2023 |
|----------|-------------------------------|-------------|--------|--------|--------|--------|
| Domestic | R&D investment | KRW million | 11,259 | 12,234 | 15,560 | 18,293 |
| | R&D performance | case | 66 | 70 | 58 | 39 |
| | Patents (owned) ¹⁾ | case | 231 | 265 | 289 | 306 |

¹⁾ Including overseas patents

ESG FACTS & FIGURES

Group Subsidiaries **KT&G** KGC **Yungjin Pharm** COSMOCOS Tae-A Industrial KGCYebon

GHG emissions (Scope 1, 2)

| Scope | Subcategory | Unit | 2020 | 2021 | 2022 | 2023 |
|--------|------------------------------------|-----------------------------------------|--------------|--------------|--------------|--------------|
| Entire | Total (Scope 1+2) | tCO₂eq | 5,680 | 4,803 | 6,382 | 7,001 |
| | Direct emissions (Scope 1) | tCO ₂ eq | 1,073 | 814 | 1,045 | 1,145 |
| | Indirect emissions (Scope 2) | tCO ₂ eq | 4,607 | 3,990 | 5,337 | 5,856 |
| | GHG emission intensity (Scope 1+2) | tCO ₂ eq/ KRW 100 million | 2.72 | 2.45 | 2.92 | 2.98 |

* Scope: Domestic manufacturing sites (Namyang, Jeonju)

** Verification status: Completed third-party verification for all business sites in the scope

*** Due to the refinement of emission factors, there are some discrepancies with the data disclosed in the previous year.

GHG emissions (Scope 3)

| | Unit | 2020 | 2021 | 2022 | 2023 |
|---------------------------------------------------------------------------------------|--------------------------|---------------|---------------|---------------|---------------|
| Other Indirect emissions (Scope 3) | tCO₂eq | 26,991 | 27,762 | 32,206 | 31,122 |
| Procured products and services | tCO ₂ eq | 17,264 | 16,701 | 22,287 | 24,150 |
| Capital goods | tCO ₂ eq | 5,407 | 6,553 | 5,663 | 1,536 |
| Fuel & energy related activities (Excluding the contents related to Scope 1 and 2) | tCO ₂ eq | 506 | 528 | 702 | 770 |
| Upstream transport & distribution | tCO ₂ eq | 1,578 | 1,947 | 1,785 | 2,026 |
| Waste from business sites | tCO ₂ eq | 373 | 364 | 344 | 760 |
| Business trip | tCO ₂ eq | 2 | 9 | 13 | 28 |
| Employee commuting | tCO ₂ eq | 750 | 737 | 710 | 736 |
| Upstream lease assets | tCO ₂ eq | - | - | - | - |
| Downstream transport & distribution | tCO ₂ eq | - | - | - | - |
| Processing of sold products | tCO ₂ eq | 1,024 | 861 | 595 | 758 |
| Use of sold products | tCO ₂ eq | - | - | - | - |
| Disposal of sold products | tCO ₂ eq | 88 | 62 | 110 | 358 |
| Downstream lease assets | tCO ₂ eq | - | - | - | - |
| Franchises | tCO ₂ eq | - | - | - | - |
| Investments | tCO ₂ eq | - | - | - | - |

* Scope of aggregation: 10 categories of Upstream and Downstream

** Verification status: Completed third-party verification for all business sites within the scope (Based on the GHG data management and collection, emission calculation, and reporting process)

*** Verification principle: ISO 14064-1:2018 (WRI/WBCSD GHG Protocol:2004, Corporate Value Chain (Scope 3) Accounting and Reporting Standard)

ESG FACTS & FIGURES

Group Subsidiaries **KT&G** KGC **Yungjin Pharm** COSMOCOS Tae-A Industrial KGCYebon

Energy use (TJ)

| Scope | Subcategory | Unit | 2020 | 2021 | 2022 | 2023 |
|--------|----------------------|------------------------|------------|-----------|------------|------------|
| Entire | Total | TJ | 116 | 99 | 132 | 145 |
| | Fuel (LNG) | TJ | 21 | 16 | 21 | 23 |
| | Electricity | TJ | 95 | 83 | 112 | 122 |
| | Energy use Intensity | TJ/ KRW 100 million | 0.06 | 0.05 | 0.06 | 0.06 |

* Scope: Domestic manufacturing sites(Namyang, Jeonju)

** Verification status: Completed third-party verification for all business sites in the scope

*** When calculating electricity consumption, 9.6MJ/kWh is applied in accordance with the Guidelines for Reporting and Certification of Emissions under the Emissions Trading Scheme (Ministry of Environment Notice) in Korea.

Electricity consumption (MWh)

| Scope | Subcategory | Unit | 2020 | 2021 | 2022 | 2023 |
|--------|---------------------------------------------------------------|------------|----------------|----------------|-----------------|-----------------|
| Entire | Total electricity consumption | MWh | 9,880.7 | 8,684.5 | 11,617.2 | 12,746.2 |
| | Renewable electricity consumption | MWh | - | - | - | - |
| | Percentage of renewable electricity consumption ¹⁾ | % | - | - | - | - |

* Scope: Domestic manufacturing sites(Namyang, Jeonju)

¹⁾ Percentage of electricity supplied by renewable energy among the total electricity consumption at business sites

Environmental investment

| Scope | Subcategory | Unit | 2020 | 2021 | 2022 | 2023 |
|--------|-----------------------------------|-------------|---------|---------|-------|-------|
| Entire | Environmental investment plan | KRW million | 1,231.0 | 1,089.0 | 387.8 | 45.4 |
| | Environmental investment practice | KRW million | 1,247 | 114.5 | 387.8 | 45.4 |
| | Execution rate | % | 103.6 | 10.5 | 100.0 | 100.0 |

* Scope: Domestic manufacturing sites(Namyang, Jeonju)

Water resources management

| Scope | Subcategory | Unit | 2020 | 2021 | 2022 | 2023 |
|--------|----------------------------|-------------------------|----------------|---------------|----------------|----------------|
| Entire | Total consumption | ton | 105,257 | 92,913 | 111,468 | 142,756 |
| | Service water | ton | 105,257 | 92,913 | 111,468 | 142,756 |
| | Water withdrawal | ton | 105,257 | 92,913 | 111,468 | 142,756 |
| | Water recycling amount | ton | 36,783 | 6,348 | 11,832 | 20,708 |
| | Water withdrawal intensity | ton/ KRW 100 million | 50.5 | 47.4 | 51.0 | 60.8 |

* Scope: Domestic manufacturing sites(Namyang, Jeonju)

Waste discharge (by treatment)

| Scope | Subcategory | Unit | 2020 | 2021 | 2022 | 2023 |
|---------------|-------------------------------|-------------------------|----------------|----------------|----------------|----------------|
| Namyang Plant | Subtotal waste emitted | ton | 173.4 | 228.6 | 198.6 | 217.7 |
| | Incineration | ton | 167.3 | 213.6 | 178.2 | 196.9 |
| | Landfill | ton | - | 4.8 | - | 0 |
| | Recycling | ton | 6.1 | 10.2 | 20.3 | 20.8 |
| | Waste recycling rate | % | 3.52 | 4.45 | 10.24 | 9.55 |
| Jeonju Plant | Subtotal waste emitted | ton | 3,566.7 | 1,866.4 | 2,811.5 | 2,729.0 |
| | Incineration | ton | 520.5 | 96.4 | 34.1 | 72.8 |
| | Landfill | ton | 145.8 | 56.4 | 97.0 | 86.5 |
| | Recycling | ton | 2,896.8 | 1,709.2 | 2,680.5 | 2,569.7 |
| | Waste recycling rate | % | 81.20 | 91.60 | 95.30 | 94.16 |
| Entire | Subtotal waste emitted | ton | 3,736.5 | 2,090.5 | 3,010.1 | 2,946.7 |
| | Incineration | ton | 687.8 | 309.9 | 212.3 | 269.67 |
| | Landfill | ton | 145.8 | 61.2 | 97.0 | 86.5 |
| | Recycling | ton | 2,902.9 | 1,719.4 | 2,700.8 | 2,590.5 |
| | Waste recycling rate | % | 77.70 | 82.20 | 89.70 | 87.91 |
| | Waste emission intensity | ton/ KRW 100 million | 1.8 | 1.1 | 1.4 | 1.3 |

ESG FACTS & FIGURES

Group Subsidiaries **KT&G** KGC **Yungjin Pharm** COSMOCOS Tae-A Industrial KGCYebon

Waste discharge (by type)

| Scope | Subcategory | Unit | 2020 | 2021 | 2022 | 2023 |
|---------------|-------------------------------|------------|----------------|----------------|----------------|----------------|
| Namyang Plant | Subtotal waste emitted | ton | 176.9 | 224.0 | 198.6 | 217.7 |
| | General | ton | 167.1 | 212.5 | 182.3 | 203.2 |
| | Designated | ton | 9.8 | 11.5 | 16.3 | 14.5 |
| Jeonju Plant | Subtotal waste emitted | ton | 3,563.1 | 1,871.3 | 2,811.5 | 2,729.0 |
| | General | ton | 230.7 | 132.3 | 181.5 | 197.46 |
| | Designated | ton | 3,332.4 | 1,739.0 | 2,630.0 | 2,531.6 |
| Entire | Subtotal waste emitted | ton | 3,740.0 | 2,095.3 | 3,010.1 | 2,946.7 |
| | General | ton | 397.8 | 344.8 | 363.8 | 400.66 |
| | Designated | ton | 3,342.2 | 1,750.5 | 2,646.3 | 2,546.1 |

Air pollutant emissions

| Scope | Subcategory | Unit | 2020 | 2021 | 2022 | 2023 |
|---------------|-----------------------------------|------|-------|-------|-------|-------|
| Namyang Plant | NOx | ton | 0.146 | 0.154 | 0.211 | 0.066 |
| | SOx | ton | 0.006 | 0.006 | - | - |
| | Dust (PM) | ton | 1.198 | 0.819 | 0.290 | 0.063 |
| | Volatile Organic Compounds (VOCs) | ton | - | - | - | - |
| Jeonju Plant | NOx | ton | - | - | - | - |
| | SOx | ton | - | - | 0.005 | 0.017 |
| | Dust (PM) | ton | 0.923 | 0.650 | 0.512 | 0.286 |
| | Volatile Organic Compounds (VOCs) | ton | - | - | - | - |
| Entire | NOx | ton | 0.146 | 0.154 | 0.211 | 0.066 |
| | SOx | ton | 0.006 | 0.006 | 0.005 | 0.017 |
| | Dust (PM) | ton | 2.121 | 1.469 | 0.801 | 0.349 |
| | Volatile Organic Compounds (VOCs) | ton | - | - | - | - |

Water pollutant emissions

| Scope | Subcategory | Unit | 2020 | 2021 | 2022 | 2023 |
|---------------|-----------------|------------|--------------|---------------|---------------|--------------|
| Namyang Plant | Subtotal | ton | 0.459 | 0.532 | 0.708 | 0.001 |
| | BOD | ton | 0.041 | 0.008 | 0.153 | 0.000 |
| | COD | ton | 0.129 | 0.168 | 0.268 | 0.000 |
| | SS | ton | 0.015 | 0.002 | 0.004 | 0.000 |
| | T-N | ton | 0.260 | 0.330 | 0.259 | 0.000 |
| Jeonju Plant | T-P | ton | 0.013 | 0.024 | 0.024 | 0.000 |
| | Subtotal | ton | 8.216 | 11.191 | 12.357 | 2.924 |
| | BOD | ton | 1.533 | 4.555 | 5.030 | 0.394 |
| | COD | ton | 2.453 | 5.081 | 5.610 | 0.736 |
| | SS | ton | 2.453 | 1.034 | 1.141 | 0.439 |
| Entire | T-N | ton | 1.769 | 0.519 | 0.573 | 1.350 |
| | T-P | ton | 0.008 | 0.002 | 0.003 | 0.005 |
| | Subtotal | ton | 5.675 | 11.726 | 13.064 | 2.925 |
| | BOD | ton | 1.574 | 4.563 | 5.182 | 0.394 |
| | COD | ton | 2.582 | 5.249 | 5.878 | 0.736 |
| Entire | SS | ton | 2.468 | 1.036 | 1.146 | 0.439 |
| | T-N | ton | 2.030 | 0.849 | 0.832 | 1.350 |
| | T-P | ton | 0.021 | 0.029 | 0.026 | 0.005 |

ESG FACTS & FIGURES

Group Subsidiaries **KT&G** KGC **Yungjin Pharm** COSMOCOS Tae-A Industrial KGCYebon

Purchase of key raw and subsidiary materials

| Scope | Subcategory | Unit | 2020 | 2021 | 2022 | 2023 |
|--------|---------------------|--------------------|---------------|---------------|---------------|---------------|
| Entire | Total | KRW million | 54,945 | 34,611 | 50,192 | 49,455 |
| | Raw materials | KRW million | 50,685 | 32,050 | 45,655 | 43,410 |
| | Secondary materials | KRW million | 4,260 | 2,561 | 4,537 | 6,045 |

* Due to the correction of unit errors in the previous year's disclosed content, there are some discrepancies with the previous year's disclosed data.

Purchase of eco-friendly products/services

| Scope | Subcategory | Unit | 2020 | 2021 | 2022 | 2023 |
|--------|-----------------------------------------------------|-------------|------|------|------|------|
| Entire | Amount of eco-friendly product/service purchase | KRW million | 440 | 424 | 583 | 645 |
| | Percentage of eco-friendly product/service purchase | % | 0.8 | 1.2 | 1.2 | 1.3 |

* Due to the expansion of the calculation scope (from subsidiary materials to all purchase targets) and the enhancement of the calculation method, there are discrepancies with the data disclosed in the previous year.

Employment

| Scope | Subcategory | Unit | 2020 | 2021 | 2022 | 2023 | |
|--------|--------------------------------|---------------|------------|------------|------------|------------|-----|
| Entire | Subtotal | person | 630 | 629 | 610 | 624 | |
| | By gender | Male | person | 462 | 462 | 450 | 448 |
| | | Female | person | 168 | 167 | 160 | 176 |
| | By age | Under 30 | person | 108 | 114 | 91 | 101 |
| | | 30-49 | person | 443 | 429 | 426 | 437 |
| | | 50 and older | person | 79 | 86 | 93 | 86 |
| | Percentage of female employees | % | 26.7 | 26.6 | 26.2 | 28.2 | |

* Employee status: Based on business report of December 2023
 ** Based on direct employment (full-time employees, contract workers)

Employment of persons with disabilities

| Scope | Subcategory | Unit | 2020 | 2021 | 2022 | 2023 |
|--------|-----------------------------------------------|--------|------|------|------|------|
| Entire | Employees with disabilities | person | 3 | 3 | 3 | 10 |
| | Employment rate for persons with disabilities | % | 0.5 | 0.5 | 0.5 | 1.6 |

* Based on direct employment (full-time employees, contract workers)

Average service period

| Scope | Subcategory | Unit | 2020 | 2021 | 2022 | 2023 |
|--------|-------------|------|------|------|------|------|
| Entire | Male | year | 11.0 | 11.2 | 11.3 | 10.4 |
| | Female | year | 9.3 | 10.2 | 10.3 | 9.5 |

* Compiling years of service based on the date of joining the company

New employment

| Scope | Subcategory | Unit | 2020 | 2021 | 2022 | 2023 | |
|--------|--------------|---------------|-----------|-----------|-----------|------------|-----|
| Entire | Total | person | 36 | 41 | 93 | 166 | |
| | By gender | Male | person | 19 | 27 | 66 | 99 |
| | | Female | person | 17 | 14 | 27 | 67 |
| | By age | Under 30 | person | 17 | 24 | 52 | 55 |
| | | 30-49 | person | 18 | 14 | 36 | 104 |
| | | 50 and older | person | 1 | 3 | 5 | 7 |

* Based on direct employment (full-time employees, contract workers)

ESG FACTS & FIGURES

Group Subsidiaries **KT&G** KGC **Yungjin Pharm** COSMOCOS Tae-A Industrial KGCYebon

Turnover

| Scope | Subcategory | Unit | 2020 | 2021 | 2022 | 2023 | |
|--------|-------------------------|---------------|-----------|-----------|------------|------------|----|
| Entire | Total | person | 43 | 52 | 100 | 124 | |
| | By gender | Male | person | 33 | 33 | 70 | 91 |
| | | Female | person | 10 | 19 | 30 | 33 |
| | Turnover rate | % | 6.8 | 8.3 | 16.4 | 19.9 | |
| | Voluntary turnover rate | % | 6.8 | 7.8 | 13.6 | 16.0 | |

* Based on direct employment (full-time employees)

Childbirth leave and childcare leave

| Scope | Subcategory | Unit | 2020 | 2021 | 2022 | 2023 |
|--------|---------------------------------------------------------------------------------------|--------|-------|-------|-------|-------|
| Entire | Male employees taking childbirth leave | person | 6 | 23 | 22 | 17 |
| | Female employees taking childbirth leave | person | 5 | 8 | 5 | 8 |
| | Rate of male returning to work after childbirth leave | % | 100.0 | 100.0 | 100.0 | 100.0 |
| | Rate of female returning to work after childbirth leave | % | 100.0 | 100.0 | 100.0 | 100.0 |
| | Male employees taking childcare leave | person | - | - | 1 | 4 |
| | Female employees taking childcare leave | person | 6 | 8 | 24 | 13 |
| | Rate of male returning to work after childcare leave | % | - | - | - | 75 |
| | Rate of female returning to work after childcare leave | % | 100.0 | 100.0 | 87.5 | 100.0 |
| | Rate of male retiring within 12 months after returning to work from childcare leave | % | - | - | - | 25 |
| | Rate of female retiring within 12 months after returning to work from childcare leave | % | - | - | - | 0 |

* There may be some changes according to employees' leave end date and aggregation criteria

Union membership

| Scope | Subcategory | Unit | 2020 | 2021 | 2022 | 2023 |
|--------|-----------------------------------|--------|------|------|------|------|
| Entire | Employees eligible for membership | person | 455 | 454 | 454 | 457 |
| | Union members | person | 399 | 395 | 385 | 393 |
| | Union membership rate | % | 87.7 | 87.0 | 84.8 | 86 |

Employee training

| Scope | Subcategory | Unit | 2020 | 2021 | 2022 | 2023 |
|--------|-----------------------------------------------------------|---------------------|-------------|-------------|-------------|-------------|
| Entire | Total number of trainees | person | 157 | 165 | 105 | 90 |
| | Male | person | 113 | 125 | 76 | 66 |
| | Female | person | 44 | 40 | 29 | 24 |
| | Annual average training expense per employee | KRW thousand | 164 | 160 | 180 | 145 |
| | Male | KRW thousand | 199 | 165 | 156 | 134 |
| | Female | KRW thousand | 90 | 143 | 243 | 174 |
| | Annual average time spent on training per employee | hour | 21.0 | 21.4 | 11.1 | 10.8 |
| | Male | hour | - | - | 11.5 | 10.8 |
| | Female | hour | - | - | 9.9 | 10.8 |

Performance evaluation

| Scope | Subcategory | Unit | 2020 | 2021 | 2022 | 2023 |
|--------|-----------------------------------|--------|------|------|------|------|
| Entire | Employees subject to evaluation | person | 588 | 581 | 541 | 540 |
| | Percentage of employees evaluated | % | 93.3 | 92.4 | 88.7 | 87 |

* All level-1 and lower employees subject to performance/capability evaluations, excluding persons on leave, new employees, employees planning to retire, and separately evaluated personnel according to company regulations (dispatched to the Group subsidiaries, etc.)

ESG FACTS & FIGURES

Group Subsidiaries **KT&G** KGC **Yungjin Pharm** COSMOCOS Tae-A Industrial KGCYebon

Human rights protection

| Scope | Subcategory | Unit | 2020 | 2021 | 2022 | 2023 |
|--------|-----------------------------------------------------------|--------|------|------|------|------|
| Entire | No. of cases of human rights-related opinions received | case | 1 | 3 | 2 | - |
| | No. of cases of human rights-related opinions handled | case | 1 | 3 | 2 | - |
| | Handling ratio of human rights-related opinions | % | 100 | 100 | 100 | - |
| | Sexual harassment prevention training | time | 1 | 1 | 1 | 1 |
| | Completion ratio of sexual harassment prevention training | person | 586 | 623 | 628 | 639 |

Industrial accident

| Scope | Subcategory | Unit | 2020 | 2021 | 2022 | 2023 |
|--------|---------------------------|--------|-----------|-----------|-----------|-----------|
| Entire | Number of victims | person | - | - | 1 | 2 |
| | Industrial accident rate | % | - | - | 0.2 | 0.3 |
| | accident-related injuries | case | - | - | - | 2 |
| | disease-related injuries | case | - | - | 1 | - |
| | Total working hour | hour | 1,613,965 | 1,577,904 | 1,584,000 | 1,610,400 |

* Including full-time employees and contract workers

Work loss

| Scope | Subcategory | Unit | 2020 | 2021 | 2022 | 2023 |
|--------|-------------------------------|------|------|------|------|------|
| Entire | (Employee) LTIR ¹⁾ | - | - | 0.12 | 0.18 | 0.25 |

* Including full-time employees and contract workers

¹⁾ LTIR (Lost Time Injuries Rate) = (Number of Accidental Injuries / Total Working Hours) X 200,000

Social contribution

| Scope | Subcategory | Unit | 2020 | 2021 | 2022 | 2023 |
|--------|-----------------------------------------|-----------------|------|------|------|------|
| Entire | Total social contribution investment | KRW 100 million | 0.98 | 0.04 | 0.11 | 0.12 |
| | Social contribution investment to sales | % | 0.05 | 0.00 | 0.01 | 0.00 |

Board of Directors (BOD)

| Scope | Subcategory | Unit | 2020 | 2021 | 2022 | 2023 |
|--------|----------------------------------------------------------|------|------|------|-------|------|
| Entire | Number of BOD meetings held | time | 10 | 10 | 12 | 12 |
| | Attendance rate of non-executive directors ¹⁾ | % | 93.9 | 93.3 | 100.0 | 97.2 |

¹⁾ Sum of no. of times of attendance by director / no. of times BOD meetings were held X no. of non-executive directors * 100

Violation of laws and regulations

| Scope | Subcategory | Unit | 2020 | 2021 | 2022 | 2023 |
|--------|---------------------------------------------|--------------|------|------|------|------|
| Entire | Fair trade related legal sanctions | case | - | - | - | - |
| | Environment-related penalty | KRW thousand | - | - | - | - |
| | Violation of display advertising regulation | case | - | - | - | 1 |
| | Personal information infringement | case | - | - | - | - |

R&D

| Scope | Subcategory | Unit | 2020 | 2021 | 2022 | 2023 |
|--------|-------------------------------|-------------|--------|--------|--------|--------|
| Entire | R&D investment | KRW million | 15,074 | 13,261 | 16,142 | 11,909 |
| | R&D performance | case | 36 | 16 | 16 | 12 |
| | Patents (owned) ¹⁾ | case | 190 | 176 | 181 | 204 |

¹⁾ Including domestic and overseas patents

ESG FACTS & FIGURES

Group Subsidiaries **KT&G** KGC Yungjin Pharm **COSMOCOS** Tae-A Industrial KGCYebon

GHG emissions (Scope 1, 2)

| Scope | Subcategory | Unit | 2020 | 2021 | 2022 | 2023 |
|--------|------------------------------------|-----------------------------------------|--------------|--------------|--------------|--------------|
| Entire | Total (Scope 1+2) | tCO₂eq | 1,517 | 1,564 | 1,549 | 1,553 |
| | Direct emissions (Scope 1) | tCO ₂ eq | 414 | 433 | 387 | 390 |
| | Indirect emissions (Scope 2) | tCO ₂ eq | 1,103 | 1,131 | 1,162 | 1,163 |
| | GHG emission intensity (Scope 1+2) | tCO ₂ eq/ KRW 100 million | 2.31 | 2.17 | 1.97 | 2.05 |

* Scope: Domestic manufacturing sites (Incheon)

** Verification status: Completed third-party verification for all business sites in the scope

*** Due to the refinement of emission factors for overseas business sites, there are some discrepancies with the data disclosed in the previous year.

GHG emissions (Scope 3)

| Subcategory | Unit | 2020 | 2021 | 2022 | 2023 |
|---------------------------------------------------------------------------------------|--------------------------|---------------|---------------|---------------|---------------|
| Other Indirect emissions (Scope 3) | tCO₂eq | 14,745 | 16,860 | 16,737 | 20,316 |
| Procured products and services | tCO ₂ eq | 8,621 | 10,602 | 10,522 | 14,019 |
| Capital goods | tCO ₂ eq | 28 | 69 | 46 | 73 |
| Fuel & energy related activities (Excluding the contents related to Scope 1 and 2) | tCO ₂ eq | 148 | 170 | 169 | 168 |
| Upstream transport & distribution | tCO ₂ eq | 1,999 | 1,952 | 1,723 | 1,721 |
| Waste from business sites | tCO ₂ eq | 191 | 120 | 191 | 129 |
| Business trip | tCO ₂ eq | 62 | 49 | 41 | 79 |
| Employee commuting | tCO ₂ eq | 291 | 291 | 307 | 298 |
| Upstream lease assets | tCO ₂ eq | - | - | - | - |
| Downstream transport & distribution | tCO ₂ eq | - | - | - | - |
| Processing of sold products | tCO ₂ eq | 176 | 164 | 105 | 307 |
| Use of sold products | tCO ₂ eq | - | - | - | - |
| Disposal of sold products | tCO ₂ eq | 3,229 | 3,443 | 3,634 | 3,523 |
| Downstream lease assets | tCO ₂ eq | - | - | - | - |
| Franchises | tCO ₂ eq | - | - | - | - |
| Investments | tCO ₂ eq | - | - | - | - |

* Scope of aggregation: 10 categories of Upstream and Downstream

** Verification status: Completed third-party verification for all business sites within the scope (Based on the GHG data management and collection, emission calculation, and reporting process)

*** Verification principle: ISO 14064-1:2018 (WRI/WBCSD GHG Protocol:2004, Corporate Value Chain (Scope 3) Accounting and Reporting Standard)

ESG FACTS & FIGURES

Group Subsidiaries **KT&G** KGC Yungjin Pharm **COSMOCOS** Tae-A Industrial KGCYebon

Energy use (TJ)

| Scope | Subcategory | Unit | 2020 | 2021 | 2022 | 2023 |
|--------|-----------------------------|-------------------------|-------------|-------------|-------------|-------------|
| Entire | Total | TJ | 30.9 | 32.2 | 31.9 | 31.9 |
| | Fuel (Non-renewable energy) | TJ | 8.2 | 8.5 | 7.6 | 7.6 |
| | Electricity | TJ | 22.7 | 23.6 | 24.3 | 24.3 |
| | Energy intensity | TOE/ KRW 100 million | 0.05 | 0.04 | 0.04 | 0.04 |

* Scope: Domestic manufacturing sites (Incheon)

** Verification status: Completed third-party verification for all business sites in the scope

*** When calculating electricity consumption, 9.6MJ/kWh is applied in accordance with the Guidelines for Reporting and Certification of Emissions under the Emissions Trading Scheme (Ministry of Environment Notice) in Korea.

Electricity consumption (MWh)

| Scope | Subcategory | Unit | 2020 | 2021 | 2022 | 2023 |
|--------|---------------------------------------------------------------------|------------|--------------|--------------|--------------|--------------|
| Entire | Total electricity consumption | MWh | 2,365 | 2,463 | 2,529 | 2,532 |
| | Renewable electricity consumption | MWh | - | - | - | - |
| | Percentage of renewable electricity consumption¹⁾ | % | - | - | - | - |

¹⁾ Percentage of electricity supplied by renewable energy among the total electricity consumption at business sites

Water resources management

| Scope | Subcategory | Unit | 2020 | 2021 | 2022 | 2023 |
|--------|--------------------------------------------|-------------------------|---------------|---------------|---------------|---------------|
| Entire | Total consumption(A-B) | ton | 15,465 | 13,461 | 13,962 | 14,909 |
| | Total water withdrawal(A) | ton | 29,866 | 28,437 | 28,610 | 29,304 |
| | Service water | ton | 29,866 | 28,437 | 28,610 | 29,304 |
| | Waste water and water discharge (B) | ton | 14,401 | 14,976 | 14,648 | 14,395 |
| | Water withdrawal intensity | ton/ KRW 100 million | 45.57 | 39.44 | 36.38 | 38.76 |

* Scope: Domestic manufacturing sites (Incheon)

Waste emissions and recycling

| Scope | Subcategory | Unit | 2020 | 2021 | 2022 | 2023 |
|--------|-------------------------------|-------------------------|--------------|--------------|--------------|--------------|
| Entire | Subtotal waste emitted | ton | 415.6 | 372.1 | 441.2 | 361.4 |
| | General (Incineration) | ton | 152.8 | 93.4 | 152.5 | 87.6 |
| | General (Recycling) | ton | 262.8 | 278.7 | 288.7 | 273.7 |
| | Waste recycling rate | % | 63.2 | 74.9 | 65.4 | 75.7 |
| | Waste emission intensity | ton/ KRW 100 million | 0.63 | 0.52 | 0.56 | 0.48 |

* Scope: Domestic manufacturing sites (Incheon)

** Based on waste discharge and treatment performance report pursuant to the Enforcement Regulations of the Wastes Control Act

Air pollutant emissions

| Scope | Subcategory | Unit | 2020 | 2021 | 2022 | 2023 |
|---------------|-----------------------------------|--------------------|---------------|------|---------------|---------------|
| Incheon Plant | NOx | ppm | - | 25.7 | 18.7 | 30.18 |
| | SOx | ppm | non-detection | 0.55 | non-detection | non-detection |
| | Dust (PM) | mg/Sm ³ | 1.48 | 1.68 | 0.76 | 1.53 |
| | Volatile Organic Compounds (VOCs) | ppm | - | - | - | - |

* Scope: Domestic manufacturing sites (Incheon)

** Based on the self-measurement standards. Nitrogen oxides have been measured since 2021 following the revision of the Air Quality Act, and VOCs are not a controlled item.

ESG FACTS & FIGURES

Group Subsidiaries **KT&G** KGC Yungjin Pharm **COSMOCOS** Tae-A Industrial KGCYebon

Water pollutant emissions

| Scope | Subcategory | Unit | 2020 | 2021 | 2022 | 2023 |
|---------------|-----------------|-------------|--------------|--------------|--------------|--------------|
| Incheon Plant | Subtotal | mg/L | 77.10 | 66.45 | 51.38 | 29.08 |
| | BOD | mg/L | 15.45 | 5.40 | 7.60 | 2.28 |
| | COD | mg/L | 37.15 | 33.35 | 26.63 | 11.88 |
| | SS | mg/L | 17.65 | 15.10 | 8.00 | 4.68 |
| | T-N | mg/L | 6.81 | 12.54 | 9.12 | 10.22 |
| | T-P | mg/L | 0.05 | 0.06 | 0.04 | 0.02 |

* Scope: Domestic manufacturing sites (Incheon)

** Implemented self-measurement of a specific harmful substance polluting the environment

Employment

| Scope | Subcategory | Unit | 2020 | 2021 | 2022 | 2023 |
|--------|--------------------------------|---------------|------------|------------|------------|------------|
| Entire | Subtotal | person | 263 | 264 | 272 | 267 |
| | Male | person | 129 | 129 | 135 | 134 |
| | Female | person | 134 | 135 | 137 | 133 |
| | Under 30 | person | 35 | 32 | 36 | 31 |
| | 30-49 | person | 169 | 170 | 174 | 177 |
| | 50 and older | person | 59 | 62 | 62 | 59 |
| | Percentage of female employees | % | 51.0 | 51.1 | 50 | 49.8 |

* Based on direct employment (full-time employees, contract workers)

Employment of persons with disabilities

| Scope | Subcategory | Unit | 2020 | 2021 | 2022 | 2023 |
|--------|-----------------------------------------------|--------|------|------|------|------|
| Entire | Employees with disabilities | person | 5 | 5 | 6 | 7 |
| | Employment rate for persons with disabilities | % | 1.9 | 1.9 | 2.2 | 3 |

* Based on direct employment (full-time employees, contract workers)

Average service period

| Scope | Subcategory | Unit | 2020 | 2021 | 2022 | 2023 |
|--------|-------------|------|------|------|------|------|
| Entire | Male | Year | 9 | 9 | 10 | 8 |
| | Female | Year | 10 | 9 | 9 | 8 |

* Based on the date of joining the company

New employment

| Scope | Subcategory | Unit | 2020 | 2021 | 2022 | 2023 |
|--------|--------------|---------------|-----------|-----------|-----------|-----------|
| Entire | Total | person | 36 | 56 | 64 | 62 |
| | Male | person | 19 | 23 | 31 | 30 |
| | Female | person | 17 | 33 | 33 | 32 |
| | Under 30 | person | 10 | 22 | 18 | 23 |
| | 30-49 | person | 25 | 33 | 37 | 35 |
| | 50 and older | person | 1 | 1 | 9 | 4 |

* Based on direct employment (full-time employees, contract workers)

ESG FACTS & FIGURES

Group Subsidiaries **KT&G** KGC Yungjin Pharm **COSMOCOS** Tae-A Industrial KGCYebon

Turnover

| Scope | Subcategory | Unit | 2020 | 2021 | 2022 | 2023 |
|--------|---------------------------------------|---------------|-----------|-----------|-----------|-----------|
| Entire | Total | person | 26 | 51 | 53 | 58 |
| | Male | person | 10 | 19 | 26 | 25 |
| | Female | person | 16 | 32 | 27 | 33 |
| | Turnover rate | % | 9.9 | 19.3 | 19.5 | 21.7 |
| | Voluntary turnover rate ¹⁾ | % | 6.5 | 17.0 | 14.0 | 19.5 |

* Based on direct employment (full-time employees, contract workers)

¹⁾ Voluntary turnover rate: No. of persons who left the company based on direct employment / total employees

Childbirth leave and childcare leave

| Scope | Subcategory | Unit | 2020 | 2021 | 2022 | 2023 |
|--------|---------------------------------------------------------------------------------------|--------|-------|-------|-------|-------|
| Entire | Male employees taking childbirth leave | person | 3 | 4 | 2 | 3 |
| | Female employees taking childbirth leave | person | 1 | 4 | 1 | 8 |
| | Rate of male returning to work after childbirth leave | % | 100.0 | 100.0 | 100.0 | 100.0 |
| | Rate of female returning to work after childbirth leave | % | 100.0 | 100.0 | 100.0 | 100.0 |
| | Male employees taking childcare leave | person | 1 | 1 | 1 | - |
| | Female employees taking childcare leave | person | 2 | 5 | 2 | 4 |
| | Rate of male returning to work after childcare leave | % | 100.0 | 100.0 | 0.0 | - |
| | Rate of female returning to work after childcare leave | % | 100.0 | 100.0 | 100.0 | 100.0 |
| | Rate of male retiring within 12 months after returning to work from childcare leave | % | 0.0 | 0.0 | 100.0 | - |
| | Rate of female retiring within 12 months after returning to work from childcare leave | % | 50.0 | 0.0 | 50.0 | - |

* Male and female childcare leave is unpaid. A maximum of 1 year can be used.

Employee training

| Scope | Subcategory | Unit | 2020 | 2021 | 2022 | 2023 |
|--------|-----------------------------------------------------------|---------------------|------------|-----------|------------|------------|
| Entire | Total number of trainees | person | 39 | 88 | 167 | 130 |
| | Male | person | 34 | 47 | 83 | 79 |
| | Female | person | 5 | 41 | 84 | 51 |
| | Annual average training expense per employee | KRW thousand | 195 | 94 | 115 | 96 |
| | Male | KRW thousand | 207 | 98 | 137 | 99 |
| | Female | KRW thousand | 105 | 88 | 94 | 89 |
| | Annual average time spent on training per employee | hour | 13 | 9 | 8 | 7 |
| | Male | hour | 13 | 9 | 9 | 8 |
| | Female | hour | 11 | 10 | 6 | 7 |

Performance evaluation

| Scope | Subcategory | Unit | 2020 | 2021 | 2022 | 2023 |
|--------|-----------------------------------|--------|------|------|------|------|
| Entire | Employees subject to evaluation | person | 195 | 220 | 218 | 235 |
| | Percentage of employees evaluated | % | 66.2 | 70.0 | 81.0 | 69.0 |

* All level-1 and lower employees subject to performance/capability evaluations, excluding persons on leave, new employees, employees planning to retire, and separately evaluated personnel according to company regulations (dispatched to the Group subsidiaries, etc.)

Human rights protection

| Scope | Subcategory | Unit | 2020 | 2021 | 2022 | 2023 |
|--------|-----------------------------------------------------------|--------|------|------|------|------|
| Entire | Sexual harassment prevention training | time | 1 | 1 | 1 | 1 |
| | Completion ratio of sexual harassment prevention training | person | 263 | 275 | 275 | 263 |

ESG FACTS & FIGURES

Group Subsidiaries **KT&G** KGC Yungjin Pharm **COSMOCOS** Tae-A Industrial KGCYebon

Industrial accident

| Scope | Subcategory | Unit | 2020 | 2021 | 2022 | 2023 |
|--------|----------------------------------------|--------|---------|---------|---------|---------|
| Entire | Number of victims | person | 1 | 1 | 2 | 1 |
| | Industrial accident rate ¹⁾ | % | 38.2 | 38.2 | 73.5 | 37.45 |
| | accident-related injuries | case | 1 | 1 | 2 | 1 |
| | disease-related injuries | case | 0 | 0 | 0 | - |
| | Total working hour ²⁾ | hour | 512,237 | 503,360 | 517,888 | 510,504 |

¹⁾ Industrial accident rate: (No. of workers in accidents/no. of workers subject to industrial accident insurance application) * 100

²⁾ Total working hour: Annual prescribed no. of work days * prescribed work hours (8 hours) * Annual average workers

Work loss

| Scope | Subcategory | Unit | 2020 | 2021 | 2022 | 2023 |
|--------|-------------------------------|------|------|------|------|------|
| Entire | (Employee) LTIR ¹⁾ | - | 0.39 | 0.40 | 0.77 | 0.39 |

* Including full-time employees, contract workers, daily workers

¹⁾ LTIR (Lost Time Injuries Rate) = (Number of Accidental Injuries / Total Working Hours) X 200,000

Board of Directors (BOD)

| Scope | Subcategory | Unit | 2020 | 2021 | 2022 | 2023 |
|--------|-----------------------------|------|------|------|------|------|
| Entire | Number of BOD meetings held | time | 14 | 14 | 10 | 12 |

Violation of laws and regulations

| Scope | Subcategory | Unit | 2020 | 2021 | 2022 | 2023 |
|--------|---------------------------------------------|--------------|------|------|------|------|
| Entire | Fair trade related legal sanctions | case | - | - | - | - |
| | Environment-related penalty | KRW thousand | - | - | - | - |
| | Violation of display advertising regulation | case | - | - | - | - |
| | Personal information infringement | case | - | - | - | - |

R&D

| Scope | Subcategory | Unit | 2020 | 2021 | 2022 | 2023 |
|--------|-----------------|-------------|------|------|------|------|
| Entire | R&D investment | KRW million | 273 | 426 | 433 | 535 |
| | R&D performance | case | 121 | 192 | 200 | 397 |
| | Patents (owned) | case | 1 | 4 | 2 | 2 |

* 251 new product developments, 19 functional cosmetics approvals, 127 functional cosmetics item registrations, and 0 approvals for quasi-drugs in 2023

** 2 cases of patent registration in 2023

ESG FACTS & FIGURES

Group Subsidiaries **KT&G** KGC Yungjin Pharm COSMOCOS **Tae-A Industrial** KGCYebon

GHG emissions (Scope 1, 2)

| Scope | Subcategory | Unit | 2020 | 2021 | 2022 | 2023 |
|--------|------------------------------------|-----------------------------------------|---------------|---------------|---------------|---------------|
| Entire | Total (Scope 1+2) | tCO₂eq | 18,469 | 19,647 | 21,798 | 22,580 |
| | Direct emissions (Scope 1) | tCO ₂ eq | 11,799 | 12,679 | 13,642 | 13,800 |
| | Indirect emissions (Scope 2) | tCO ₂ eq | 6,670 | 6,968 | 8,155 | 8,780 |
| | GHG emission intensity (Scope 1+2) | tCO ₂ eq/ KRW 100 million | 84.9 | 77.9 | 66.9 | 64.9 |

* Scope: Daejeon Plant, Gimcheon Plant

** Verification status: Completed third-party verification for all business sites in the scope

*** Due to the refinement of emission factors for overseas business sites, there are some discrepancies with the data disclosed in the previous year.

GHG emissions (Scope 3)

| Subcategory | Unit | 2020 | 2021 | 2022 | 2023 |
|---------------------------------------------------------------------------------------|--------------------------|--------------|--------------|--------------|--------------|
| Other Indirect emissions (Scope 3) | tCO₂eq | 2,804 | 3,598 | 3,241 | 3,083 |
| Procured products and services | tCO ₂ eq | - | - | - | - |
| Capital goods | tCO ₂ eq | 211 | 673 | 82 | 91 |
| Fuel & energy related activities (Excluding the contents related to Scope 1 and 2) | tCO ₂ eq | 1,941 | 2,074 | 2,279 | 2,366 |
| Upstream transport & distribution | tCO ₂ eq | - | - | - | - |
| Waste from business sites | tCO ₂ eq | 502 | 671 | 635 | 334 |
| Business trip | tCO ₂ eq | 6 | 10 | 42 | 70 |
| Employee commuting | tCO ₂ eq | 146 | 170 | 202 | 221 |
| Upstream lease assets | tCO ₂ eq | - | - | - | - |
| Downstream transport & distribution | tCO ₂ eq | - | - | - | - |
| Processing of sold products | tCO ₂ eq | - | - | - | - |
| Use of sold products | tCO ₂ eq | - | - | - | - |
| Disposal of sold products | tCO ₂ eq | - | - | - | - |
| Downstream lease assets | tCO ₂ eq | - | - | - | - |
| Franchises | tCO ₂ eq | - | - | - | - |
| Investments | tCO ₂ eq | - | - | - | - |

* Scope of aggregation: Five categories including Upstream and employee business trips

** Verification status: Completed third-party verification for all business sites within the scope (Based on the GHG data management and collection, emission calculation, and reporting process)

*** Verification principle: ISO 14064-1:2018 (WRI/WBCSD GHG Protocol:2004, Corporate Value Chain (Scope 3) Accounting and Reporting Standard)

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Group Subsidiaries **KT&G** KGC Yungjin Pharm COSMOCOS **Tae-A Industrial** KGCYebon

Energy use (TJ)

| Scope | Subcategory | Unit | 2020 | 2021 | 2022 | 2023 |
|--------|------------------|-------------------------|--------------|--------------|--------------|--------------|
| Entire | Total | TJ | 370.0 | 395.6 | 439.4 | 455.6 |
| | Fuel (LNG) | TJ | 232.1 | 249.4 | 268.4 | 271.5 |
| | Electricity | TJ | 137.3 | 145.6 | 170.4 | 183.4 |
| | Others | TJ | 0.5 | 0.6 | 0.6 | 0.6 |
| | Energy intensity | TOE/ KRW 100 million | 1.7 | 1.6 | 1.3 | 1.3 |

* Scope: Daejeon Plant, Gimcheon Plant

** Verification status: Completed third-party verification for all business sites in the scope

*** When calculating electricity consumption, 9.6MJ/kWh is applied in accordance with the Guidelines for Reporting and Certification of Emissions under the Emissions Trading Scheme (Ministry of Environment Notice) in Korea.

Electricity consumption (MWh)

| Scope | Subcategory | Unit | 2020 | 2021 | 2022 | 2023 |
|--------|---------------------------------------------------------------|------------|---------------|---------------|---------------|---------------|
| Entire | Total electricity consumption | MWh | 14,306 | 15,168 | 17,751 | 19,112 |
| | Renewable electricity consumption | MWh | - | - | - | - |
| | Percentage of renewable electricity consumption ¹⁾ | % | - | - | - | - |

¹⁾ Percentage of electricity supplied by renewable energy among the total electricity consumption at business sites

Environmental investment

| Scope | Subcategory | Unit | 2020 | 2021 | 2022 | 2023 |
|--------|-----------------------------------|-------------|------|-------|-------|-------|
| Entire | Environmental investment plan | KRW million | 818 | 1,140 | 1,197 | 6,255 |
| | Environmental investment practice | KRW million | 704 | 838 | 2,030 | 4,079 |
| | Execution rate | % | 86.0 | 73.5 | 169.6 | 65.2 |

Water resources management

| Scope | Subcategory | Unit | 2020 | 2021 | 2022 | 2023 |
|--------|-------------------------------------|-------------------------|----------------|----------------|----------------|----------------|
| Entire | Total water withdrawal(A) | ton | 458,045 | 447,731 | 511,245 | 530,673 |
| | Service water | ton | 445,096 | 439,106 | 507,644 | 530,673 |
| | Ground water | ton | 12,949 | 8,625 | 3,601 | - |
| | Waste water and water discharge (B) | ton | - | - | - | - |
| | Total consumption(A-B) | ton | 458,045 | 447,731 | 511,245 | 530,673 |
| | Water recycling amount | ton | - | - | - | - |
| | Water withdrawal intensity | ton/ KRW 100 million | 2,105 | 1,774 | 1,569 | 1,525 |

* Scope: Daejeon Plant, Gimcheon Plant

Waste emissions and recycling

| Scope | Subcategory | Unit | 2020 | 2021 | 2022 | 2023 |
|--------|-------------------------------|-------------------------|--------------|--------------|--------------|--------------|
| Entire | Subtotal waste emitted | ton | 5,892 | 5,927 | 6,265 | 6,451 |
| | Incineration | ton | 131 | 194 | 197 | 125 |
| | Recycling | ton | 5,760 | 5,733 | 6,068 | 6,326 |
| | Waste recycling rate | % | 97.8 | 96.7 | 96.9 | 98.1 |
| | Waste emission intensity | ton/ KRW 100 million | 27.1 | 23.5 | - | 18.5 |

* Scope: Daejeon Plant, Gimcheon Plant

** Based on waste discharge and treatment performance report pursuant to the Enforcement Regulations of the Wastes Control Act

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Group Subsidiaries **KT&G** KGC Yungjin Pharm COSMOCOS **Tae-A Industrial** KGCYebon

Air pollutant emissions

| Scope | Subcategory | Unit | 2020 | 2021 | 2022 | 2023 |
|----------------|-----------------------------------|--------------------|------|------|------|------|
| Daejeon Plant | NOx | ppm | 28.0 | 15.0 | 15.5 | 16.6 |
| | SOx | ppm | - | - | 0.1 | 0.5 |
| | Dust (PM) | mg/Sm ³ | 4.7 | 3.4 | 2.5 | 2.2 |
| | Volatile Organic Compounds (VOCs) | ppm | - | - | - | - |
| Gimcheon Plant | NOx | ppm | 23.1 | 23.5 | 27.5 | 29.4 |
| | SOx | ppm | 0.2 | 0.5 | 0.2 | 0.4 |
| | Dust (PM) | mg/Sm ³ | 1.5 | 1.6 | 1.3 | 0.9 |
| | Volatile Organic Compounds (VOCs) | ppm | - | - | - | - |

* Daejeon Plant: Based on 8 air measurement locations
 ** Gimcheon Plant: Based on 4 air measurement locations

Water pollutant emissions

| Scope | Subcategory | Unit | 2020 | 2021 | 2022 | 2023 |
|----------------|-----------------|-------------|--------------|--------------|--------------|--------------|
| Daejeon Plant | Subtotal | mg/L | 132.5 | 116.2 | 117.1 | 122.6 |
| | BOD | mg/L | 13.0 | 5.3 | 6.9 | 8.3 |
| | COD | mg/L | 86.0 | 87.2 | 87.2 | 95.6 |
| | SS | mg/L | 17.0 | 11.0 | 12.3 | 10.4 |
| | T-N | mg/L | 16.4 | 12.7 | 10.6 | 8.1 |
| | T-P | mg/L | 0.1 | 0.1 | 0.1 | 0.2 |
| Gimcheon Plant | Subtotal | mg/L | 56.7 | 49.8 | 86.0 | 39.3 |
| | BOD | mg/L | 4.1 | 4.0 | 5.0 | 2.4 |
| | COD | mg/L | 30.5 | 28.3 | 50.0 | 18.5 |
| | SS | mg/L | 10.4 | 9.4 | 17.0 | 3.7 |
| | T-N | mg/L | 11.0 | 7.9 | 13.0 | 12.34 |
| | T-P | mg/L | 0.7 | 0.2 | 1.0 | 2.335 |

* Daejeon Plant: Based on water discharge
 ** Gimcheon Plant: Based on water discharge of KT&G's joint prevention facility

Employment

| Scope | Subcategory | Unit | 2020 | 2021 | 2022 | 2023 |
|--------|--------------------------------|---------------|------------|------------|------------|------------|
| Entire | Subtotal | person | 100 | 111 | 145 | 153 |
| | Male | person | 94 | 106 | 137 | 144 |
| | Female | person | 6 | 5 | 8 | 9 |
| | Under 30 | person | 14 | 20 | 20 | 24 |
| | 30-49 | person | 62 | 70 | 96 | 102 |
| | 50 and older | person | 24 | 21 | 29 | 27 |
| | Percentage of female employees | % | 6.0 | 5.4 | 5.5 | 5.9 |

* Based on direct employment (full-time employees, contract workers)

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Group Subsidiaries KT&G KGC Yungjin Pharm COSMOCOS **Tae-A Industrial** KGCYebon

Employment of persons with disabilities

| Scope | Subcategory | Unit | 2020 | 2021 | 2022 | 2023 |
|--------|-----------------------------------------------|--------|------|------|------|------|
| Entire | Employees with disabilities | person | 1 | 1 | 2 | 2 |
| | Employment rate for persons with disabilities | % | 1.0 | 0.9 | 1.4 | 1.3 |

Average service period

| Scope | Subcategory | Unit | 2020 | 2021 | 2022 | 2023 |
|--------|-------------|------|------|------|------|------|
| Entire | Male | year | 7 | 7 | 7 | 7 |
| | Female | year | 15 | 12 | 10 | 8 |

* As of the end of each year

New employment

| Scope | Subcategory | Unit | 2020 | 2021 | 2022 | 2023 |
|--------|--------------|---------------|-----------|-----------|-----------|-----------|
| Entire | Total | person | 12 | 19 | 44 | 23 |
| | Male | person | 12 | 18 | 41 | 20 |
| | Female | person | 0 | 1 | 3 | 3 |
| | Under 30 | person | 3 | 10 | 17 | 10 |
| | 30-49 | person | 7 | 8 | 21 | 9 |
| | 50 and older | person | 1 | 1 | 6 | 4 |

* Based on direct employment (full-time employees, contract workers)

Turnover

| Scope | Subcategory | Unit | 2020 | 2021 | 2022 | 2023 |
|--------|-------------------------|---------------|----------|----------|-----------|-----------|
| Entire | Total | person | 6 | 9 | 14 | 11 |
| | Male | person | 6 | 9 | 14 | 10 |
| | Female | person | 0 | 0 | 0 | 1 |
| | Turnover rate | % | 6.4 | 9.0 | 12.6 | 7.8 |
| | Voluntary turnover rate | % | 4.3 | 4.0 | 6.3 | 4.3 |

* Based on direct employment (full-time employees)

Childbirth leave and childcare leave

| Scope | Subcategory | Unit | 2020 | 2021 | 2022 | 2023 |
|--------|---------------------------------------------------------------------------------------|--------|-------|-------|-------|-------|
| Entire | Male employees taking childbirth leave | person | 2 | 6 | 4 | 5 |
| | Female employees taking childbirth leave | person | - | 1 | - | - |
| | Rate of male returning to work after childbirth leave | % | 100.0 | 100.0 | 100.0 | 100.0 |
| | Rate of female returning to work after childbirth leave | % | - | - | - | - |
| | Male employees taking childcare leave | person | - | 1 | 2 | 1 |
| | Female employees taking childcare leave | person | - | 1 | 1 | - |
| | Rate of male returning to work after childcare leave | % | - | - | 50.0 | 100.0 |
| | Rate of female returning to work after childcare leave | % | - | - | 100.0 | - |
| | Rate of male retiring within 12 months after returning to work from childcare leave | % | - | - | - | - |
| | Rate of female retiring within 12 months after returning to work from childcare leave | % | - | - | 100.0 | - |

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Union membership

| Scope | Subcategory | Unit | 2020 | 2021 | 2022 | 2023 |
|--------|-----------------------------------|--------|-------|-------|-------|-------|
| Entire | Employees eligible for membership | person | 81 | 85 | 108 | 116 |
| | Union members | person | 81 | 85 | 108 | 116 |
| | Union membership rate | % | 100.0 | 100.0 | 100.0 | 100.0 |

Employee training

| Scope | Subcategory | Unit | 2020 | 2021 | 2022 | 2023 |
|--------|-----------------------------------------------------------|---------------------|------------|------------|------------|------------|
| Entire | Total number of trainees | person | 403 | 491 | 845 | 863 |
| | Male | person | 378 | 464 | 791 | 808 |
| | Female | person | 25 | 27 | 54 | 55 |
| | Annual average training expense per employee | KRW thousand | 84 | 96 | 241 | 338 |
| | Male | KRW thousand | 85 | 96 | 240 | 324 |
| | Female | KRW thousand | 69 | 85 | 259 | 575 |
| | Annual average time spent on training per employee | hour | 24 | 28 | 38 | 45 |
| | Male | hour | 24 | 28 | 38 | 45 |
| | Female | hour | 20 | 26 | 44 | 47 |

* Due to the unification of the calculation method in 2022, data changes occurred.

Performance evaluation

| Scope | Subcategory | Unit | 2020 | 2021 | 2022 | 2023 |
|--------|-----------------------------------|--------|-------|-------|-------|-------|
| Entire | Employees subject to evaluation | person | 97 | 109 | 141 | 146 |
| | Percentage of employees evaluated | % | 100.0 | 100.0 | 100.0 | 100.0 |

* All level-1 and lower employees subject to performance/capability evaluations (excluding persons on leave)

Human rights protection

| Scope | Subcategory | Unit | 2020 | 2021 | 2022 | 2023 |
|--------|-----------------------------------------------------------|--------|------|------|------|------|
| Entire | Sexual harassment prevention training | time | 1 | 1 | 1 | 1 |
| | Completion ratio of sexual harassment prevention training | person | 120 | 131 | 165 | 166 |

Industrial accident

| Scope | Subcategory | Unit | 2020 | 2021 | 2022 | 2023 |
|--------|---------------------------|--------|---------|---------|---------|---------|
| Entire | Number of victims | person | 2 | - | 3 | - |
| | Industrial accident rate | % | 2.2 | - | 1.9 | - |
| | accident-related injuries | case | 2 | - | 3 | - |
| | disease-related injuries | case | - | - | - | - |
| | Total working hour | hour | 193,139 | 207,913 | 258,289 | 283,785 |

* Based on KOSHA industrial accident rate confirmation document

** Revisions in the number of industrial accident victims occurred in 2022.

Social contribution

| Scope | Subcategory | Unit | 2020 | 2021 | 2022 | 2023 |
|--------|-----------------------------------------|-----------------|------|------|------|------|
| Entire | Total social contribution investment | KRW 100 million | 0.0 | 0.0 | 0.2 | 0.2 |
| | Social contribution investment to sales | % | 0 | 0 | 0.1 | 0.1 |

Board of Directors (BOD)

| Scope | Subcategory | Unit | 2020 | 2021 | 2022 | 2023 |
|--------|--------------------------------------------|------|------|-------|-------|------|
| Entire | Number of BOD meetings held | time | 8 | 8 | 9 | 10 |
| | Attendance rate of non-executive directors | % | 87.5 | 100.0 | 100.0 | - |

* Due to the expiration of the term of the independent director in 2022, there was no attendance in 2023.

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Violation of laws and regulations

| Scope | Subcategory | Unit | 2020 | 2021 | 2022 | 2023 |
|--------|---------------------------------------------|--------------|--------|-------|-------|-------|
| Entire | Fair trade related legal sanctions | case | - | - | - | - |
| | Environment-related penalty | KRW thousand | 14,131 | 2,480 | 1,600 | 2,800 |
| | Violation of display advertising regulation | case | - | - | - | - |
| | Personal information infringement | case | - | - | - | - |

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Group Subsidiaries **KT&G** KGC Yungjin Pharm COSMOCOS Tae-A Industrial **KGCYebon**

GHG emissions (Scope 1, 2)

| Scope | Subcategory | Unit | 2020 | 2021 | 2022 | 2023 |
|--------|------------------------------------|-----------------------------------------|-------|-------|-------|--------------|
| Entire | Total (Scope 1+2) | tCO ₂ eq | 6,435 | 6,335 | 6,621 | 5,689 |
| | Direct emissions (Scope 1) | tCO ₂ eq | 3,152 | 3,078 | 3,223 | 2,818 |
| | Indirect emissions (Scope 2) | tCO ₂ eq | 3,283 | 3,257 | 3,398 | 2,871 |
| | GHG emission intensity (Scope 1+2) | tCO ₂ eq/ KRW 100 million | 46.3 | 41.1 | 44.8 | 45.5 |

* Scope: Domestic manufacturing site (Chungju Plant)

** Verification status: Completed third-party verification for all business sites in the scope

*** Due to the refinement of emission factors for overseas business sites, there are some discrepancies with the data disclosed in the previous year.

GHG emissions (Scope 3)

| | Unit | 2020 | 2021 | 2022 | 2023 |
|---------------------------------------------------------------------------------------|---------------------|------|------|------|------------|
| Other Indirect emissions (Scope 3) | tCO ₂ eq | 827 | 924 | 960 | 912 |
| Procured products and services | tCO ₂ eq | - | - | - | - |
| Capital goods | tCO ₂ eq | 15 | 35 | 51 | 130 |
| Fuel & energy related activities (Excluding the contents related to Scope 1 and 2) | tCO ₂ eq | 597 | 648 | 683 | 580 |
| Upstream transport & distribution | tCO ₂ eq | - | - | - | - |
| Waste from business sites | tCO ₂ eq | 50 | 82 | 79 | 51 |
| Business trip | tCO ₂ eq | 39 | 33 | 21 | 23 |
| Employee commuting | tCO ₂ eq | 126 | 125 | 127 | 128 |
| Upstream lease assets | tCO ₂ eq | - | - | - | - |
| Downstream transport & distribution | tCO ₂ eq | - | - | - | - |
| Processing of sold products | tCO ₂ eq | - | - | - | - |
| Use of sold products | tCO ₂ eq | - | - | - | - |
| Disposal of sold products | tCO ₂ eq | - | - | - | - |
| Downstream lease assets | tCO ₂ eq | - | - | - | - |
| Franchises | tCO ₂ eq | - | - | - | - |
| Investments | tCO ₂ eq | - | - | - | - |

* Scope of aggregation: Five categories including Upstream and employee business trips

** Verification status: Completed third-party verification for all business sites within the scope (Based on the GHG data management and collection, emission calculation, and reporting process)

*** Verification principle: ISO 14064-1:2018 (WRI/WBCSD GHG Protocol:2004, Corporate Value Chain (Scope 3) Accounting and Reporting Standard)

ESG FACTS & FIGURES

Group Subsidiaries **KT&G** KGC Yungjin Pharm COSMOCOS Tae-A Industrial **KGCYebon**

Energy use (TJ)

| Scope | Subcategory | Unit | 2020 | 2021 | 2022 | 2023 |
|--------|------------------|------------------------|------------|------------|------------|------------|
| Entire | Total | TJ | 128 | 127 | 133 | 114 |
| | Fuel (LNG) | TJ | 61 | 59 | 62 | 54 |
| | Electricity | TJ | 68 | 68 | 71 | 60 |
| | Energy intensity | TJ/ KRW 100 million | 0.92 | 0.83 | 0.90 | 0.92 |

* Scope: Domestic manufacturing sites (Chungju Plant)

** Verification status: Completed third-party verification for all business sites in the scope

*** When calculating electricity consumption, 9.6MJ/kWh is applied in accordance with the Guidelines for Reporting and Certification of Emissions under the Emissions Trading Scheme (Ministry of Environment Notice) in Korea.

Electricity consumption (MWh)

| Scope | Subcategory | Unit | 2020 | 2021 | 2022 | 2023 |
|--------|---------------------------------------------------------------|------------|--------------|--------------|--------------|--------------|
| Entire | Total electricity consumption | MWh | 7,042 | 7,089 | 7,396 | 6,249 |
| | Renewable electricity consumption | MWh | - | - | - | - |
| | Percentage of renewable electricity consumption ¹⁾ | % | - | - | - | - |

¹⁾ Percentage of electricity supplied by renewable energy among the total electricity consumption at business sites

Water resources management

| Scope | Subcategory | Unit | 2020 | 2021 | 2022 | 2023 |
|--------|----------------------------------|-------------------------|----------------|----------------|----------------|---------------|
| Entire | Total water withdrawal(A) | ton | 121,381 | 119,961 | 123,703 | 99,942 |
| | Service water | ton | 38,224 | 37,012 | 34,398 | 30,083 |
| | Ground water | ton | 83,157 | 82,949 | 89,305 | 69,859 |
| | Water withdrawal intensity | ton/ KRW 100 million | 873 | 779 | 837 | 801 |

* Scope: Headquarters and Chungju Plant

Waste Emissions and Recycling

| Scope | Subcategory | Unit | 2020 | 2021 | 2022 | 2023 |
|--------|-------------------------------|-------------------------|--------------|--------------|--------------|--------------|
| Entire | Subtotal waste emitted | ton | 3,002 | 2,518 | 2,580 | 2,098 |
| | Incineration | ton | 9.7 | 4.8 | 11.7 | 8.5 |
| | Recycling | ton | 2,993 | 2,513 | 2,568 | 2,089 |
| | Waste recycling rate | % | 99.7 | 99.8 | 99.5 | 99.59 |
| | Waste emission intensity | ton/ KRW 100 million | 21.6 | 16.3 | 17.5 | 16.8 |

* Scope: Headquarters and Chungju Plant

Air pollutant emissions

| Scope | Subcategory | Unit | 2020 | 2021 | 2022 | 2023 |
|--------|-----------------------------------|--------------------|------|------|------|------|
| Entire | NOx | ppm | 0.8 | 4.7 | 30.3 | 34.5 |
| | SOx | ppm | 4 | 44 | - | 0.2 |
| | Dust (PM) | mg/Sm ³ | 3 | 2 | 3 | 34.5 |
| | Volatile Organic Compounds (VOCs) | ppm | - | - | - | - |

* Scope: Chungju Plant

** VOCs are not subject to regulation.

Water pollutant emissions

| Scope | Subcategory | Unit | 2020 | 2021 | 2022 | 2023 |
|--------|-----------------|-------------|-------------|-------------|-------------|-------------|
| Entire | Subtotal | mg/L | 29.0 | 45.7 | 17.5 | 12.2 |
| | BOD | mg/L | 3.8 | 5 | 2.2 | 0.9 |
| | COD | mg/L | 19.7 | 23.5 | 8.2 | 5.8 |
| | SS | mg/L | 3.7 | 14.8 | 7.2 | 2.6 |
| | T-N | mg/L | 1.75 | 2.37 | - | 2.23 |
| | T-P | mg/L | 0.098 | 0.031 | - | 0.637 |

* Scope: Chungju Plant

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Group Subsidiaries **KT&G** KGC Yungjin Pharm COSMOCOS Tae-A Industrial **KGCYebon**

Employment

| Scope | Subcategory | Unit | 2020 | 2021 | 2022 | 2023 |
|--------|--------------------------------|---------------|-----------|-----------|-----------|-----------|
| Entire | Subtotal | person | 82 | 82 | 85 | 82 |
| | Male | person | 74 | 73 | 74 | 73 |
| | Female | person | 8 | 9 | 11 | 9 |
| | Under 30 | person | 11 | 13 | 11 | 9 |
| | 30-49 | person | 59 | 54 | 55 | 54 |
| | 50 and older | person | 12 | 15 | 19 | 19 |
| | Percentage of female employees | % | 10.0 | 11.0 | 13.0 | 11 |

* Based on full-time employees, contract workers

Average service period

| Scope | Subcategory | Unit | 2020 | 2021 | 2022 | 2023 |
|--------|-------------|------|------|------|------|------|
| Entire | Male | year | 5 | 6 | 6 | 6 |
| | Female | year | 3 | 3 | 3 | 4 |

* Based on the date of joining the company

New employment

| Scope | Subcategory | Unit | 2020 | 2021 | 2022 | 2023 |
|--------|--------------|---------------|-----------|----------|-----------|-----------|
| Entire | Total | person | 12 | 9 | 14 | 10 |
| | Male | person | 9 | 7 | 11 | 9 |
| | Female | person | 3 | 2 | 3 | 1 |
| | Under 30 | person | 10 | 5 | 5 | - |
| | 30-49 | person | 2 | 4 | 6 | 9 |
| | 50 and older | person | - | - | 3 | 1 |

* Based on direct employment

Turnover

| Scope | Subcategory | Unit | 2020 | 2021 | 2022 | 2023 |
|--------|-------------------------|---------------|----------|-----------|----------|-----------|
| Entire | Total | person | 9 | 11 | 9 | 11 |
| | Male | person | 8 | 9 | 9 | 10 |
| | Female | person | 1 | 2 | - | 1 |
| | Turnover rate | % | 11.4 | 13.6 | 11.0 | 14.0 |
| | Voluntary turnover rate | % | 11.4 | 13.6 | 11.0 | 14.0 |

* Based on full-time employees

Childbirth leave and childcare leave

| Scope | Subcategory | Unit | 2020 | 2021 | 2022 | 2023 |
|--------|---------------------------------------------------------------------------------------|--------|------|-------|-------|-------|
| Entire | Male employees taking childbirth leave | person | - | 1 | - | 3 |
| | Female employees taking childbirth leave | person | - | 1 | - | 1 |
| | Rate of male returning to work after childbirth leave | % | - | 100.0 | - | 100.0 |
| | Rate of female returning to work after childbirth leave | % | - | 100.0 | - | 100.0 |
| | Male employees taking childcare leave | person | - | - | 1 | 4 |
| | Female employees taking childcare leave | person | - | 1 | 1 | 2 |
| | Rate of male returning to work after childcare leave | % | - | - | 100.0 | 100.0 |
| | Rate of female returning to work after childcare leave | % | - | - | - | 50.0 |
| | Rate of male retiring within 12 months after returning to work from childcare leave | % | - | - | - | 25.0 |
| | Rate of female retiring within 12 months after returning to work from childcare leave | % | - | - | - | - |

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Group Subsidiaries **KT&G** KGC Yungjin Pharm COSMOCOS Tae-A Industrial **KG CYeobon**

Employee training

| Scope | Subcategory | Unit | 2020 | 2021 | 2022 | 2023 |
|--------|-----------------------------------------------------------|---------------------|------------|------------|------------|------------|
| Entire | Total number of trainees | person | 33 | 30 | 68 | 27 |
| | Male | person | 31 | 29 | 63 | 26 |
| | Female | person | 2 | 1 | 5 | 1 |
| | Annual average training expense per employee | KRW thousand | 174 | 154 | 132 | 222 |
| | Male | KRW thousand | 175 | 154 | 118 | 200 |
| | Female | KRW thousand | 160 | 150 | 302 | 800 |
| | Annual average time spent on training per employee | hour | 14 | 12 | 10 | 15 |
| | Male | hour | 14 | 12 | 10 | 14 |
| | Female | hour | 8 | 8 | 15 | 16 |

Performance evaluation

| Scope | Subcategory | Unit | 2020 | 2021 | 2022 | 2023 |
|--------|-----------------------------------|--------|------|------|------|------|
| Entire | Employees subject to evaluation | person | 42 | 45 | 82 | 79 |
| | Percentage of employees evaluated | % | 53.8 | 53.5 | 96.0 | 96.0 |

* Persons subject to performance evaluation: All employees (excluding professional contract workers and executives)

Human rights protection

| Scope | Subcategory | Unit | 2020 | 2021 | 2022 | 2023 |
|--------|-----------------------------------------------------------|--------|------|------|------|------|
| Entire | Sexual harassment prevention training | time | 7 | 6 | 6 | 5 |
| | Completion ratio of sexual harassment prevention training | person | 82 | 80 | 83 | 79 |

Industrial accident

| Scope | Subcategory | Unit | 2020 | 2021 | 2022 | 2023 |
|--------|---------------------------|--------|------|------|------|------|
| Entire | Number of victims | person | - | - | - | - |
| | Industrial accident rate | % | - | - | - | - |
| | Accident-related injuries | case | - | - | - | - |
| | Disease-related injuries | case | - | - | - | - |
| | Total working hour | hour | - | - | - | - |

* Based on the cases of incidents reported to the Korea Workers' Compensation & Welfare Service

Work loss

| Scope | Subcategory | Unit | 2020 | 2021 | 2022 | 2023 |
|--------|-------------------------------|------|------|------|------|------|
| Entire | (Employee) LTIR ¹⁾ | - | - | - | - | - |

¹⁾ LTIR (Lost Time Injuries Rate) = (Number of Accidental Injuries / Total Working Hours) X 200,000

Board of Directors (BOD)

| Scope | Subcategory | Unit | 2020 | 2021 | 2022 | 2023 |
|--------|--------------------------------------------|------|-------|-------|-------|-------|
| Entire | Number of BOD meetings held | time | 6 | 6 | 8 | 6 |
| | Attendance rate of non-executive directors | % | 100.0 | 100.0 | 100.0 | 100.0 |

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Violation of laws and regulations

| Scope | Subcategory | Unit | 2020 | 2021 | 2022 | 2023 |
|--------|---------------------------------------------|--------------|------|------|------|------|
| Entire | Fair trade related legal sanctions | case | - | - | - | - |
| | Environment-related penalty | KRW thousand | - | - | - | - |
| | Violation of display advertising regulation | case | - | - | - | - |
| | Personal information infringement | case | - | - | - | - |

R&D

| Scope | Subcategory | Unit | 2020 | 2021 | 2022 | 2023 |
|--------|-----------------|-------------|------|------|------|------|
| Entire | R&D investment | KRW million | 518 | 341 | 336 | - |
| | R&D performance | case | 17 | 10 | 10 | - |

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KT&G GREEN TAXONOMY (EU ENVIRONMENTAL TAXONOMY)

1. About the taxonomy

The EU taxonomy (classification system) is a key means of environmental policy that the EU established to facilitate climate change response and sustainable economic activities. It clearly defines environmentally sustainable economic activities and quantifies relevant standards from a financial perspective, thereby providing a foundation for various stakeholders, including companies, investors, and policymakers, to evaluate and communicate the environmental impact of corporate activities in a consistent way.

The EU taxonomy evaluates the environmental contribution of economic activities that are carried out by companies from the perspective of six goals – climate change mitigation, climate change adaptation, protection of water resources, transition to a circular economy, pollution prevention, and protection of biodiversity. This allows more transparent, objective judgments on companies' sustainability levels. Based on this information, investors can select eco-friendly companies and expand sustainable investments. From the perspective of companies, they can preemptively respond to environmental regulations through green management that aligns with the EU taxonomy while preoccupying an advantageous position for attracting investments.

KT&G recognizes the seriousness of environmental issues, including climate change, and explores sustainable growth in line with the global flow. As part of this effort, we closely review the EU taxonomy's standards and methodology and strive to objectively measure and manage the environmental impact of our company's economic activities.

2. Approach

Taxonomy eligibility is evaluated in accordance with the economic activity's nature rather than the specific industrial sector or area. Taxonomy-aligned economic activities should satisfy the following three conditions:

- i) Economic activity that makes a significant contribution to one or more of six environmental objectives¹⁾
- ii) Economic activities that do significant harm to any environmental objective – Do No Significant Harm (DNSH) principle
- iii) Satisfying the minimum social safeguards (MSS)

KT&G's green taxonomy was formed by referring to the EU's standards. KT&G categorized and disclosed taxonomy-eligible economic activities and taxonomy-aligned economic activities for sales, capital expenditures (CapEx), and operating expenditures (OpEx) of 2023. By doing so, we seek to clearly identify and understand the environmental effects and impact of economic activities.

¹⁾ Climate change mitigation, Climate change adaptation, Sustainable use and protection of water and marine resources, Transition to a circular economy, Pollution prevention and control, Protection and restoration of biodiversity and ecosystems

3. Calculation Results²⁾

Sales

Based on 2023 EU taxonomy standards, sales of the real estate business unit and pharmaceutical unit, from among KT&G's major sales-generating business units, were classified as taxonomy-eligible sales in accordance with EU taxonomy's economic activity categories. In detail, the economic activities of "construction of new buildings" and "acquisition and ownership of buildings" in the real estate business unit and "manufacture of Active Pharmaceutical Ingredient (API) or active substances" and "manufacture of medicinal products" in the pharmaceutical unit are included. In addition, proceeds from the sale of solar electricity were categorized as taxonomy-aligned sales. As of 2023, KT&G's taxonomy-eligible sales are around KRW 640 billion, accounting for around 11% of total sales. Of the sales, taxonomy-aligned sales are KRW 360 million.

CapEx

KT&G set the acquisition of tangible assets as the CapEx standard and categorized economic activities. Accordingly, investment costs for improved energy efficiency of business sites and acquisition and ownership of buildings were recognized as taxonomy-eligible CapEx. In addition, facility investment costs from the installation of internal photovoltaic power generation facilities were categorized as taxonomy-aligned activities. The taxonomy-eligible CapEx is KRW 193.2 billion, which accounts for around 42.6% of the total CapEx of KRW 449.5 billion. Of this, the taxonomy-aligned CapEx is KRW 5.3 billion.

OpEx

Total OpEx was calculated as expenditures that arise from daily business operations of the company in accordance with EU taxonomy standards. This includes various relevant expenses, including R&D expenses, rental fees, and maintenance and repair expenses, and totals KRW 79.2 billion. Of this, taxonomy-eligible OpEx is around KRW 7.3 billion, which accounts for around 9% of total OpEx.

²⁾ The standard amounts of green taxonomy-related sales, CapEx, and OpEx are based on the consolidated amounts in the financial statements. The amount that was calculated for each economic activity was calculated based on the environmental investment amount related to each economic activity to clearly reflect environmentally sustainable activities. As such, there may be a slight difference from the amounts in the financial statements of the Business Report.

| Category* | Revenue | | CapEx | | OpEx | |
|-----------------------------------------------------------------------------|------------------|--------------|----------------|--------------|---------------|--------------|
| | KRW million | % | KRW million | % | KRW million | % |
| A. Taxonomy-eligible activities | 640,003 | 10.92 | 193,222 | 42.99 | 7,348 | 9.28 |
| A.1 Environmentally sustainable activities – Taxonomy-aligned | 369 | 0.01 | 5,295 | 1.1 | - | 0.00 |
| Electricity generation using solar photovoltaic technology | 369 | 0.01 | - | 0.00 | - | 0.00 |
| Installation, maintenance and repair of renewable energy technologies | - | 0.00 | 5,295 | 1.18 | - | 0.00 |
| A.2 Taxonomy-eligible but not Taxonomy-aligned activities | | | | | | |
| a. Major activities | 639,634 | 10.91 | - | 0.00 | - | 0.00 |
| Construction of new buildings | 317,253 | 5.41 | - | 0.00 | - | 0.00 |
| Acquisition and ownership of buildings | 87,835 | 1.50 | - | 0.00 | - | 0.00 |
| Manufacture of active pharmaceutical ingredients (API) or active substances | 44,624 | 0.76 | - | 0.00 | - | 0.00 |
| Manufacture of medicinal products | 189,922 | 3.24 | - | 0.00 | - | 0.00 |
| b. Others** | - | 0.00 | 187,927 | 41.81 | 7,348 | 9.28 |
| B. Taxonomy-non-eligible activities | 5,222,605 | 89.08 | 256,234 | 57.01 | 71,843 | 90.72 |
| Total A + B | 5,862,608 | 100 | 449,456 | 100 | 79,191 | 100 |

* Observed the EU taxonomy's activity classification criteria

** Other taxonomy activities include financial information categorized as "Afforestation," "Construction, extension and operation of water collection, treatment and supply systems," "Construction, extension and operation of waste water collection and treatment," "Collection and transport of non-hazardous waste in source segregated fractions," and "Transport by motorbikes, passenger cars and light commercial vehicles."

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| | | E-4-2 | Percentage of renewable energy usage | 27, 31, 37, 45, 60, 73, 222, 224, (239, 246, 252, 257, 263) |
| | Water | E-5-1 | Water consumption | 27, 32, 107, 225, (240, 246, 252, 257, 263) |
| | | E-5-2 | Percentage of reused water | 108, 225, (240, 246, 257) |
| | Waste | E-6-1 | Waste emissions | 111, 226, (241, 247-248, 253, 258, 264) |
| | | E-6-2 | Percentage of waste recycling | 32, 96, 111, 226, (241, 247-248, 253, 258, 264) |
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ESG CERTIFICATION STATUS

| Company | Domestic/ Overseas | Site | Quality control | | | | | | |
|---------|-----------------------|--------------------|-----------------------------|----------------------|-----------------|----------------------|------------------------------|---------------------------------------------------------------------------------------------------------------------------|---------------------------------------------------------------------|
| | | | Environmental management | Health and safety | Quality control | Energy management | Protection of information | Consumer safety | Others |
| KT&G | Domestic | Headquarters | | | | | ISO 27001 ISMS-P | KOLAS (Raw materials) KFI (Conventional cigarette) CB (NGP) CE (NGP) EAC (NGP) PSE (NGP) KC (NGP) | ISO 22301 (Business Continuity Management System, 2022) |
| | | Daejeon | | | | | | | |
| | | Gwangju | | | | | | | |
| | | Yeongju | | | | ISO 50001 | | | |
| | | Cheonan | ISO 14001 | ISO 45001 | ISO 9001 | | | | |
| | | Gimcheon | | | | | | | |
| | | Daejeon Plant 2 | | | | | | | |

| Company | Domestic/ Overseas | Site | Quality control | | | | | | |
|----------------------------------------|-----------------------|--------------|-----------------------------|----------------------|-----------------|----------------------|------------------------------|--------------------|-------------------------------------------------------------------------------------------------------------------------------------------------------------------|
| | | | Environmental management | Health and safety | Quality control | Energy management | Protection of information | Consumer safety | Others |
| KGC Korea Ginseng Corporation | Domestic | Headquarters | | | | | | | ISO 27001 ISO 27701 ISMS-P |
| | | Buyeo | | | | | | | GMP (HHF) Smart HACCP GMP (Cosmetics) cGMP (UL) TGA GMP (Pharmaceuticals) Pharmaceuticals and Medical Devices Agency (PMDA) FSSC 22000 |
| | | Wonju | ISO 14001 | ISO 45001 | | | | | OK Kosher ISO 50001 HALAL (KMF, MUI, INFANCA) |
| Overseas | China | | | | | | | | GMP Smart HACCP FSSC 22000 COSTCO Addendum cGMP (UL) KMF HALAL |
| | | | | | | | | | ISO 9001 ISO 22000 HACCP KOSHER (KOF-K) HALAL |

ESG CERTIFICATION STATUS

| Company | Domestic/ Overseas | Site | Quality control | | | | | | |
|----------------------|-----------------------|--------------|-----------------------------|----------------------|-------------------------------|----------------------|------------------------------|-----------------|--------------------------------------|
| | | | Environmental management | Health and safety | Quality control | Energy management | Protection of information | Consumer safety | Others |
| Yungjin Pharm | Domestic | Headquarters | | | | | | | |
| | | Namyang | ISO 14001 | ISO 45001 | KGMP PMDA GMP | | | | ISO 37001 |
| | | Jeonju | | | KGMP | | | | |
| | | R&D HQ | | | | | | | |
| COSMOCOS Co., Ltd | Domestic | Headquarters | ISO 14001 | ISO 45001 | CGMP ISO 22716 ISO 9001 | | | | Eve VEGAN quasi-drug approval |
| | | Incheon | | | | | | | Veterinary quasi-drug approval |
| Tae-A Industrial | Domestic | Daejeon | ISO 14001 | ISO 45001 | ISO 9001 | | | | |
| | | Gimcheon | | | | | | | |
| KG CYEbon | Domestic | Chungju | | | HACCP | | | | |

I. GHG EMISSIONS ASSURANCE STATEMENT

II. Verification Target

Korean Foundation for Quality (hereinafter 'KFQ') has conducted a verification of Greenhouse Gas Emissions (hereinafter 'GHG Inventory') of KT&G (hereinafter 'Company') for 2023.

III. Verification Scope

KFQ's verification covered on all facilities and emission sources in Korea under the operational control and organizational boundary of KT&G during 2023.

IV. Verification Criteria

The verification process was based on [Rule for emission reporting and certification of greenhouse gas emission trading Scheme¹⁾], [Rules for verification of operating the greenhouse gas emission trading scheme²⁾] and [ISO14064-3] for every applicable part.

Level of Assurance

The Verification has been planned and conducted as the 'Rules for verification of operating the greenhouse gas emission trading scheme', and the level of assurance for verification shall be satisfied as reasonable level of assurance. And it was confirmed through an internal review whether the process before the verification was conducted effectively.

Verification Limitation

The verification shall contain the potential inherent limitation in the process of application of the verification criteria and methodology.

¹⁾ Notification No. 2023-221 of Ministry of Environment

²⁾ Notification No. 2021-112 of Ministry of Environment

Verification Opinions

Regarding to the data of the Greenhouse Gas Emission Consumption from the report through the verification, KFQ provides our verification opinions as below;

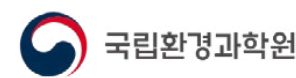
- 1) The Inventory Report has been stated in accordance with "Rule for emission reporting and certification of greenhouse gas emission trading Scheme" and "ISO 14064-1".
- 2) The materiality assessment result of GHG emissions has satisfied the criteria for an organization that emits more than 5,000,000 tCO₂-eq by meeting less than 2% of the total emissions, as per the "Rules for verification of operating the greenhouse gas emission trading scheme".
- 3) Thus, KFQ concludes that the Greenhouse Gas Emissions of Company in 2023 is correctly calculated and stated in accordance with "Rule for emission reporting and certification of greenhouse gas emission trading Scheme".

| (Unit: tCO ₂ eq) | | |
|-----------------------------|------------|---------|
| Scope 1 | Scope 2 | Total |
| 34,335.306 | 74,204.529 | 108,534 |

* The totals in this verification statement do not match the totals in emission trading scheme because the total emissions of each facility are calculated by truncating to integer units.

June 27th, 2024

CEO Ji-Young Song
Korean Foundation for Quality



GHG EMISSIONS ASSURANCE STATEMENT

Introduction

DNV Business Assurance Korea Ltd. (“DNV”) was commissioned by KT&G Corporation (“Company”) to perform third party verification for the Company’s Greenhouse Gas Inventory (“the inventory”). The Company is responsible for the preparation of the GHG emissions data and information on the basis set out within the ‘WRI/WBCSD GHG Protocol: A Corporate Accounting and Reporting Standard’ and ‘IPCC Guidelines: 2006’. Our responsibility in performing this work is to the management of the Company only and in accordance with terms of reference agreed with them. DNV expressly disclaims any liability or responsibility for any decisions, whether investment or otherwise, based upon this verification opinion.

Scope of Verification

The purpose of this verification is to present an independent verification opinion on the company's greenhouse gas emissions, and the scope of verification is as follows;

- Organizational boundary: 3 overseas manufacturing companies (Indonesia, Russia, Türkiye)
- Reporting boundary: Direct Emissions(Scope 1) and Indirect Emissions(Scope 2)
- Reporting period: 2023.01.01 ~2023.12.31

Verification Approach

The verification has been conducted in accordance with the verification principles and tasks outlined in the ‘ISO 14064-3:2019’, based upon a limited level of assurance. We planned and performed our work so as to obtain all the information and explanations deemed necessary to provide us with sufficient evidence to provide a verification opinion with 5% materiality level, concerning the completeness of the emission inventory. As part of the verification process, we have reviewed as follows;

- Process to generate, aggregate and report the emissions data
- The data and information supporting the report were based on historical in nature. These may include partially hypothetical and projected data and information (refer to the report for details)

Conclusions

Based on the process and procedures conducted, there is no evidence that the inventory is not materially correct and is not a fair representation of GHG data and information;

- DNV presents an ‘Unmodified’ opinion on Greenhouse Gas Emissions

| 2023 | Greenhouse Gas Emission (tCO ₂ -eq) | | | Energy Consumption (TJ) | | |
|------------------------------|------------------------------------------------|---------|-------------------------------|-------------------------|-------------------|---------------------------------|
| | Scope 1 | Scope 2 | Total Emissions ¹⁾ | Fuel | Electricity Total | Total Consumption ¹⁾ |
| Location-based ²⁾ | 4,247 | 14,872 | 19,119 | 80 | 226 | 306 |
| Market-based ³⁾ | 4,247 | - | 4,247 | | | |

¹⁾ In order to report the GHG emissions as an integer, the rounded number on the statement might be different with ± 1 tCO₂-eq/± 1 TJ

²⁾ The ‘Location-based’ is GHG emissions reported as Scope 2 based on local-grid emission factors.

³⁾ The ‘Market-based’ is GHG emissions reported as Scope 2 by reflecting purchase of renewable electricity (I-REC, etc.) in 2023.

25 June 2024
Seoul, Korea


Jang-Sub Lee
Country Representative
DNV Business Assurance Korea Ltd.

Annex to AO_PRJN-690080-01-2024-AST-ENG Verification Opinion

| KT&G | Country | Company Name | Greenhouse Gas Emission (tCO ₂ -eq) | | | Energy Consumption (TJ) | | |
|------------------------------|--------------|---------------------------------------------|------------------------------------------------|---------------|-------------------------------|-------------------------|-------------------|---------------------------------|
| | | | Scope 1 | Scope 2 | Total Emissions ¹⁾ | Fuel | Electricity Total | Total Consumption ¹⁾ |
| Location-based ²⁾ | Indonesia | PT Trisakti Purwosari Makmur | 2,227 | 11,700 | 13,926 | 42 | 145 | 187 |
| | Russia | KT&G Rus L.L.C. | 1,230 | 1,905 | 3,135 | 24 | 51 | 75 |
| | Türkiye | KT&G Tutun Mamulleri Sanayi ve Ticaret A.S. | 791 | 1,267 | 2,058 | 14 | 29 | 43 |
| | Total | | 4,247 | 14,872 | 19,119 | 80 | 226 | 306 |
| Market-based ³⁾ | Indonesia | PT Trisakti Purwosari Makmur | 2,227 | - | 2,227 | 42 | 145 | 187 |
| | Russia | KT&G Rus L.L.C. | 1,230 | - | 1,230 | 24 | 51 | 75 |
| | Türkiye | KT&G Tutun Mamulleri Sanayi ve Ticaret A.S. | 791 | - | 791 | 14 | 29 | 43 |
| | Total | | 4,247 | - | 4,247 | 80 | 226 | 306 |

¹⁾ In order to report the GHG emissions as an integer, the rounded number on the statement might be different with ± 1 tCO₂-eq/± 1 TJ

²⁾ The ‘Location-based’ is GHG emissions reported as Scope 2 based on local-grid emission factors.

³⁾ The ‘Market-based’ is GHG emissions reported as Scope 2 by reflecting purchase of renewable electricity (I-REC, etc.) in 2023.

This Verification Opinion is valid as of the date of the issuance. Please note that this Verification Opinion would be revised if any material discrepancy which may impact on the Greenhouse Gas Emissions of the company is subsequently brought to our attention. In the event of ambiguity or contradiction in this opinion between English version and Korean version, Korean shall be given precedent.

I. GHG EMISSIONS ASSURANCE STATEMENT

II. Korea Ginseng Factory (Buyeo)

The Korea Management Registrar Inc. (hereinafter “KMR”) has conducted the verification on the greenhouse gas (hereinafter “GHG”) emission (Scope 1, 2) of Korea Ginseng Factory (Buyeo) (hereinafter “the Company”) in 2023.

III. Scope

Verification of all places of business and emission facilities under the control of the company.

Standards

- ISO 14064-1:2018, ISO 14064-3:2019
- IPCC Guidelines for National Greenhouse Gas Inventories (2006)
- Operational Guidelines for Reporting and Certification of Emissions in the GHG Emission Trading Scheme
- Verification Guidelines for GHG Emissions Trading Scheme Operation
- Guidelines for GHG Target Management Scheme Operation

Procedure

We conducted a risk analysis approach and on-site verification based on data evaluation, and we identified the appropriateness of the data and factors applied to GHG emission calculations based on objective evidence. The verification team verified the GHG emissions during the reporting period in a reasonable way based on the verification guidelines.

Independent

KMR does not have any stake in the verified entity and does not conduct verification with biased opinions/views. We have drawn an independent and objective verification conclusion based on the verification standards, and reviewed the every aspect of the verification we performed throughout the entire verification process through internal review.

Limitations

The verification team verified the related reports, information and data presented by the audited institution by sampling or enumeration methods. As a result, there are many inherent limitations, and there may be disagreements in the interpretation of appropriateness. Although we have tried to faithfully perform verification that meets the verification standards, we suggest that errors, omissions, and false statements that could not be found may be latent as the limitations to the verification.

Opinion

- GHG verification has been performed to meet the reasonable assurance level according to the verification standards.
- We express that no significant errors were found in the calculation of emissions during the verification process, and that relevant activity data and evidence were appropriately managed and calculated. As a result, we express an “unmodified” opinion.
- Criticality: meets the criterion, which is less than 5%
- GHGs Emission(All places)

| GHGs Emission | Direct emission (Scope1) | Indirect emission (Scope2) | Total (tCO ₂ -eq) | Energy Consumption | Fuel | Electricity | Steam | Total (TJ) |
|---------------|--------------------------|----------------------------|------------------------------|--------------------|---------|-------------|-------|------------|
| 2023 | 7,748.473 | 8,712.838 | 16,461 | 2023 | 152.304 | 182.066 | | 334 |

※ Note: There is a difference in the total amount of emissions and emissions by greenhouse gas and by workplace. (Total emissions are cut to a decimal point for each workplace unit and emissions are summed up for each workplace unit.)

Results

We confirm through verification that the emissions from major emission facilities have been calculated and reported without omission.

※ The abovementioned company is responsible for preparing verification data in accordance with the “Guidelines for Reporting and Certification of Emissions in the Greenhouse Gas Emissions Trading System (Ministry of Environment Notice No. 2021-278)”, and KMR’s responsibility is limited to the party in the verification contract according to the agreed contract terms. and is not responsible for other decisions, including investment decisions based on this verification statement.

※ The abovementioned company must comply with the use of the certification and logo marks under the contract entered into with KMR.

July 22, 2024

Authorized By

CEO **Eun Ju Hwang**

III. Korea Ginseng Factory (Wonju)

The Korea Management Registrar Inc. (hereinafter “KMR”) has conducted the verification on the greenhouse gas (hereinafter “GHG”) emission (Scope 1, 2) of Korea Ginseng Factory (Wonju) (hereinafter “the Company”) in 2023.

Scope

Verification of all places of business and emission facilities under the control of the company.

Standards

- ISO 14064-1:2018, ISO 14064-3:2019
- IPCC Guidelines for National Greenhouse Gas Inventories (2006)
- Operational Guidelines for Reporting and Certification of Emissions in the GHG Emission Trading Scheme
- Verification Guidelines for GHG Emissions Trading Scheme Operation
- Guidelines for GHG Target Management Scheme Operation

Procedure

We conducted a risk analysis approach and on-site verification based on data evaluation, and we identified the appropriateness of the data and factors applied to GHG emission calculations based on objective evidence. The verification team verified the GHG emissions during the reporting period in a reasonable way based on the verification guidelines.

Independent

KMR does not have any stake in the verified entity and does not conduct verification with biased opinions/views. We have drawn an independent and objective verification conclusion based on the verification standards, and reviewed the every aspect of the verification we performed throughout the entire verification process through internal review.

Limitations

The verification team verified the related reports, information and data presented by the audited institution by sampling or enumeration methods. As a result, there are many inherent limitations, and there may be disagreements in the interpretation of appropriateness. Although we have tried to faithfully perform verification that meets the verification standards, we suggest that errors, omissions, and false statements that could not be found may be latent as the limitations to the verification.

Opinion

- GHG verification has been performed to meet the reasonable assurance level according to the verification standards.
- We express that no significant errors were found in the calculation of emissions during the verification process, and that relevant activity data and evidence were appropriately managed and calculated. As a result, we express an “unmodified” opinion.
- Criticality: meets the criterion, which is less than 5%
- GHGs Emission(All places)

| GHGs Emission | Direct emission (Scope1) | Indirect emission (Scope2) | Total (tCO ₂ -eq) | Energy Consumption | Fuel | Electricity | Steam | Total (TJ) |
|---------------|--------------------------|----------------------------|------------------------------|--------------------|---------|-------------|-------|------------|
| 2023 | 7,567.131 | 9,042.417 | 16,609 | 2023 | 149.138 | 188.953 | | 338 |

※ Note: There is a difference in the total amount of emissions and emissions by greenhouse gas and by workplace. (Total emissions are cut to a decimal point for each workplace unit and emissions are summed up for each workplace unit.)

Results

We confirm through verification that the emissions from major emission facilities have been calculated and reported without omission.

※ The abovementioned company is responsible for preparing verification data in accordance with the “Guidelines for Reporting and Certification of Emissions in the Greenhouse Gas Emissions Trading System (Ministry of Environment Notice No. 2021-278)”, and KMR’s responsibility is limited to the party in the verification contract according to the agreed contract terms. and is not responsible for other decisions, including investment decisions based on this verification statement.

※ The abovementioned company must comply with the use of the certification and logo marks under the contract entered into with KMR.

July 22, 2024

Authorized By

CEO **Eun Ju Hwang**

I. GHG EMISSIONS ASSURANCE STATEMENT

II. Introduction

DNV Business Assurance Korea Ltd. (“DNV”) was commissioned by KT&G Corporation (“Company”) to perform third party verification for the Company’s Greenhouse Gas Inventory Report (“the report”). The Company is responsible for the preparation of the GHG emissions data on the basis set out within the ‘WRI/WBCSD GHG Protocol: A Corporate Accounting and Reporting Standard (2004)’ and ‘2006 IPCC Guidelines for National Greenhouse Gas Inventories’. Our responsibility in performing this work is to the management of the Company only and in accordance with terms of reference agreed with them. DNV expressly disclaims any liability or responsibility for any decisions, whether investment or otherwise, based upon this assurance opinion.

III. Objectives and Scope of Verification

The purpose of this verification is to present an independent verification opinion on the company’s greenhouse gas emissions, and the scope of verification is as follows;

- Organizational Boundary: KT&G Subsidiaries’ manufacturing sites (5 Subsidiaries - KGC Jilin Hanzheng Ginseng Co., Ltd., Tae-A Industrial, Yungjin Pharm, COSMOCOS, KGCYebon)
- Operational Boundary: Scope 1 (Direct emissions), Scope 2 (Indirect emissions)
- Reporting period: 3 years (2020, 2021, 2023)

IV. Verification Approach

The verification has been conducted in accordance with the verification principles and tasks outlined in the ‘ISO 14064-3:2019’, based upon a limited level of assurance. We planned and performed our work so as to obtain all the information and explanations deemed necessary to provide us with sufficient evidence to provide a verification opinion with 5% materiality level, concerning the completeness of the emission inventory as well as the reported emission figures in ton CO₂ equivalent. As part of the verification process, we have reviewed as follows;

- Process to generate, aggregate and report the emissions data
- The data and information supporting the report were based on historical in nature. May include partially hypothetical and projected data and information (refer to the report for details)

Conclusions

Based on the process and procedures conducted, there is no evidence that the GHG statement is not materially correct and is not a fair representation of GHG data and information;

- DNV presents an ‘Unmodified’ opinion on Greenhouse Gas Emissions
- Please refer to the attachments for Greenhouse Gas Emissions by subsidiaries.

27th June 2024


Jang-Sub Lee
 Country Representative
 DNV Business Assurance Korea Ltd.

Annex 1 to PRJN-777900-01-2024 Verification Opinion

Greenhouse Gas Emissions of KT&G’s Subsidiaries

(Unit: ton CO₂eq)

| Company | GHG Emissions (ton CO ₂ eq) | | | Energy Consumption (TJ) |
|--------------------------------------|----------------------------------------|---------------|---------------|-------------------------|
| | Scope 1 | Scope 2 | Total | |
| 2020 | | | | |
| KGC Jilin Hanzheng Ginseng Co., Ltd. | 5 | 2,188 | 2,194 | 36(26) ¹⁾ |
| Tae-A Industrial | 11,799 | 6,690 | 18,469 | 370 |
| Yungjin Pharm | 1,073 | 4,607 | 5,680 | 116 |
| COSMOCOS | 414 | 1,103 | 1,517 | 31 |
| KGCYebon | 3,152 | 3,283 | 6,435 | 128 |
| Total Emissions | 16,443 | 17,851 | 34,294 | 681(671) |
| 2021 | | | | |
| KGC Jilin Hanzheng Ginseng Co., Ltd. | 45 | 2,268 | 2,313 | 38(28) ¹⁾ |
| Tae-A Industrial | 12,679 | 6,968 | 19,647 | 396 |
| Yungjin Pharm | 814 | 3,990 | 4,803 | 99 |
| COSMOCOS | 433 | 1,131 | 1,564 | 32 |
| KGCYebon | 3,078 | 3,257 | 6,335 | 127 |
| Total Emissions | 17,049 | 17,614 | 34,663 | 693(682) |
| 2023 | | | | |
| KGC Jilin Hanzheng Ginseng Co., Ltd. | 37 | 2,955 | 2,992 | 50(35) ¹⁾ |
| Tae-A Industrial | 13,800 | 8,780 | 22,580 | 456 |
| Yungjin Pharm | 1,145 | 5,856 | 7,001 | 145 |
| COSMOCOS | 390 | 1,163 | 1,553 | 32 |
| KGCYebon | 2,818 | 2,871 | 5,689 | 114 |
| Total Emissions | 18,189 | 21,625 | 39,814 | 797(782) |

※ In order to report the GHG emissions as an integer, the rounded number on the statement might be different with ± 1 tCO₂eq.

¹⁾ According to the ‘Guidelines on Reporting and Certification of Greenhouse Gas Emissions Trading System (Ministry of Environment Notice)’ 9.6MJ/kWh is applied for the value of electric energy consumption and the value in () is calculated by applying 3.6MJ/kWh for overseas business site.

This Assurance Opinion is valid as of the date of the issuance. Please note that this Assurance Opinion would be revised if any material discrepancy which may impact the Greenhouse Gas Emissions of the Company is subsequently brought to our attention.

I. GHG EMISSIONS ASSURANCE STATEMENT

II. Introduction

DNV Business Assurance Korea Ltd. (“DNV”) was commissioned by KT&G Corporation (“Company”) to perform third party verification for the Company’s Greenhouse Gas Inventory (“the inventory”). The Company is responsible for the preparation of the GHG emissions data on the basis set out within the ‘WRI/WBCSD GHG Protocol: A Corporate Accounting and Reporting Standard (2004)’, The Corporate Value Chain (Scope 3) Accounting and Reporting Standard’ and ‘2006 IPCC Guidelines for National Greenhouse Gas Inventories’. Our responsibility in performing this work is to the management of the Company only and in accordance with terms of reference agreed with them. DNV expressly disclaims any liability or responsibility for any decisions, whether investment or otherwise, based upon this verification opinion.

III. Objectives and Scope of Verification

The purpose of this verification is to present an independent verification opinion on the company’s greenhouse gas emissions, and the scope of verification is as follows;

- Organizational Boundary: KT&G & Subsidiaries’ manufacturing sites (5 Subsidiaries – KGC, Tae-A Industrial, Yungjin Pharm, COSMOCOS, KGCYebon)
- Operational Boundary: Scope 3 (Other indirect emissions)
 - Upstream: 8 Categories - 1, 2, 3, 4, 5, 6, 7, 8
 - Downstream: 7 Categories – 9, 10, 11, 12, 13, 14, 15
- Reporting Period: 4 years (2020 ~ 2023)

IV. Verification Approach

The verification has been conducted in accordance with the verification principles and tasks outlined in the ‘ISO 14064-3:2019’, based upon a limited level of assurance. We planned and performed our work so as to obtain all the information and explanations deemed necessary to provide us with sufficient evidence to provide a verification opinion with 5% materiality level, concerning the completeness of the emission inventory as well as the reported emission figures in ton CO₂ equivalent. As part of the verification process, we have reviewed as follows;

- Process to generate, aggregate and report the emissions data
- The data and information supporting the report were based on historical in nature. May include partially hypothetical and projected data and information (refer to the inventory for details)

Conclusions

Based on the process and procedures conducted, there is no evidence that the GHG statement is not materially correct and is not a fair representation of GHG data and information;

- DNV presents an ‘Unmodified’ opinion on Greenhouse Gas Emissions
- Refer to Annex for greenhouse gas emissions by categories.

27th June 2024


Jang-Sub Lee
 Country Representative
 DNV Business Assurance Korea Ltd.

Annex 1 to PRJN-777900-02-2024-AST-ENG Verification Opinion

Other indirect emissions (Scope 3) of KT&G Group

(Unit: ton CO₂eq)

| | Categories | 2020 | 2021 | 2022 | 2023 |
|----|--------------------------------------------------------------------------|----------------|----------------|----------------|----------------|
| 1 | Purchased Goods and Services | 224,357 | 223,943 | 240,323 | 224,444 |
| 2 | Capital Goods | 109,324 | 73,725 | 45,281 | 103,537 |
| 3 | Fuel- and Energy-Related Activities (not Included in Scope 1 or Scope 2) | 17,619 | 18,300 | 23,508 | 23,423 |
| 4 | Upstream Transportation and Distribution | 24,837 | 24,040 | 31,571 | 19,190 |
| 5 | Waste Generated in Operation | 10,167 | 6,211 | 4,596 | 4,602 |
| 6 | Business Travel | 2,640 | 1,917 | 2,548 | 3,453 |
| 7 | Employee Commuting | 7,629 | 7,526 | 11,883 | 11,822 |
| 8 | Upstream Leased Assets | 508 | 671 | 654 | 696 |
| 9 | Downstream Transportation and Distribution | 12,173 | 7,344 | 14,744 | 10,903 |
| 10 | Processing of Sold Products | 1,207 | 1,029 | 703 | 1,069 |
| 11 | Use of Sold Products | 3,353 | 6,955 | 398,866 | 57,830 |
| 12 | End-of-Life Treatment of Sold Products | 38,261 | 38,227 | 11,822 | 40,275 |
| 13 | Downstream Leased Assets | 152 | 159 | 2,457 | 1,347 |
| 14 | Franchises | 3,650 | 3,424 | 3,670 | 3,687 |
| 15 | Investments | - | - | 10,077 | 9961 |
| | Total emissions | 455,875 | 413,472 | 857,279 | 516,237 |

※ In order to report the GHG emissions as an integer, the rounded number on the statement might be different with ± 1 tCO₂eq.

This Assurance Opinion is valid as of the date of the issuance. Please note that this Assurance Opinion would be revised if any material discrepancy which may impact the Greenhouse Gas Emissions of the Company is subsequently brought to our attention.

INDEPENDENT ASSURANCE STATEMENT

Stakeholders of KT&G

The Korea Productivity Center (hereinafter referred to as the “Assurer”) has been requested by KT&G Corporation (hereinafter referred to as “KT&G”) to provide third-party assurance on the 2023 KT&G Integrated Report (hereinafter referred to as the “Report”). Accordingly, we hereby submit our assurance opinion as follows.

Responsibility and Independence

KT&G is responsible for the information and opinions presented in this Report. The Assurer takes responsibility for the assurance opinion on the Report and, as an independent assurance organization, did not participate in the preparation of this Report and has no relationships that could impair its independence.

Assurance Standards

The Assurer conducted the assurance in accordance with the Type 2 assurance methodology as defined by AA1000AS v3 of AccountAbility. Furthermore, the Assurer verified the appropriateness of the principles of inclusivity, materiality, responsiveness, and impact according to the AA1000AP (2018) assurance principles. In addition, the Assurer confirmed the appropriateness of the impacts that could arise from the organization’s activities and performance in accordance with the assurance principles. This indicates that the Assurer comprehensively reviewed the effectiveness and reliability of the reporting criteria during this assurance process. The level of assurance corresponds to the moderate level of assurance as defined by AA1000AS v3.

Limitations

The Assurer verified the reliability of the performance data recorded in the Report according to the aforementioned scope and level of assurance as follows. The financial data were verified through financial statements audited by an accounting firm and through disclosed materials. The environmental and social performance data were verified through process validation, which included data assurance and interviews. This assurance statement has been issued for the management of KT&G as per the engagement terms. The Assurer declares that it holds no liability or joint liability for any decisions made by individuals or organizations based on this assurance statement.

Assurance Methodology

The Assurer conducted the assurance of the Report through the following methods:

- Confirmed that the Report was prepared in accordance with the GRI Standards (Reporting in accordance with the GRI Standards).
- Verified compliance with the principles of content and quality of reporting based on the GRI Standards.
- Analyzed economic, environmental, social topics, and laws and regulations related to the industry, activities, and location to identify sustainability topics, and reviewed that material topics were selected and described through stakeholder surveys, interviews, and workshops.
- Checked the appropriateness and factual accuracy of the contents described in the Report by comparing them with other sources.
- Conducted on-site assurance at KT&G’s headquarters to check the evidence of key data and information and to confirm the internal processes and systems.

Assurance Results

The Assurer determined that KT&G’s Report was prepared in accordance with the GRI Standards (Reporting in accordance with the GRI Standards) and adheres to the four principles outlined in AA1000 AP (2018).

Inclusivity: Stakeholder Engagement

The Assurer confirmed that KT&G complies with the principle of inclusivity by categorizing stakeholders into general groups such as KT&G members, shareholders and investors, partners, and industry initiatives. Additionally, the Assurer verified that KT&G has established stakeholder engagement channels to promote communication activities and that stakeholders’ opinions are reflected in the company’s sustainability management decision-making process. Expectations identified through stakeholder engagement are reviewed and linked to the company’s strategic direction.

Materiality: Selection and Reporting of Key Topics

The Assurer confirmed that KT&G selects priority topics through a materiality assessment process. In the topic identification stage, KT&G considered materials related to the company’s ESG activities, company-wide risk-related topics, disclosure and evaluation initiatives, and key ESG topics in the industry. During the selection of key topics, KT&G engaged stakeholders with a high understanding of the company’s and the industry’s ESG to conduct evaluations. Based on these evaluations, KT&G identified the topics that need to be prioritized for ESG activities. The activities and performance related to each topic were reported in the Report by specific action areas.

Responsiveness: Organizational Response to Topics

The Assurer confirmed that KT&G identifies key topics affecting stakeholders’ performance and undertakes sustainability management activities in response. KT&G communicates how it addresses stakeholders’ major expectations through the integrated report and the company’s website.¹⁾ The Assurer verified that KT&G sets clear goals for the topics raised by stakeholders and transparently discloses the performance related to these goals.

Impact: Consideration of the Organization’s Social Impact

KT&G identifies the social and environmental impacts of key topics and business activities raised by stakeholders and undertakes efforts to improve them. The Assurer confirmed that KT&G analyzes the impact areas of significant topics, value chain, stakeholders, activities, and types of impact, and discloses this information through the integrated report.

¹⁾ <https://www.ktng.com/esgMain>

I. INDEPENDENT ASSURANCE STATEMENT

Review of GRI Standards Application Level

The Assurer confirmed that this Report faithfully and fairly reflects KT&G's sustainability management activities and performance. Through this assurance process, the Assurer determined that KT&G's Report was prepared in accordance with the GRI Standards (Reporting in accordance with the GRI Standards) and achieved a reasonable level of assurance as suggested by the Type 2 assurance level. The Assurer verified that there were no errors in the claim that the contents related to the Universal Standards complied with the relevant requirements. Additionally, the Assurer reviewed the Disclosures for the Material Topics derived through the reporting item determination process according to the Topic Standards.

• Universal Standards

| GRI Standard | Disclosure | GRI Standard | Disclosure |
|----------------------------------------------|------------|----------------------------------|------------|
| The organization and its reporting practices | 2-1~2-5 | Strategy, policies and practices | 2-22~2-28 |
| Activities and workers | 2-6~2-8 | Stakeholder engagement | 2-29~2-30 |
| Governance | 2-9~2-21 | Material Topics Disclosures | 3-1~3-3 |

• Topic Standards

| GRI Standard | Disclosure | GRI Standard | Disclosure |
|---------------------------|--------------------|-----------------------------------|--------------|
| Economic Performance | 201-1~201-2 | Supplier Environmental Assessment | 308-1~308-2 |
| Market Presence | 202-1~202-2 | Employment | 401-1~401-3 |
| Indirect Economic Impacts | 203-1~203-2 | Occupational Health and Safety | 403-1~403-10 |
| Procurement Practices | 204-1 | Training and Education | 404-1~404-3 |
| Anti-corruption | 205-2~205-3 | Diversity and Equal Opportunity | 405-1~405-2 |
| Anti-competitive Behavior | 206-1 | Non-discrimination | 406-1 |
| Tax | 207-1~207-2 | Local Communities | 413-1 |
| Materials | 301-1~301-3 | Supplier Social Assessment | 414-1~414-2 |
| Energy | 302-1~302-4 | Public Policy | 415-1 |
| Water and Effluents | 303-1~303-5 | Customer Health & Safety | 416-1 |
| Biodiversity | 304-1~304-4 | Marketing & Labeling | 417-1, 417-3 |
| Emissions | 305-1~305-5, 305-7 | Customer Privacy | 418-1 |
| Waste | 306-1, 306-3~306-5 | | |

Recommendations

The Assurer, within the scope that does not affect the assurance results, provides the following recommendations:

- KT&G currently incorporates stakeholders' opinions in the selection of material topics. The Assurer recommends that KT&G actively gather and integrate opinions from a more diverse range of stakeholders and establish a system to reflect these in management decision-making.
- KT&G assigns responsible personnel for each area of non-financial data and has established management processes. The Assurer recommends that KT&G integrate internal assurance procedures related to ESG data into its internal monitoring processes to enhance data quality and reliability.

ASSOCIATION MEMBERSHIP AND SPONSORSHIP

(Unit: KRW)

| Association | Sponsorship | Comments |
|-----------------------------------------|--------------------|---------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|
| STP (Sustainable Tobacco Program) | 200,546,532 | Amount converted into Korean won (Reflected average EUR and SEK exchange rates for 2023) |
| Korea Enterprises Federation | 42,000,000 | |
| Korea IR Service | 14,130,000 | |
| Korea Intellectual Property Association | 8,800,000 | |
| Korea Mecenat Association | 3,000,000 | |
| Korea IR Service | 1,900,000 | |
| Korea Personnel Improvement Association | 1,870,000 | |
| Korea Exchange | 550,000 | |
| Climate Change Center | 500,000 | |
| Others ¹⁾ | 2,310,000 | Daejeon, Sejong, Chungnam Environmental Engineers Association, Korea Environmental Preservation Association, Korea Industrial Safety Association, Korea Association of Occupational Health Nurses |
| Total | 275,606,532 | |

¹⁾ Under Article 31 of the Korean Political Funds Act (Every foreigner, corporation, or organization both at home and abroad shall be prohibited from contributing any political funds, and no one shall contribute any political funds from any corporation or any organization both at home and abroad.) and the KT&G Code of Conduct, political donations, sponsorships, political funds, campaign finance, and lobbying funds to political organizations are strictly prohibited.

Climate Target Cooperation and Support with Associations and Groups

Through continued communication with major industry associations and initiatives, KT&G monitors whether their climate-related targets are in line with our company's sustainability management strategies and goals of the Paris Agreement. By doing so, we promote mutual harmony between industry associations' activities and our climate change response targets. Korea prohibits corporations' monetary lobby activities, and therefore associations or groups do not carry out lobby activities. However, KT&G seeks to continually monitor major industry associations' climate targets and cooperate with the associations. We also actively participate in communication with stakeholders of industry associations and groups in an effort to align them with our climate targets. If a major association and group's climate-related activity is not aligned with our target, we will make this clear and strive to resolve the issue through a response process.

IMAGINE A BETTER

2023 KT&G S-REPORT

TOMORROW



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LETTER TO STAKEHOLDERS

Sustainability has become a crucial element for the survival of a company. KT&G is committed to establishing itself as a trustworthy and sustainable company by adhering to global standards in ESG management. As part of this strategic direction, KT&G engages in proactive social contribution activities, addressing social and environmental issues in local communities that need assistance. Furthermore, we extend our CSR activities to global, including in key markets such as Indonesia and Kazakhstan, fulfilling our role as a global corporation.

Under the vision of "Sustainable Development of Corporate and Society," KT&G implements CSR activities grounded in a systematic social contribution strategy. In particular, based on the beneficiary-centered strategy of the "People-Community-Planet" framework, we carry out comprehensive activities that encompass various fields, from individuals to society, the environment, and global communities.

KT&G is dedicated to building a social safety net through its welfare and scholarship foundations to ensure that individual growth can lead to social change and innovation (People), and strives to not only enhance individual welfare but also address issues that local communities face (Community). Moreover, KT&G is driving customized activities tailored to specific agendas, like the youth entrepreneurship space "SangSang Planet," cultural complex "SangSang Madang," national university student community "SangSang Univ.," and the company-wide "SangSang Fund" to create social impact. In addition, KT&G aims to meet the demands for corporate sustainability management that extend to global issues (Planet). To this end, we are implementing activities such as forestation projects at home and abroad, biodiversity CSR, and smoking environment improvement activities, while also conducting CSR activities in countries where we have business operations, such as Indonesia and Kazakhstan, as well as in developing countries.

Through these activities, KT&G is making continuous efforts to reach a global top-tier level in sustainable management, in addition to its business performance. We kindly ask for the continued interest of the 2023 KT&G S-Report readers in the spirit of KT&G's joyful imagination, fulfilling its responsibilities as a global company based on the solid trust of stakeholders.



KT&G, aspiring to become a global top-tier company, is actively pursuing sustainable management based on the management philosophy of being a "Inclusive Company," fulfilling its social responsibilities towards stakeholders.



KT&G AT A GLANCE

CORPORATE PROFILE

Under our corporate philosophy of being “Exemplary,” “Progressive,” and “Inclusive,” KT&G imagines together with our customers as we strive to create a better life. We are generating performance in various business areas such as the health/functional food, pharmaceutical, bio, and real estate business as well as the next-generation tobacco business, which will be the engine of future growth. While evolving into a globally outstanding company through change and innovation, we continue to create social value and expanding sustainability management activities.

COMPANY NAME

KT&G Corporation



ESTABLISHMENT

April 1, 1987



CEO

Bang, Kyung-man



HEADQUARTERS

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



NO. OF EMPLOYEE

4,378

(As of December 31, 2023, and based on direct employment)



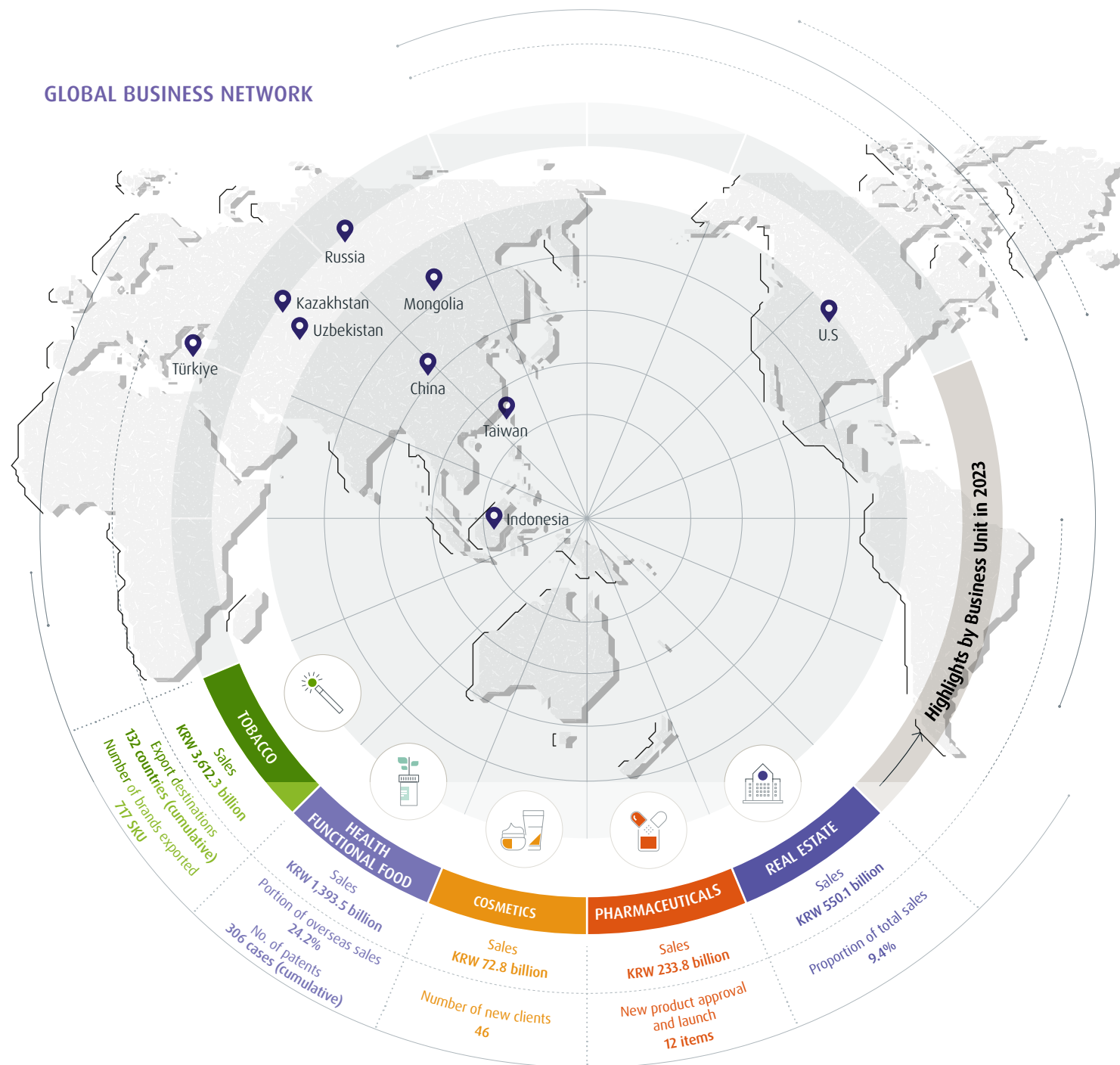
GLOBAL COE

2023 was a year in which the CoE (Center of Excellence) collaboration system was fully activated. Each specialized group (CoE) at our headquarters was deeply engaged in global operations, supporting overseas subsidiaries, offices, and other international organizations. In particular, the CoE led initiatives such as establishing the ERP system for our Indonesia Corporation and restructuring export processes for Türkiye Corporation to enhance its operations. Additionally, the CoE played a central role in establishing new offices in Kazakhstan, Mongolia, and Uzbekistan.

In 2024, work is underway to enhance the CoE system further. We have defined detailed business processes aimed at global operations, including regulatory compliance tasks and the establishment of a global HR policy, and clearly classified roles and responsibilities (R&R) between relevant departments, thereby strengthening governance for each specific task and improving operational efficiency.

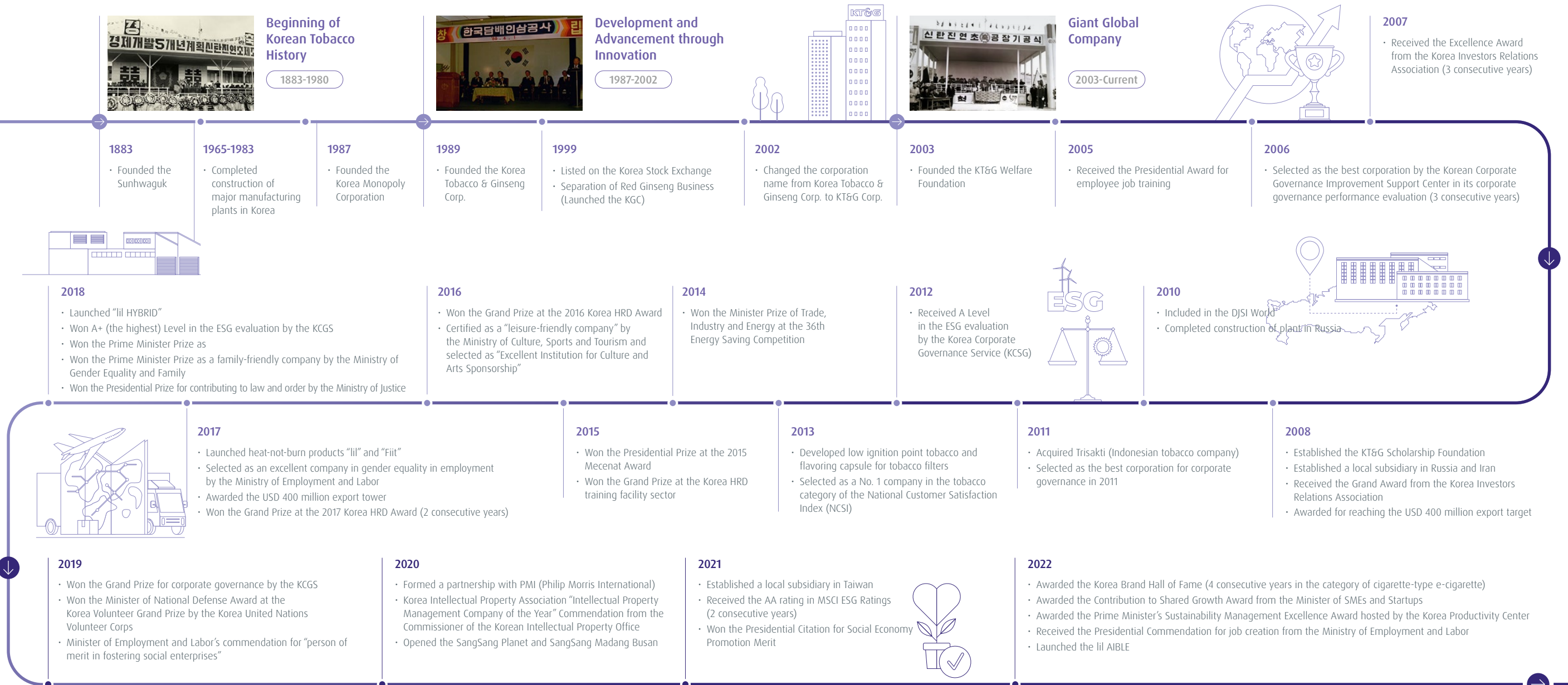
With the launch of the overseas CIC (company-in-company) in 2024, the CoE paradigm has reached a turning point. Accelerated support from each functional CoE at headquarters is being provided for the early autonomous operation of each management function within the CIC, and the CoE is identifying and supporting tasks that are difficult for the CIC to complete on its own through close communication and consultation. Going forward, the CoE will continue to contribute to performance creation by completing the enhancement of each value chain in global business.

GLOBAL BUSINESS NETWORK



KT&G AT A GLANCE

MILESTONES



KT&G AT A GLANCE

NEW CHALLENGE TOWARDS GLOBAL TOP-TIER PLAYER

2023-



2023

- Established a local subsidiary in Kazakhstan
- Established an office in Uzbekistan
- Received the Prime Minister's Commendation on the 6th Accounting Day from the Financial Services Commission
- Won the Presidential Prize at the 2023 Mecenat Award
- Received the Grand Prize in the Corporate Governance category from the Korea Institute of Corporate Governance and Sustainability (KCGS)



EXTERNAL EVALUATION

GLOBAL ESG RATINGS

MSCI **AA**
(Highest rating in the sector)

ISS ESG **Prime**
(Highest rating in the sector)

Member of **Dow Jones Sustainability Indices**
Powered by the S&P Global CSA **78**
(Included in the Korea Index)

CDP **A-**
CLIMATE CHANGE
(Leadership level achieved)

CDP WATER **A**
(Leadership level achieved)

CDP SUPPLIER ENGAGEMENT RATING **A**
(Leadership level included)

ESG RATINGS IN KOREA

KCGS **A+**
(Highest grade)

SUSTINVEST **A**
(Size grade criteria)

KRESG **A+**
(Highest level: S)

CREDIT RATINGS

(As of June 2024)

NICE Information Service **AAA**

Korea Investors Service **AAA**
AN AFFILIATE OF MOODY'S INVESTORS SERVICE

KR **AAA**
한국기업평가 KOREA RATINGS

EXTERNAL AWARDS

(2023-April 2024)

Korea Institute of Corporate Governance and Sustainability (KCGS)
Grand Prize in the Corporate Governance category

Leadership Ratings for Climate Change and Water Security Sectors
Korea Awards

Climate Change Response and Greenhouse Gas Reduction Excellence Awards
Minister of Trade, Industry and Energy Commendation

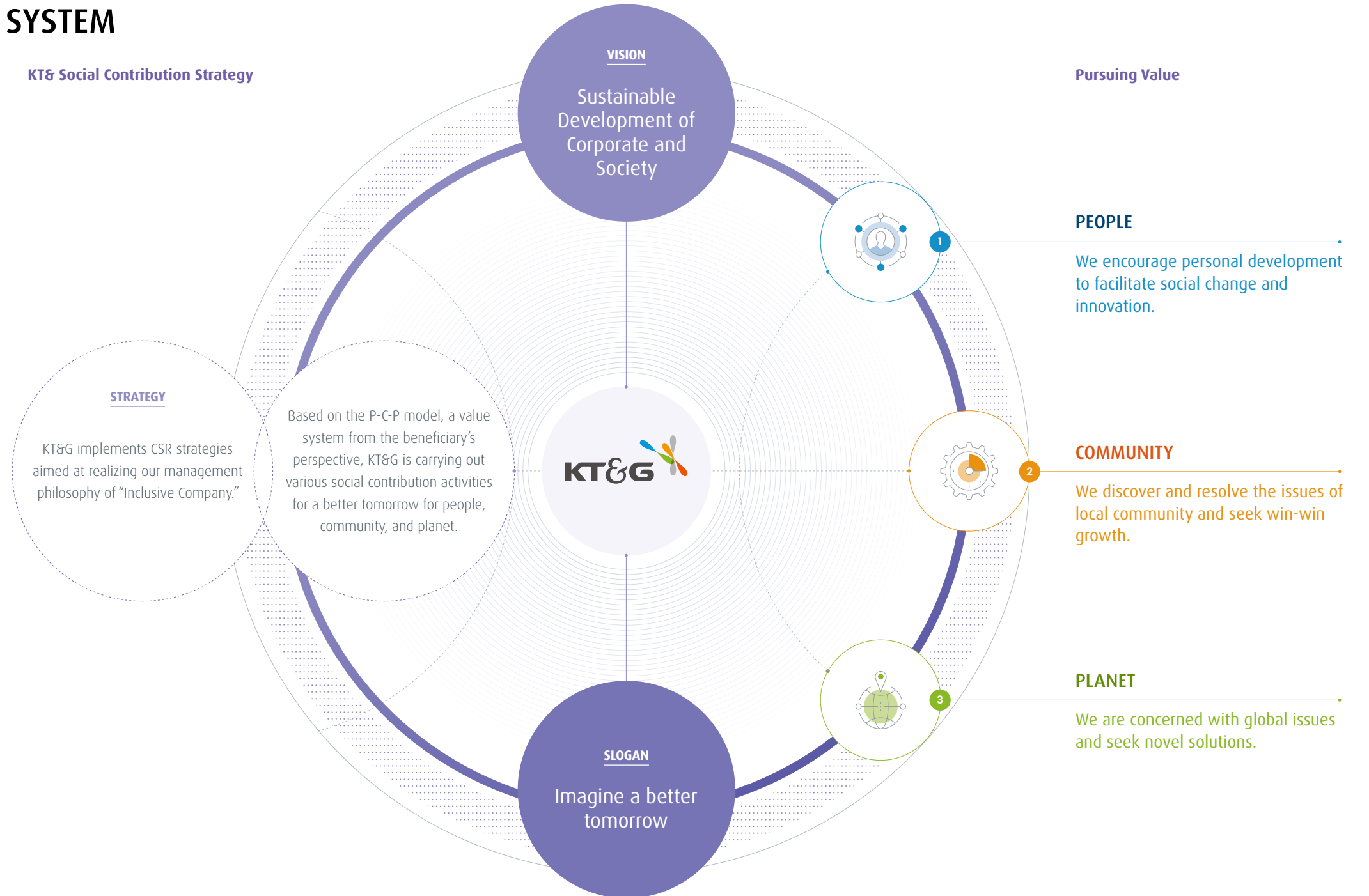
LACP Spotlight Awards
Platinum Award

Mecenat Award
Presidential Prize

SOCIAL CONTRIBUTION VALUE SYSTEM

To realize the management philosophy of being “Inclusive Company,” KT&G embraces social norms for coexistence, contributes to the public interest, and strives to fulfill its social responsibilities. Centered around the dedicated department for social contributions, KT&G unfolds genuine social contribution activities systematically and continuously based on the “P-C-P (People-Community-Planet)” value system. Guided by the PCP strategy, we encourage personal development to facilitate social change and innovation (People); discover and resolve the issues of local community and seek win-win growth (Community); and are concerned with global issues and seek novel solutions (Planet), thereby paving the way for a better tomorrow.

KT& Social Contribution Strategy



SOCIAL CONTRIBUTION VALUE SYSTEM



| Platform | Main Projects | Main Beneficiaries |
|--------------------------------------------|-------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|
| KT&G Welfare Foundation | <ul style="list-style-type: none"> Support programs for economic and cultural activities for low-income groups Overseas relief and education infrastructure improvement | <ul style="list-style-type: none"> Welfare center support Volunteering activities <ul style="list-style-type: none"> Vulnerable social group |
| KT&G Scholarship Foundation | <ul style="list-style-type: none"> SangSang Scholarship Culture & Art Scholarship Restart Scholarship | <ul style="list-style-type: none"> Talent-training Scholarship On-demand/urgent Scholarship Global Scholarship <ul style="list-style-type: none"> Vulnerable social group |
| SangSang Planet | <ul style="list-style-type: none"> SangSang Summit SangSang Start-up Camp | <ul style="list-style-type: none"> Social venture scale-up program Play & network program <ul style="list-style-type: none"> Local communities, Stakeholders, Youth/University students |
| SangSang Fund | <ul style="list-style-type: none"> Donation Market, Donation Petition Employee volunteering group | <ul style="list-style-type: none"> Other public services <ul style="list-style-type: none"> Vulnerable social group, Local communities, Stakeholders |
| SangSang Madang | <ul style="list-style-type: none"> Discovering new artists Performance/exhibition support | <ul style="list-style-type: none"> Culture & art-related education <ul style="list-style-type: none"> Local communities, New artists |
| SangSang Univ. | <ul style="list-style-type: none"> Support for local youth culture and social contribution activities SangSang blue Pavilion | <ul style="list-style-type: none"> SangSang Marketing School SangSang Friends <ul style="list-style-type: none"> Youth/University students |
| Support for tobacco leaf farms | <ul style="list-style-type: none"> Volunteering for harvesting tobacco leaves Supporting for additional profits | <ul style="list-style-type: none"> Improving welfare of farms <ul style="list-style-type: none"> Local communities, Stakeholders, Farms |
| Global CSR | <ul style="list-style-type: none"> Indonesia SangSang Univ. Korean Language Institute | <ul style="list-style-type: none"> Global disaster relief <ul style="list-style-type: none"> Vulnerable social group, Local communities, Stakeholders |
| Environmental CSR | <ul style="list-style-type: none"> Improving smoking environment Protecting marine ecosystem Forestation | <ul style="list-style-type: none"> Biodiversity CSR Support for drinking water supply in Africa <ul style="list-style-type: none"> Local communities, Stakeholders |

IMPLEMENTATION OF UN SDGS

As a global corporate citizen, KT&G seeks to engage in various activities to contribute to achieving SDGs (Sustainable Development Goals) resolved by the United Nations. In particular, we lend a helping hand in solving global issues such as environmental pollution, human rights, and inequality by utilizing the company resources and capabilities, and trying to grow together with the global community by implementing SDGs with sincerity.

| | | Goal | Main Activity |
|--|------------------------------------------------|------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|--------------------------------------------------------------------------------------------------------------------|
| | No Poverty | 1.3 Implement nationally appropriate social protection systems and measures for all, including floors, and by 2030 achieve substantial coverage of the poor and the vulnerable | Emergency living expenses for the low-income class |
| | Zero Hunger | 2.1 By 2030, end hunger and ensure access by all people, in particular the poor and people in vulnerable situations, including infants, to safe, nutritious and sufficient food all year round | Foodstuff support for the low-income class |
| | Good Health and Well-being | 3.8 Achieve universal health coverage, including financial risk protection, access to quality essential health-care services and access to safe, effective, quality and affordable essential medicines and vaccines for all | Support for seriously-ill patients from low-income class |
| | Quality Education | 4.1 By 2030, ensure that all girls and boys complete free, equitable and quality primary and secondary education leading to relevant and effective learning outcomes | Education support for children from low-income households |
| | | 4.a Build and upgrade education facilities that are child, disability and gender sensitive and provide safe, non-violent, inclusive and effective learning environments for all | Improving education facilities at home and abroad |
| | Clean Water and Sanitation | 6.1 By 2030, achieve universal and equitable access to safe and affordable drinking water for all | Water purification support project in Africa |
| | | 6.6 By 2020, protect and restore water-related ecosystems, including mountains, forests, wetlands, rivers, aquifers and lakes | Wetland protection activities in Janggumeogi Wetland |
| | Decent Work and Economic Growth | 8.3 Promote development-oriented policies that support productive activities, decent job creation, entrepreneurship, creativity and innovation, and encourage the formalization and growth of micro-, small- and medium-sized enterprises, including through access to financial services | Establishment and operation of SangSang Planet, Operation of SangSang Start-up Camp |
| | | 8.6 By 2020, substantially reduce the proportion of youth not in employment, education or training | Establishment and operation of SangSang Univ. |
| | Industry, Innovation and Infrastructure | 9.3 Increase the access of small-scale industrial and other enterprises, in particular in developing countries, to financial services, including affordable credit, and their integration into value chains and markets | Raising win-win growth fund, Offering early payment to partners |
| | Reduced Inequalities | 10.2 By 2030, empower and promote the social, economic and political inclusion of all, irrespective of age, sex, disability, race, ethnicity, origin, religion or economic or other status | Discovering artists with disabilities and providing support |
| | | 11.1 By 2030, ensure access for all to adequate, safe and affordable housing and basic services and upgrade slums | Supporting low-income households and improving their living environment at home and abroad |
| | | 11.2 By 2030, provide access to safe, affordable, accessible and sustainable transport systems for all, improving road safety, notably by expanding public transport, with special attention to the needs of those in vulnerable situations, women, children, persons with disabilities and older persons | Vehicle support to social welfare centers |
| | Sustainable Cities and Communities | 11.6 By 2030, reduce the adverse per capita environmental impact of cities, including by paying special attention to air quality and municipal and other waste management | Improving smoking environment |
| | | 11.a Support positive economic, social and environmental links between urban, peri-urban and rural areas by strengthening national and regional development planning | Establishment and operation of SangSang Madang |
| | Life Below Water | 14.1 By 2025, prevent and significantly reduce marine pollution of all kinds, in particular from land-based activities, including marine debris and nutrient pollution | Marine environment purification |
| | Life On Land | 15.2 By 2020, promote the implementation of sustainable management of all types of forests, halt deforestation, restore degraded forests and substantially increase afforestation and reforestation globally | Domestic and overseas forestation, Volunteering to restore Mt. Bukhan ecosystem, Han River purification activities |
| | | 15.5 Take urgent and significant action to reduce the degradation of natural habitats, halt the loss of biodiversity and, by 2020, protect and prevent the extinction of threatened species | Biodiversity CSR |

HISTORY OF MAJOR SOCIAL CONTRIBUTION ACTIVITIES

KT&G is conducting social contribution activities systematically for the sustainable development of the corporation and society from a long-term perspective. In addition, we are committed to fulfilling our responsibilities as a corporate citizen by creating shared values using our own unique methods.



Sep. 2007

Opened KT&G SangSang Madang Hongdae

We opened SangSang Madang Hongdae, a culture complex, in 2017 to support wide range of culture and art activities and promote exchanges.



Oct. 2007

Launched Employee Volunteering Group SangSang Together

KT&G launched KT&G Employee Volunteering Group to solve issues in local communities and widen support to neighbors in need.

Mar. 2011

Raised SangSang Fund

We raised SangSang Fund, KT&G's signature donation program based on employees' voluntary donation and matching grant system.



Jun. 2011

Opened KT&G SangSang Madang Nonsan

We opened experience-based culture space in the suburbs to enjoy culture and art in natural surroundings.



Nov. 2015

Awarded Presidential Award at MECENAT Grand Award for KT&G SangSang Madang

KT&G won the grand award at the 2015 MECENAT Awards in recognition of the efforts to sponsor minor culture and art and expand cultural infrastructure through SangSang Madang.



MECENAT AWARDS



Jul. 2003

Established KT&G Welfare Foundation

KT&G established KT&G Welfare Foundation to realize advanced welfare of sharing happiness.

Jun. 2008

Established KT&G Scholarship Foundation

KT&G established KT&G Scholarship Foundation to create a level playing field in education and provide stable education opportunities to the marginalized class.

Apr. 2010

Established SangSang Univ.

We established SangSang Univ., a community of culture and art for university students to share opportunities of learning, exchanges and sharing.

Apr. 2014

Opened KT&G SangSang Madang Chuncheon

KT&G opened KT&G SangSang Madang Chuncheon, following the SangSang Madang Hongdae and Nonsan, as a culture and art space in nature.



Feb. 2016

Expanded Social Contribution Organization

KT&G escalated organization responsible for social contribution from department level to office level to beef up social contribution activities in a more professional manner.



HISTORY OF MAJOR SOCIAL CONTRIBUTION ACTIVITIES



Dec. 2018

Received Presidential Award for Merit in Law and Order

KT&G won Presidential Award for merit in law and order in recognition of sponsoring KRW10 billion in public good initiatives for 20 years including Crime Prevention through Environmental Design (CPTED).

Jul. 2020

Opened KT&G SangSang Planet

KT&G opened SangSang Planet exclusively for startups in Seongsu-dong, the center of social ventures, in Seoul with the goal to promote youth startup ecosystem and lay the foundation for sponsoring youth startups.



Sep. 2020

Opened KT&G SangSang Madang Busan

KT&G opened KT&G SangSang Madang Busan in Seomyeon to build on sponsorship for culture and art and open up greater opportunities to experience local culture.



Dec. 2022

Won Presidential Award in Recognition of Contributing to Job Creation

KT&G received the Presidential Commendation in recognition of its contribution to youth employment promotion, including the operation of youth startup platforms such as SangSang Planet and SangSang Start-up Camp, a social venture fostering program.

Nov. 2023

Awarded the Presidential Commendation at the 2023 Crime Prevention Awards

KT&G received the Presidential Commendation for its activities since 1998, which include support for the social resettlement of persons subject to protection and the improvement of conditions for medical personnel and patients under care.

2017

2018

2019

2020

2021

2022

2023

Oct. 2017

Launched Social Innovation Youth Startup Program

KT&G launched KT&G SangSang Start-up Camp with the goal to accelerate support for youth start-up and drive paradigm shift towards "social innovation by solving social issues."



Jul. 2019

Won Minister of Employment & Labor Award for Merit in Promoting Social Enterprises

KT&G won Minister of Employment & Labor Award in recognition for contribution to fostering original social enterprises led by the private sector through the KT&G SangSang Start-up Camp.



Jul. 2021

Won Presidential Award for Merit in Social Economy

KT&G won Presidential Award in the social economy and value category in recognition of sponsoring youth start-ups and helping neighbors in need as part of the company's social contribution activities.



Nov. 2023

Awarded the Presidential Commendation at the 2023 Mecenat Awards

At the 2023 Mecenat Awards, KT&G received the Presidential Commendation (Grand Prix) for its extensive Mecenat activities based at the nationwide KT&G SangSang Madang. The award recognizes the company's efforts to contribute to coexistence with local communities and its significant contributions to the cultural and artistic fields among domestic businesses.



2023 HIGHLIGHTS

KT&G CSR Activities

In 2023, KT&G realized the value of “Inclusive Company” by spreading positive impact on our society with a consistent mindset to fulfill our social responsibilities as a corporate citizen.



Awarded the Presidential Commendation at the 2023 Mecenat Awards

Since launching its online operations in 2005 and opening “SangSang Madang Hongdae” in 2007, KT&G has been managing SangSang Madang. By the end of 2023, KT&G has established SangSang Madang in five regions nationwide, operating cultural and artistic programs to foster coexistence with the local communities. With an annual visitor of 3 million people enjoying approximately 3,000 cultural and artistic programs, SangSang Madang has established itself as a venue where KT&G supports the creative endeavors of emerging artists and provides a wide range of cultural experiences to the public. In recognition of these contributions, KT&G was awarded the highest honor, the Presidential Commendation, at the 2023 Mecenat Awards.



Cumulative visitors of KT&G SangSang Madang surpassed 20 million

KT&G SangSang Madang, a culture and art complex operating in five regions nationwide (Hongdae, Nonsan, Chuncheon, Daechi, Busan), surpassed 20 million cumulative visitors in September 2023, thanks to its continuous cultural contribution activities and regional expansion efforts. As a space where visitors enjoy and communicate through various cultural and arts programs, with the participation of around 4,200 artists annually, KT&G will continue to lead in expanding the base of Korea’s culture and art ecosystem through SangSang Madang.



Awarded the Presidential Commendation at the 2023 Crime Prevention Awards

KT&G as awarded the Presidential Commendation at the 2023 Crime Prevention Awards, hosted by the Ministry of Justice. Since 1998, KT&G has continuously supported the social resettlement of protected individuals and the treatment and welfare of medical personnel and patients. This award is a recognition of KT&G’s contributions to creating a safe and just Korea through these activities. KT&G plans to continue its social contribution activities to support the marginalized and those in need.

2023 HIGHLIGHTS

Upcycling architecture design contest “SangSang Blue Pavilion” successfully concluded

The “SangSang Blue Pavilion” is an architectural and design production project that utilizes local waste resources to create pavilions. Launched in 2023 by SangSang Univ. to convey the seriousness of environmental pollution and the message of environmental conservation, the contest attracted 546 college students (153 teams) interested in upcycling architectural design. Of these, the final 60 selected persons (5 teams) were given the opportunity to construct actual structures. During the process, architectural experts and professors provided mentoring to enhance the participants’ architectural skills. Additionally, pavilions were built using marine debris collected by college students in Jeju, adding significance to the project. The completed pavilions were displayed at Jeju Buksugu Square, delivering a message on marine environmental conservation. In 2024, the project plans to expand the dialogue on a sustainable future with college students from 11 regions nationwide.



[SangSang Blue Pavilion] 3 months of a blue journey where imagination becomes reality



“Ssudam Green Run” held in Indonesia



In 2023, marking the 50th anniversary of diplomatic relations between Korea and Indonesia, KT&G hosted the “Ssudam Ssudam Green Run” in Indonesia. This plogging event, a collaboration with the Korean Association in Indonesia and led by KT&G, saw participation from around 1,000 people including employees of KT&G’s Indonesia Corporation, government officials from both Korea and Indonesia, Korean institutions, and Indonesian citizens. Participants, grouped in teams of four, each consisting of two Koreans and two Indonesians, ran together near the GBK (Gelora Bung Karno) Stadium in downtown Jakarta, improving the urban environment and reaffirming the friendship between the two countries.



Continued the volunteer activities for tobacco leaf harvesting to promote mutual growth

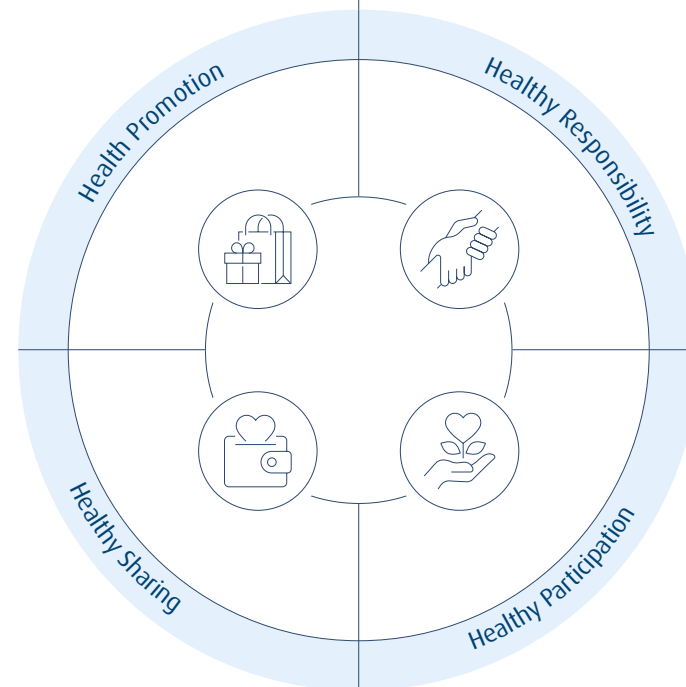
KT&G supports stable income generation and sustainable agriculture for tobacco farms supplying leaf tobacco, a key ingredient in its tobacco business. Particularly, as tobacco farming is difficult to mechanize and mostly harvested manually, KT&G has been continuously engaged in volunteer activities for transplanting and harvesting tobacco leaves since 2007 to support farms facing labor shortages. In 2023, KT&G staff actively participated in these volunteer activities during the planting and harvesting seasons. Additionally, KT&G provided KRW 75 million in consolation money to leaf tobacco farms affected by weather disasters, to aid their quick recovery.

2023 HIGHLIGHTS

KGC CSR Activities

Based on the belief that sharing of healthier value leads to a better world where people can come together, KGC implements various social contribution activities to share social values and love, thereby creating a healthier, happier world.

KGC CSR Vision



CSR for the inheritance of veterans, traditions, and cultural heritage

As a leading ginseng company with a 120-year history, KGC conducts social contribution activities for the succession of traditional and cultural heritage and supports descendants of independence activists and Korean War veterans with ginseng products. In 2022, KGC formed the "Root-Finding Expedition" to locate descendants of independence activists living abroad. Subsequently, South Korean youth and Koryoin (Korean) youth residing in Korea visited Kazakhstan and other locations. Through publishing content about these activities, they engaged in efforts to connect the descendants with their ancestral roots.



2023 HIGHLIGHTS

Continued sharing activities through “Healthy Participation”

KGC has been running the “Love Delivery to the Elderly Living Alone” campaign during the Lunar New Year and Chuseok holidays, supporting elderly living alone. In its fourth year, 2023, approximately 7,000 seniors living alone received comprehensive filial piety packages, including Jung Kwan Jang products, along with “nutrition delivery” (holiday food) and “heart delivery” (emotional support). The campaign operates on a matching grant model called the “Jung Kwan Jang Fund,” where if an employee donates a certain amount, the company matches it, forming a fund. Netizens can also easily participate through NAVER’s Happybean fundraising, and as of 2023, approximately 16,000 people have participated in the donations. Additionally, many employees participate in annual winter kimchi-sharing activities for vulnerable groups centered around business sites, sharing the joy of volunteering.



Participatory environmental education programs for future generations

Since 2021, KGC has been running the “Hong yi’s Green Earth” program as part of its support for children’s environmental education. This program targets young students in elementary schools nationwide, providing environmental protection audio-visual materials and hands-on resources to schools, awakening children to the importance of the environment and offering them valuable experiences in participating in environmental protection. In 2023, educational materials featuring characters beloved by children were produced to depict an Earth suffering from climate crisis 50 years in the future, and environmental protection kits were provided to continue education at home. Additionally, KGC also provides various experiential programs for children and teenagers in Daejeon, including safety and vocational education, and continues to donate educational equipment annually.



Global CSR for “Health Promotion” until the day everyone becomes healthy

Since 2017, KGC has been conducting the global CSR program “Please, Hong yi!” in partnership with World Vision. The first two campaigns led to the construction of water tanks, pump houses, and water stands in Tanzania and Rwanda, as well as education on improving hygiene habits. In 2023, “Please, Hong yi! Season 3” targeted the poorest regions of Vietnam, providing lunch and nutritional supplements to children under five suffering from malnutrition. The campaign also supported kitchen gardens and nutrition education, aiding the creation of a sustainable food supply environment.



PEOPLE

Envisioning a better future for people, we realize the value of “togetherness.”

KT&G’s pursuit of changes and innovations is towards people. We closely observe marginalized neighbors, prepare for the future that the next generation will enjoy, and carry out practical and phased advanced welfare projects, ranging from education and mobility for low-income families to self-realization. Furthermore, we support and encourage individual growth to lead to positive changes and sustainable innovation in our society, building a diverse and detailed social safety net.



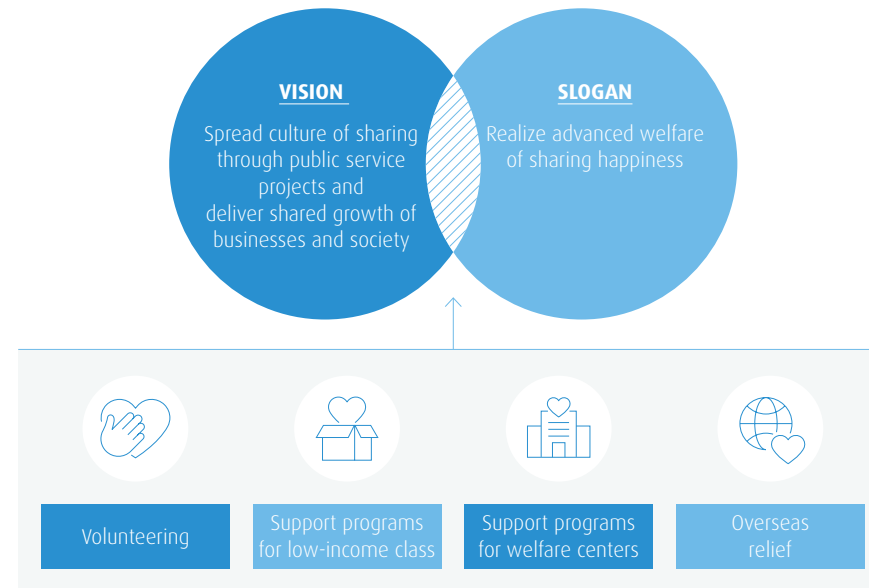
KT&G WELFARE FOUNDATION

Engaging in continuous, sincere sharing to realize the coexistence of business and society

KT&G Welfare Foundation is committed to continuous and sincere social welfare projects with the goal of realizing advanced welfare. The Foundation provides cultural and economic support to the low-income group in need of social consideration, such as children, seniors, and persons with disabilities, and is making efforts to improve welfare institution infrastructure by providing vehicles. Furthermore, it is implementing global educational environment improvement projects, thereby expanding its scope of social value creation.

[KT&G Welfare Foundation](#)

Overview of KT&G Welfare Foundation



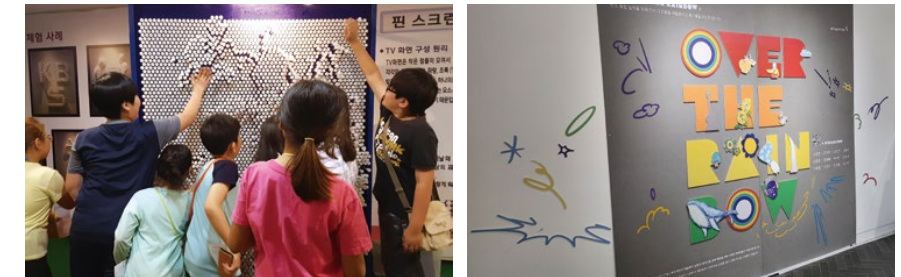
Support for Children from Low-income Households

KT&G Welfare Foundation is implementing initiatives with the goal of offering culture, arts, and education assistance to children from economically disadvantaged backgrounds, thereby helping them enhance their self-esteem and nurture their creative capabilities. Furthermore, the Foundation provides opportunities for these children to explore and cultivate their innate talents. It is supporting culture, arts, and education activities at 450 childcare centers in the metropolitan area and providing various cultural programs to children from low-income households across the country in connection with KT&G SangSang Madang. The KT&G Welfare Foundation also runs book support projects to help them developing a reading habit and caring for the healthy development of children by providing SangSang Fruit Baskets.

Support for the Vulnerable Social Group

KT&G Welfare Foundation holds "Over the Rainbow" for artist with disabilities every year to realize art welfare and expand the scope of supporting creative works in cooperation with KT&G SangSang Madang. The exhibition's title, "Over the Rainbow," symbolizes the harmonious coexistence and hopeful promise captured within diversity, offering a fresh lens that exceeds the boundaries of art. True to its name, this showcase functions as a conduit for communication, where disabled artists can be acknowledged as appreciated creators. By surmounting the bias associated with disabilities, these artists can engage with the global community, fostering meaningful dialogue. Going forward, KT&G Welfare Foundation will continue supporting the exhibition to give artists with disabilities opportunities of self-reliance and exhibition of their work.

In addition, KT&G Welfare Foundation is promoting various welfare projects to bring hope to marginalized groups, such as medical expense support for the medically underserved and cultural experience support for single-parent families.



Support for children from low-income households

Number of beneficiaries



17,120 persons

Support amount



KRW 3.22 billion

Support for the vulnerable social group

Number of beneficiaries



16,600 persons

Support amount



KRW 1.04 billion

* As of the end of 2023

KT&G WELFARE FOUNDATION

Vehicle Support for Social Welfare Centers

KT&G Welfare Foundation is striving to build welfare infrastructure that can help local communities, and as part of the efforts, it has been providing vehicles since 2004 to enable efficient operations of local social welfare institutes doing their duties at poor working conditions. The Foundation supports compact cars that can drive in narrow roads considering the characteristics of the living areas of social welfare beneficiaries and reflecting the opinions of field workers. The Foundation provided a total of 2,200 compact cars as of 2003. The donated compact cars are serving as a foot for social welfare institutions across the country and keenly utilized for local social welfare activities.



Promotion of University Students' Volunteering Activities

KT&G Welfare Foundation is running various volunteer programs to expand the volunteer culture of college students. In 2023, it formed an environmental volunteer group, which comprised of 100 college students to carry out volunteer activities on a regular basis, such as planting trees and removing harmful plants in the planting area of Mt. Bukhan for ecological restoration. This has enabled the youth to increase their awareness about environmental protection, and to take part in preserving the natural environment. Furthermore, the group played contributed to enhancing the visual appeal of communities by conducting environmental cleanup activities at the Han River.

Global CSR to Improve Learning Environment

The public welfare projects of the KT&G Welfare Foundation have expanded beyond Korea to the global stage. Particularly, we have been improving the educational environment for children in developing countries with poor educational conditions, helping future generations to nurture their dreams in better educational settings. In 2023, we assisted in improving the educational environments of schools in Vietnam and Indonesia. At Dong Phu Primary School in Vietnam, we remodeled the school buildings and improved the facilities, including the restrooms. For Ananda Elementary School in Indonesia, we completed new school building constructions and provided educational equipment.



Vehicle support for social welfare centers¹⁾

¹⁾ Cumulative basis
* As of the end of 2023

Number of vehicles supported

2,200 units



Support amount

KRW 22.1 billion



Global CSR to improve learning environment

Support amount

KRW 1.34 billion



University students' volunteering activities

Affiliated volunteering clubs

50



Number of participants

470 persons



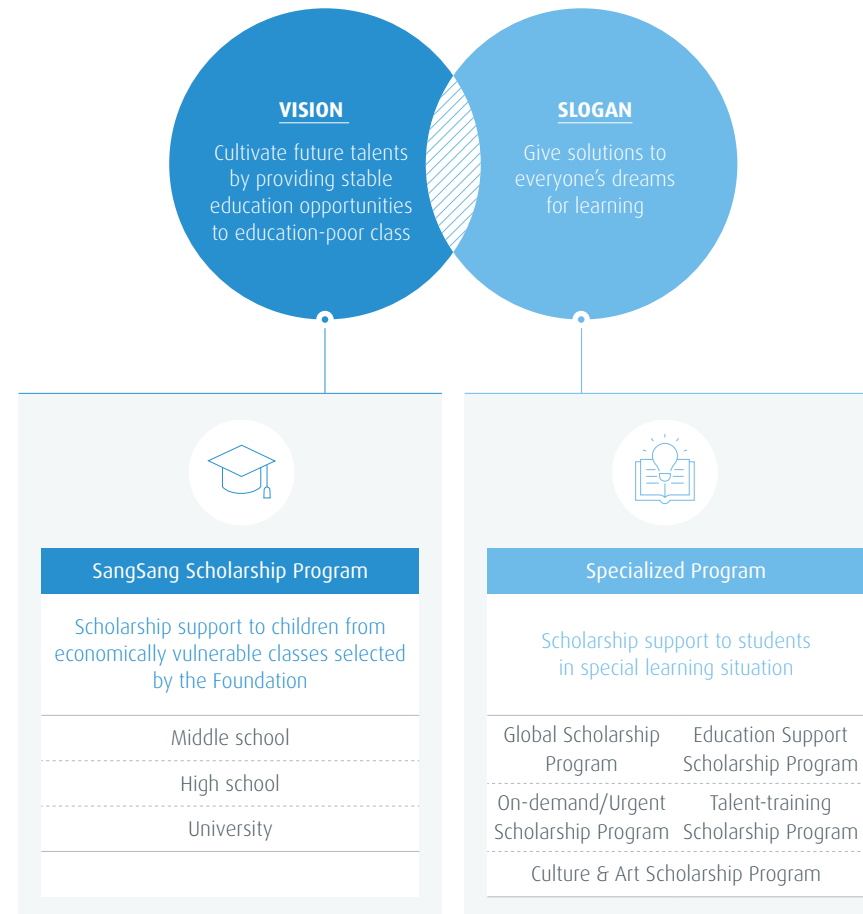
KT&G SCHOLARSHIP FOUNDATION

Shaping a better tomorrow by answering future generations' questions about learning through sharing

Believing that educational opportunities are the path to the future, KT&G Scholarship Foundation is carrying out scholarship programs in various fields. We provide scholarships to children from low-income families to offer them educational opportunities and support talented students both domestically and internationally to ensure learning opportunities reach those with passion and talent. We hope that these talented individuals will continue to pursue their dreams and hope, even in difficult circumstances.

[KT&G Scholarship Foundation](#)

Overview of KT&G Scholarship Foundation

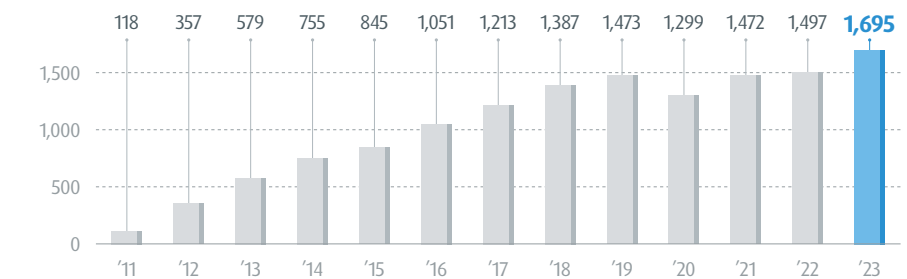


SangSang Scholarship Program

Through the SangSang Scholarship Program, KT&G Scholarship Foundation selects and supports students of the underprivileged group every year who have excellent academic abilities even though their economic conditions are challenging. Furthermore, the Foundation employs a "total care approach" that entails sustained scholarship provisions for the chosen students, extending from middle and high school through university, unless disqualification criteria are met. The Foundation grants SangSang Scholarship of KRW 1 million for each middle school student, KRW 2 million for high school students, and KRW 3 million for college students every year. In 2023, we granted scholarship to a total of 1,695 students.

Number of Recipients of SangSang Scholarship Program by Year

(Unit: Persons)



Specialized Scholarship Program

Global Scholarship Program

This is a global project that has been implemented for overseas students since 2018. In 2022, the Foundation held a startup contest in three countries - Indonesia, Türkiye, and Kazakhstan - granted scholarships to 487 college students selected based on the recommendation of local institutions.

SangSang Scholarship Program

Number of recipients

1,695 persons

(575 middle school, 906 high school, 214 college students)



Support amount

KRW 2,980 million

(KRW 580 million for middle school, KRW 1,800 million for high school, KRW 600 million for college students)



Global Scholarship Program

Number of recipients

487 persons



Support amount

KRW 260 million



* As of the end of 2023

KT&G SCHOLARSHIP FOUNDATION

Education Support Scholarship Program

In 2023, KT&G Scholarship Foundation launched the "Education Support Scholarship Program" to support balanced growth for "small schools" in culturally underserved areas. This includes visiting education programs such as viewing art through VR devices and experiencing cultural and arts programs at KT&G SangSang Madang Nonsan. By providing each participating school with two VR devices, we strive to offer a better educational environment and cultural benefits to elementary students in small schools. The program started in 2023 targeting small schools in the Chungnam area (Nonsan, Gumsan, Buyeo) and plans to gradually expand to more regions in the future.

On-demand/Urgent Scholarship Program

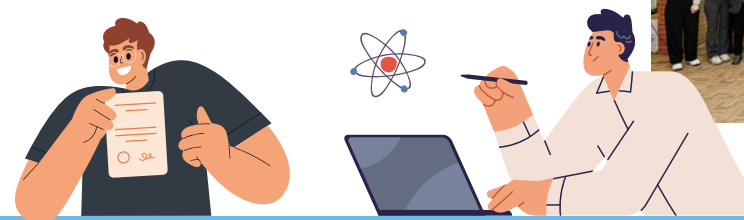
In addition to the regular SangSang Scholarship Program, KT&G Scholarship Foundation runs an on-demand scholarship program aimed at assisting adolescents facing educational marginalization as a result of social challenges. In 2023, we executed approximately KRW 200 million in project funds for the construction of libraries in juvenile detention centers in Busan and Jeonju, scholarships for cadets at the Korean National Police University, and educational support for youth with migrant backgrounds.

Talent-training Scholarship Program

This program aims to nurture outstanding talents in the fields of social innovation and science and technology at universities. In the field of social innovation, the Foundation held an idea contest to create social values by presenting solutions to social problems for university students and provided scholarships to a total of 65 students from the final 22 teams and incubation training for social innovation startups. In the field of science and technology, we selected and provided scholarship to 26 Korean and seven foreign KIST (Korea Institute of Science and Technology) researchers in their masters and doctoral courses to foster science talents.



▶ KT&G Scholarship Foundation promotional video



| Program | Number of recipients | Support amount | Program | Number of recipients | Support amount | Program | Number of recipients | Support amount |
|---------------------------------------|----------------------|-----------------|-------------------------------|----------------------|-----------------|-------------------------------------|----------------------|-----------------|
| Education Support Scholarship Program | 582 persons | KRW 100 million | On-demand Scholarship Program | 105 persons | KRW 200 million | Talent-training Scholarship Program | 98 persons | KRW 200 million |

* As of the end of 2023

KT&G SCHOLARSHIP FOUNDATION

Culture & Art Scholarship Program

In 2016, the Foundation launched the Culture & Arts Scholarship Program through which it identifies individuals displaying exceptional talent in the domains of arts and sports and bestows them with scholarships. Among the beneficiaries of this support, pianist Yunchan Lim won the world-renowned classical music competition “Van Cliburn International Piano Competition” in 2022 as the youngest ever winner. In 2017, pianist Lim was chosen as a scholarship recipient of KT&G Scholarship Foundation, and he was granted scholarships until 2019 to enhance his artistic abilities and further. We also granted KRW 10 million to him to root for his dream as a pianist even after winning the award. Since 2021, the Foundation has been concentrating on cultivating a people of excellent talent in ballet to implement the project more efficiently. In addition to providing scholarships to selected students, we operate the “Ballet Master Class,” an educational program to foster talent more systematically, which offers professional coaching and guidance from both domestic and overseas top-tier dancers and choreographers, as well as opportunities for showcase performances. Moreover, we provide scholarships through the “Global Artist Scholarship Program” to selected students who are winners of international competitions designated by the Foundation, thereby helping them continue to grow and establish a foundation for their activities as global talents.



Restart Scholarship Program

Since 2016, KT&G Scholarship Foundation has been operating the Restart Scholarship Program designed to provide academic assistance to adolescents with commendable lifestyles, aiding in their social reintegration during their time in juvenile detention centers or upon their departure from such facilities. In collaboration with the Korea Juvenile Protection Association, a public institution under the Ministry of Justice, the Foundation identifies recipients and offers educational expenses. This partnership aims to empower adolescents at risk in their journey towards self-reliance, enabling them to discover and realize their dream. In 2023, we supported a total of 97 adolescents in detention centers, through tuition for college freshmen, living expenses for middle and high school students, qualification examination fees, and technical training expenses.

Connecting Hope Scholarship Program

KT&G Scholarship Foundation runs a scholarship program to provide a stable foundation for the self-reliance of “out-of-home youth.” The term “out-of-home youth” refers to at-risk adolescents who had to run away from home due to a lack of protection and support, and they often fall into welfare blind spots as they are difficult to protect within the institutional framework. In response, KT&G Scholarship Foundation collaborates with the Beautiful Foundation to provide a stable learning environment and career development for at-risk youth. In 2023, we provided educational expenses to a total of 44 scholarship recipients and supported the improvement of learning spaces within mid-to long-term youth shelters



| Program Name | Number of recipients | Support amount | Program Name | Number of recipients | Support amount | Program Name | Number of recipients | Support amount |
|-----------------------------------|----------------------|-----------------|-----------------------------|----------------------|----------------|-------------------------------------|----------------------|-----------------|
| Culture & Art Scholarship Program | 40 persons | KRW 340 million | Restart Scholarship Program | 97 persons | KRW 50 million | Connecting Hope Scholarship Program | 44 persons | KRW 200 million |

* As of the end of 2023

COMMUNITY

**Adding wings to all imagining a better world,
we spread the value of “win-win.”**

KT&G dreams of a world where everyone’s imagination leads to mutual benefits. We share space and wisdom and create social value for everyone who contributes to the sustainable development KT&G envisions, including aspiring young entrepreneurs and social innovators, diverse and creative artists and college students, and farms and SMEs hoping for greater growth together. Through various activities aimed at genuinely solving social issues, KT&G is shaping a better tomorrow.



SANGSANG PLANET

A place where young entrepreneurs come together to create impact and change the world

SangSang Planet is a youth startup support space that opened in July 2020. KT&G has been helping the youth, who imagine a better future, start their own businesses. Our efforts began with the sponsorship of the Asia University Student Start-up Exchange in 2004, which was followed by the launching of K&G SangSang Start-up Camp in 2017, a program designed to discover and foster social innovators who address societal issues through entrepreneurial endeavors.

SangSang Planet stands as an incubating platform conceived by KT&G, providing young entrepreneurs with a stepping stone to scale-up their business, on the back of KT&G's extensive understanding and experience in fostering youth startup. Going forward, we will provide multifaceted support for youth startup, and SangSang Planet will serve as the base camp for our efforts to support their challenge.

[SangSang Planet](#)



KT&G Youth Startup Support History

- 2004-2009**
INCUBATION
In 2004, KT&G started to sponsor Asia University Student Start-up Exchange, which is the largest of its kind in Asia and the only one in Korea, with the goal to provide opportunities to young talents and encourage their dreams of opening a brighter future.
- 2010-2015**
GROWTH
In 2010, KT&G expanded the youth start-up assistance based on social contribution platform. We provided opportunities for the underprivileged to dream their dream and aim high via SangSang Fund, raised by KT&G employees. We also launched various programs through SangSang Univ. to help employment for future generations and strengthen their skills and competency for starting up a business.
- 2016-2019**
EXPANSION
From 2016, we started to give a deeper thought into the various sponsorships that we provided in relation to startups. In 2017, KT&G launched the KT&G SangSang Start-up Camp as part of the initiative to identify and cultivate social innovators who solve social issues through business. In 2019, we sponsored "Coffee Lab" to nurture experts in coffee industry, which is one of the main industries in Indonesia, thereby contribute to job creation.
- 2020~**
MATURITY
In 2020, KT&G opened KT&G SangSang Planet, which is youth startup support center, for a higher leap forward. We look forward SangSang Planet taking entrepreneurs' dreams and passion to the next level by promoting ecosystem around youth start-up and serving as the groundwork for the company's youth start-up assistance programs.



Youth Start-up Program



This is the first full-time social innovation startup launching program in Korea, designed to support young people who aim to solve social problems through business.



This is an annual social innovation startup forum where experts from various fields and people interested in innovation gather to identify key elements for achieving innovation and design the future through a conference program.

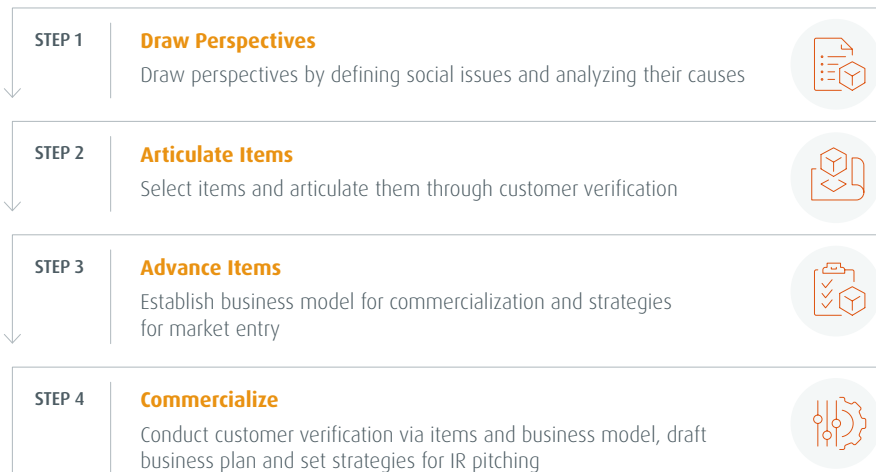
SANGSANG PLANET

KT&G SangSang Start-Up Camp

Launched in 2017, KT&G SangSang Start-Up Camp is an accelerating program that supports the growth and re-launch of social innovation startups. It operates the "Start" program for companies less than three years old and the "Growth & Global" program for companies aiming for growth and global expansion between three to ten years old. We select participating companies annually and support their continuous growth through tailored programs that provide practical help such as entrepreneurship coaching, expert mentoring, and pitch days. In 2023, we successfully completed the 7th class of SangSang Startup Camp and selected the 8th class, currently running in 2024. Starting from the 8th class, we have refined the program into the Start Track (early stage), Growth Track (growth), and Global Track (global expansion) to support various types of companies.

[SangSang Start-Up Camp](#)

Methodology of Social Innovation Startup



SangSang Summit

KT&G hosts SangSang Summit, an expert forum on social innovation, every year with the goal of drawing public attention and engagement to social venture ecosystem. The 6th SangSang Summit, held in 2023 under the theme "Imagining the Future of Social Innovation," took place offline at the KT&G SangSang Planet Connect Hall, and experts from various fields, including academia, institutions, ecosystems, and entrepreneurs, participated as speakers to discuss the future landscape of social innovation and the mindset that entrepreneurs should embody. Additionally, through keynote speeches and discussions on topics related to AI, global impact trends, environment, and climate, participants shared insights and predicted changes in social innovation. Furthermore, the "Planet Awards" event was held to select and support companies with outstanding ESG activities among tenants of KT&G SangSang Planet. This initiative aims to establish a foundation for a sustainable management environment for startups, in line with the investment trend shifting towards ESG-related resources.



Achievements of SangSang Start-up Camp

Number of teams



144 teams

Number of participants



415 persons

Cumulative sales revenue



KRW 42.2 billion

Achievements of SangSang Summit Operation in 2023

Number of offline participants



About 150 persons

Cumulative number of participants



About 2,050 persons



SANGSANG PLANET

Space of KT&G SangSang Planet

KT&G SangSang Planet serves as a collaborative workspace exclusively designed to nurture the development and interactions of social ventures at their early stage. Located in Seongdong-gu, Seoul, a region often referred to as the Social Venture Valley, SangSang Planet provides a conducive environment for fostering innovative growth. The facility spans across 8 above-ground floors and 1 underground floor, with a total floor area of approximately 4,000 square meters. The office space accommodates a total of 256 seats, providing a conducive environment for entrepreneurs to work. There are also meeting rooms and lounges on each floor, and various common spaces such as sleeping rooms and shower rooms are also available for user convenience. In addition to these comfortable and convenient workspaces for youth entrepreneurs, KT&G helps them exchange, communicate, and grow their dreams by running competency support programs such as education and mentoring as well as communication support programs such as busking and small groups on a regular basis.

Growth Support (Scale-up) Program



Planet Campus

Planet Campus is a regular education/coaching program aimed at reinforcing working-level capabilities of Planet members. Rookie entrepreneurs are given a chance to learn finance/marketing/HR/labor/legal and others that are needed for running a business. Monthly mentor-mentee matching and 1:1 coaching are also available for them.



Planet Day

As a celebration of the opening day of KT&G SangSang Planet on July 15, various events are held, including a time for tenants to share their experiences in KT&G's youth startup support space and a farewell party for companies leaving that month. In addition, tenants are given the opportunity to sell their products to local residents and visitors in Seongsu-dong through the "Planet Market," a platform for product sales and customer validation.



Planet Pop-up

Tenants of the Planet can take advantage of the Planet Pop-up zone on the first floor to promote their products and services. KT&G supports fixed budget to applying teams who can promote themselves to customers visiting SangSang Planet and turn it into an opportunity for growth.



Planet Awards

This is an ESG management support program for tenants of the Planet, through which we select outstanding companies in ESG by reviewing their interest in ESG management, social impact, business performance of the previous year, and future plans, providing them with a foundation for continuous growth.

KT&G SangSang Planet Program

KT&G supports the growth of social innovation entrepreneurs with various benefits, including office space, capacity-building programs, and networking opportunities. In particular, programs based at KT&G SangSang Planet, such as "Planet Campus," "Planet Talk," and "Connect Planet," along with young entrepreneurship programs like "KT&G SangSang Start-Up Camp" and "SangSang Summit," help discover and nurture social ventures and stimulate the social innovation ecosystem.



Play & Network Program



Play Planet

Play Planet is a busking program to comfort the hearts and minds of exhausted Planet members and professionals in the neighborhood. Performances by artists of different genres on the first floor of SangSang Planet offer the local community a great opportunity to enjoy culture and art.



Connect Planet

Connect Planet is a networking program that enables tenants of the Planet to communicate and share information. Connect Planet gives an opportunity for individuals with common interests to form a community.



Planet Talk

Planet Talk is a talk concert program that enables participants to listen to the various experiences of senior entrepreneurs. Participants can share information necessary for growth based on the topics of areas needed for newly established social ventures, such as ESG, brand, HR, corporate culture, and marketing.



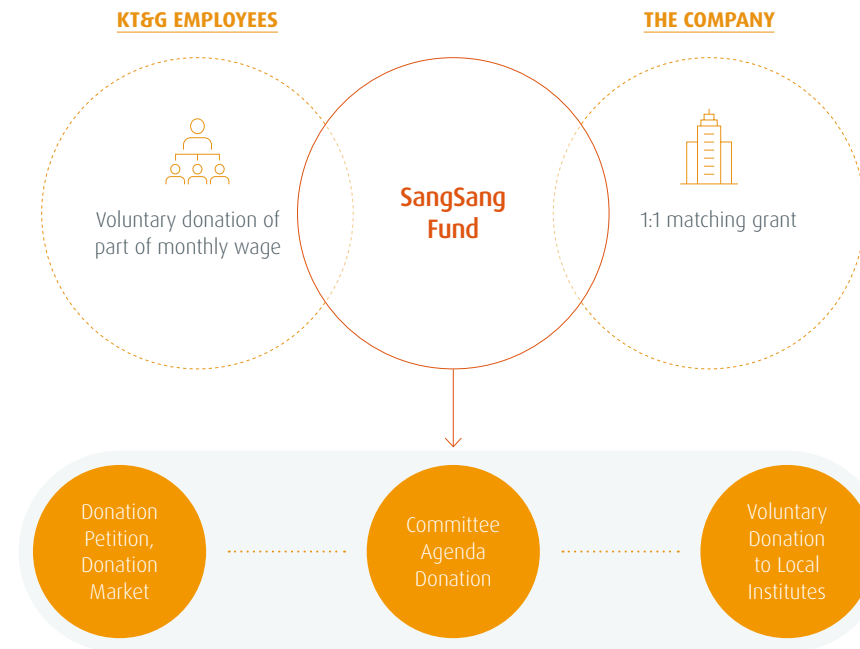
SANGSANG FUND

KT&G's unique donation culture made of employee's voluntary participation and reward of good deeds Donation Petition

SangSang Fund is a social contribution fund raised by the voluntary participation of KT&G employees. When employees donate part of their monthly salary, the company matches the same amount. The overall process, ranging from fund-raising to operations, discovery of donation recipients and sponsorships, is carried out through the voluntary participation of employees. Since its adoption in 2011, the SangSang Fund has formed a cumulative total of KRW 43.8 billion, including KRW 3.9 billion raised in 2023.

The raised SangSang Fund is used to support vulnerable social groups and solve social problems through donation petition and donation market programs. The SangSang Fund Management Committee, composed of 11 employee representatives, deliberates, and makes decisions on the donation agenda to ensure transparent operation. Supports for large-scale social problems such as natural disasters are determined by a committee resolution, and funds for social contribution to increase intimacy with the community are executed voluntarily by KT&G local organizations across the country, contributing to diffusing a culture of sharing.

Overview of SangSang Fund



Major 2023 Support Cases by the SangSang Fund

KT&G donated KRW 300 million each to the Korean Red Cross and the Korea Disaster Relief Association for relief efforts following the earthquake in Türkiye in February 2023 and the wildfire in Gangneung, Korea in April 2023. The donated funds were used to support housing and relief supplies for the disaster victims. Additionally, KT&G donated about KRW 300 million for drinking water supply for low-income groups and the creation of the "SangSang Forest." The funds were used for drinking water supply projects for low-income groups in Uganda and for forestation projects aimed at carbon reduction and preventing desertification in Mongolia.

Donation Petition

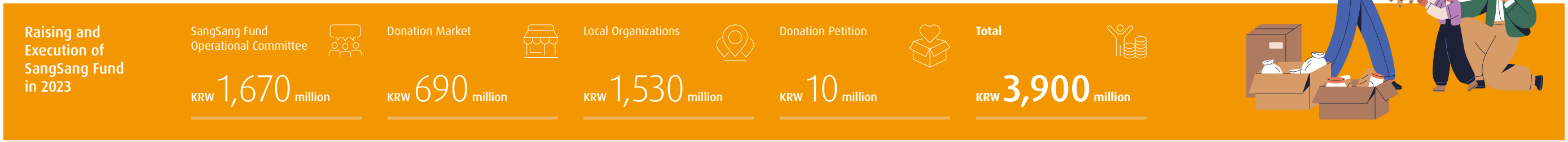
The donation petition system allows employees to uncover stories of marginalized groups in welfare blind spots and post them on the internal bulletin board. If a story gathers more than 200 supportive comments from employees, the subject of the story receives support. Introduced in 2013, thanks to the participation of many employees, we have been supporting various fields such as medical support, housing environment improvement, and education for marginalized groups who find it difficult to receive support through welfare institutions.

Donation Market

Donation Market is a participation-based donation program that enables employees to select a donation receiver among the candidates collected from various channels such as NAVER Happybean, KT&G Welfare Foundation, and recommendations from local organizations. Started in 2015, the Donation Market program has conducted activities to solve a wide range of social issues in various fields, such as overseas relief and improvement of environmental problems, in addition to the welfare improvement of the underprivileged.

Engagement by Local Organizations

KT&G operates businesses nationwide, with some 20 sales headquarters and plants leading community-based sponsorship projects. As employees who are familiar with the community find the donation receiver, practical support and customized social contribution activities can be made. In 2023, KT&G executed a total of 276 nationwide support initiatives, encompassing areas such as medical expenses, essential daily provisions, enhancement of living conditions, and year-end charitable endeavors. These efforts were directed towards the elderly, disabled individuals, and multicultural families, and were facilitated through local welfare institutions. A sum of approximately KRW 1.5 billion from the SangSang Fund was allocated for these activities.



SANGSANG MADANG

Cultural milestones that we have been creating together with local community as a culture and art complex in daily life

SangSang Madang is Korea's leading culture and art complex that is home to a wide variety of programs from performances to movies, exhibitions, experiences, culture and art and education, etc. It is where KT&G shares culture contents with the general public and supports artists' creative activities to build a cultural ecosystem from production all the way to consumption. SangSang Madang also plays a leading role in creating a new culture by promoting and sharing new trends.

→ SangSang Madang


Business Areas of SangSang Madang

| | | |
|--------------------------------------------------|---------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|----------------------------------------------------------|
| Film | Renewed and re-opened theater in 2021 as the venue to present various contents to filmmakers and audience including playing independent art films and supporting communities of filmmakers. | Support film industry |
| Concert | Develop feature performances and contribute to taking concert culture to a higher level by identifying rising musicians and building music distribution platform for both the public and artists doing the creative works. | Support in finding musicians |
| Exhibition | Mirror the true face of young generation by staying in tune with reality and serve as the contents market for culture and art industry. Support up-and-coming writers and peers from various fields and promote communication between writers and citizens aspiring for a new culture created from art works. | Support pure photo art |
| Education | Run education programs divided into talent cultivation, culture and art and living art classes in various fields of culture and art. | Cultivate talents in culture and art |
| Design | Run a multi-shop where rookie designers can articulate ideas, communicate with consumers and sell products from independent design brands. | Support distribution of independent designer works |
| Start-up, Mutual prosperity with local community | SangSang Madang Busan was newly opened in 2020 and continuously realized mutual prosperity with the community using various methods such as youth entrepreneurship support projects and flea markets in connection with local small businesses, in addition to culture and arts. | Startup contest Flea market for small business owners |

Milestones of KT&G SangSang Madang


Hongdae
Opened in Sep. 2007

Culture and Art Complex in the City
KT&G SangSang Madang Hongdae is a culture and art complex opened in September 2007, spanning across 7 above-ground floors and 4 underground floors. It has space for design, exhibitions, academies, cinema, performances, and café in support of various artistic activities and exchanges. By supporting original and creative works of artists and offering greater opportunities for the general public to enjoy art and culture, KT&G SangSang Madang Hongdae contributes to building a new culture.




Nonsan
Opened in Jun. 2011

Space to Experience Culture and Art in Nature
KT&G SangSang Madang Nonsan is a suburban experience-oriented culture and art complex where adults and teenagers can experience creative education and enjoy special cultural experience in their daily lives. The site is equipped with gallery, art hall, cafe, accommodation, educational space and restaurant. The Art Camping Village is also built for the general citizen to have an opportunity to enjoy culture together with nature.



Chuncheon
Opened in Apr. 2014

Encounter of Art and Stay
KT&G SangSang Madang Chuncheon is a culture complex whose building has been remodeled from Gangwon Sports Centers under the concept of "art and stay." Located in the waterfront of Euiahm Lake boasting a beautiful scenery, SangSang Madang Chuncheon consists of Art Center, which is home to performance hall, live studio, gallery, lecture rooms and café, and Stay, which has practice rooms for music and performances, guest rooms and seminar rooms, etc.




Daechi
Reopened in Apr. 2017

Multi-purpose Performance Hall
KT&G SangSang Madang Daechi Art Hall stages plays, concerts, musicals and various other performance genres, showcasing a wide range of representative works from the domestic performing arts scene. In addition, it is contributing to taking Korea's performing arts to a higher level by giving full support to original and creative performances never tried before.

Small Art Gallery in the City
KT&G Daechi Gallery is an open gallery where people can meet culture and are easily in their daily lives. The exhibition items change every month in a space of about 59.5 m2, and KT&G support artists in various fields such as painting, photography, and installation art to meet visitors.

Busan
Opened in Sep. 2020

Space for Art and Social Contribution
KT&G SangSang Madang Busan, spanning across 13 above-ground floors and 5 underground floors, is the largest SangSang Madang in operation. Culture zones in SangSang Madang Busan consisting of café, design, performance hall, gallery and movie theater allow all visitors to refresh themselves and enjoy culture at the same time. Creators' creative work, space supporting start-ups, accommodation, F&B facilities and diverse contents add excitement to visitors as well.



SANGSANG MADANG

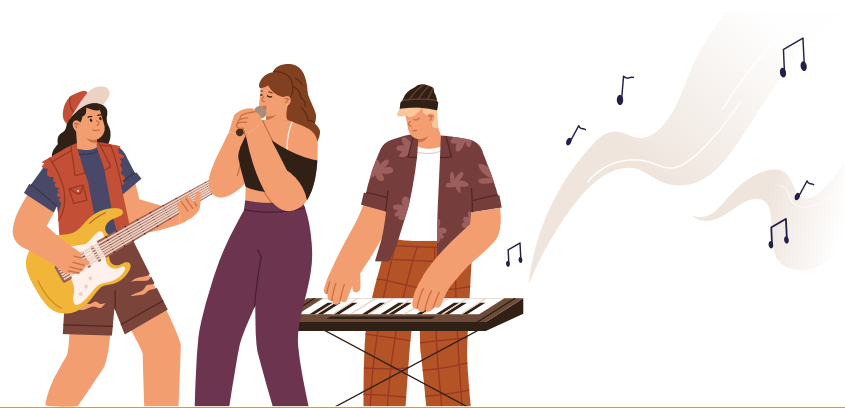
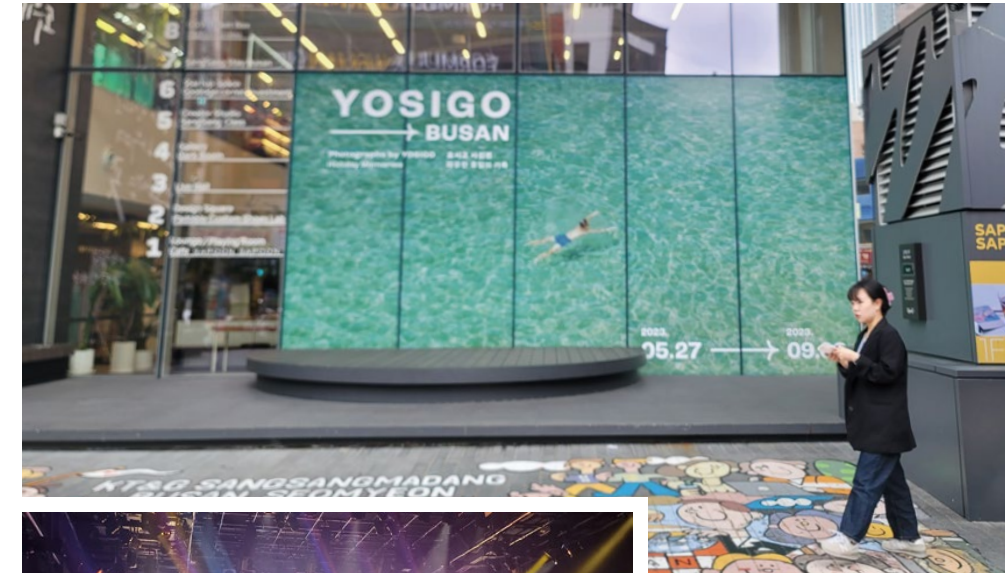
Major Achievements of SnagSang Madang in 2023

Performance support program, expanding nationwide

KT&G SangSang Madang Hongdae is supporting the practical growth of indie musicians by implementing various music support projects. Starting with "Band Discovery" first introduced in 2007, it supports the growth of new artists in various ways, including My First Concert which has been conducted since 2015. KT&G also expands the project at a national level through SangSang Madang Busan opened in 2020. The "Indie on Spotlight", one of representative program of SangSang Madang Busan, provides mentoring of popular musicians and performance experience to new musicians based in Busan. Musicians such as Harim, Yozoh, and Car the Garden participated as mentors, and the mentors helps the selected mentee musicians throughout the entire process, from concert planning to joint performance, so that they can experience actual growth. The SangSang Live Practice Room program provides live hall space, musical instruments and equipment in KT&G SangSang Madang Busan to musicians who need a practice space and stage experience. KT&G ensures that participants can expand their activity stage nationwide through cooperation with SangSang Madang Hongdae.

Exhibition support project to help emerging artists shine

The exhibition support initiatives at SangSang Madang began at the SangSang Madang Hongdae Gallery. Since its opening in 2007, KT&G SangSang Madang Hongdae has focused on supporting non-mainstream cultures, planning new visual arts exhibitions that support contemporary and non-mainstream art as well as emerging artists. Through the 14th "KT&G SKOPF" in 2023, selected photographers of the year were provided with activity grants and mentoring, including exhibition support. The "2023 SangSang Do Dream" project also supported the composition of exhibitions in the lounge space of SangSang Madang Hongdae, allowing emerging artists to express their unique ideas. Since 2021, the KT&G Daechi Gallery has been running the biannual "Daechi Artist Fellowship" exhibition support project, discovering and supporting emerging artists in photography and painting each year. Additionally, the SangSang Madang Busan Gallery, opened in 2020, is currently running the "ARTISTART" program in collaboration with local art universities to support prospective artists. Other exhibitions, such as the "Celeb Plan - Ryu Jun Yeol" and "International Special Exhibition - YOSHIGO: Holiday Memories," are also held to allow citizens to enjoy various cultural arts.



Major Achievements of SnagSang Madang in 2023

* Based on major projects of SangSang Madang

Performance



186 times, artists of 426 teams

Exhibition



67 times, artists of 812 persons

Design



38 times, artists of 1,396 teams

Education



161 classes, 1,632 persons

SANGSANG MADANG

SangSang Madang Academy – a gateway to artists from amateur to professional

KT&G SangSang Madang Academy has been launching and running various courses since its opening in 2007 with the hope that more people can and experience culture and arts with ease. To foster professionals in the field of culture and arts, we are operating concert planner workshop, design figure production process, and Bologna picture book workshop, while also running hobby courses to spread daily creative education that life becomes art. These courses give students opportunities to experience a new culture and gives new motivation for creative activities to artists. In 2023, we held special relay lectures given by the graduates of SangSang Madang Academy, where essayist Hwang Bo-reum and toy artist Ha Jong-hoon, among others, participated and made efforts to contribute to creating a virtuous cycle in the cultural and artistic community.

Daedanhan Short Film Festival, opening possibilities for independent films

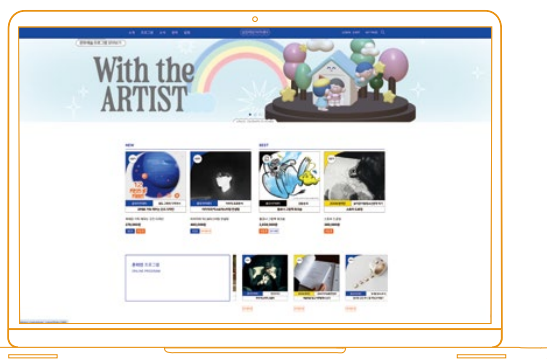
Since 2007, SangSang Madang Hongdae Cinema has been operating the “Daedanhan Short Film Festival,” a leading short film discovery program in Korea, uncovering imaginative independent films and connecting promising films with audiences. The 15th edition of the festival in 2023 received a total of 601 entries, and 25 films, selected through a jury process involving actors Gong Min-jeung, Yoo Seung-mok, and directors Lee Jong-pil and Han Joon-hee, met with 1,127 viewers. The festival awarded a total of KRW 17 million in prizes across various themes, including short competition, short invitation, and short special sections, continuously supporting the development of the short film industry.

[Daedanhan Short Film Festival](#)

Korea Cosmetics Challenge for young entrepreneurs, SangSang Flea Market for local SMEs

The “Korea Cosmetics Challenge” is a beauty sector startup idea contest that KT&G has been running since 2021 to support youth entrepreneurship. The contest is conducted in collaboration with KT&G’s cultural contribution platform, SangSang Madang, and its subsidiary, COSMOCOS. For the winning teams, it offers comprehensive support from concept to product development, including ODM-based product development, expert mentoring, acceleration, promotional booth, and follow-up marketing efforts, ensuring that ideas are transformed into actual products. In 2023, the contest also facilitated participation in “InterCHARM Korea,” the largest beauty expo in Korea, providing opportunities to introduce award-winning products to international buyers.

“SangSang Flea Market” of SangSang Madang Busan is a flea market held together with local merchants. This flea market is held on the last Saturday of every month with the goal of mutual prosperity with local small businesses. This flea market is becoming a place for small business owners to meet consumers, and for visitors to enjoy various cultural and artistic programs such as busking and exhibitions along with shopping. SangSang Madang Busan is nurturing this flea market as a mutual prosperity brand with local small business owners and is also used as a test bed for moving into SangSang Madang Design Square.



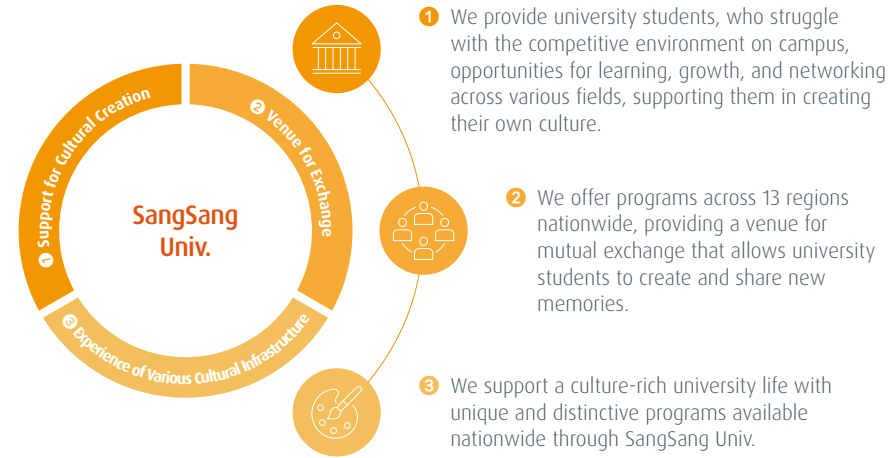
[SangSang Madang Academy](#)

SANGSANG UNIV.

An incubating platform where people in their 20s can endlessly grow their imagination

SangSang Univ. is a university student incubating platform and community that represents one of KT&G's unique social contribution programs. In 2023, through SangSang Univ., KT&G provided learning, growth, and networking opportunities to approximately 100,000 university students across 13 local communities nationwide. This initiative supports students in cultivating a healthy culture on their own, amidst intense competition for employment qualifications.

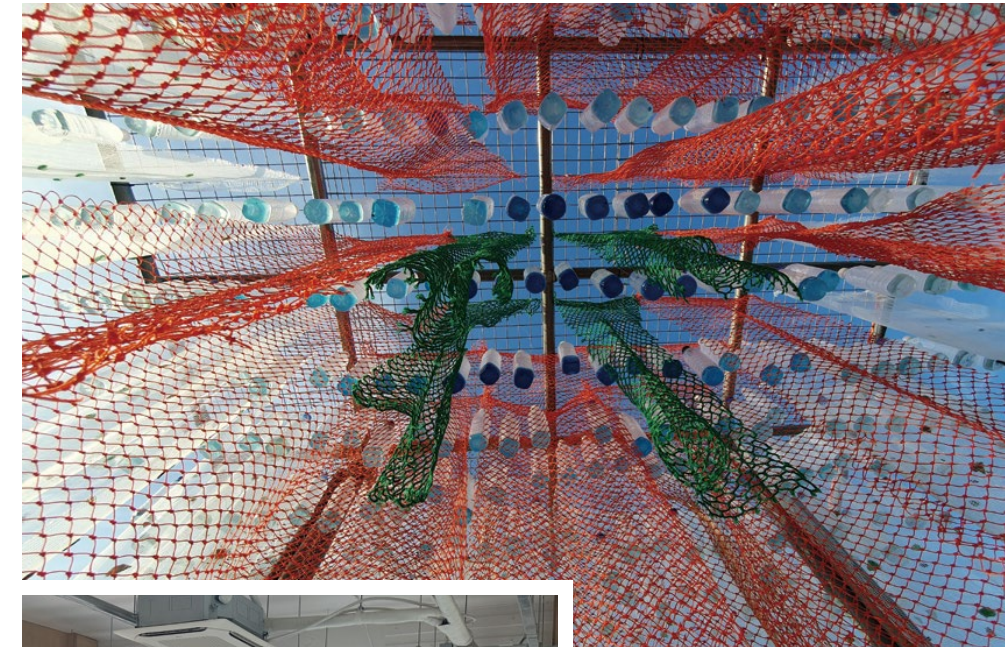
→ SangSang Univ.



2023 Major Achievements of SangSang Univ.

SangSang Blue Pavilion

Launched in 2023, SangSang Blue Pavilion is an upcycling architectural design contest for university students, who create pavilions using marine debris to raise awareness of environmental pollution and convey messages of environmental conservation. The first phase of the design contest involved 546 college students (153 teams) nationwide, with 60 persons (5 teams) finally selected through design review and presentation processes. After receiving mentoring from architectural experts for actual construction, participants joined the Pavilion Camp held from August 21 to 24 in Buksugu Square, Jeju. They completed their pavilion designs using marine debris collected from nearby coasts. Approximately 3 tons of debris, gathered over six sessions by local university students, were partially utilized in the pavilions, enhancing the project's significance. In 2024, we will expand the scope of this project to 11 regions nationwide, using local waste resources to construct pavilions that will be displayed at KT&G SangSang Madang Busan.



Major Achievements of SangSang Univ. in 2023

Class



Activity



Campus Attack



Local Project



SangSang Blue Pavilion



130 times (3,083 persons)

92 times (24,787 persons)

263 times (59,306 persons)

11 times (5,488 persons)

153 times (546 persons)

SANGSANG UNIV.

SangSang Marketing School

Since 2010, KT&G has been running the “SangSang Marketing School,” a capacity-building program providing marketing experience opportunities to university students under the motto of “cultivating young and capable marketing experts for the future.” In 2023, 800 college students from 11 regions across the country were selected for the 16th class of SangSang Marketing School. Under the theme “Imagining ESG challenges by young marketers for a sustainable world,” they attended online courses on major companies’ ESG initiatives and developed ESG marketing proposals. Subsequently, 80 outstanding students from each region participated in a “Marketing Hackathon” at the KT&G Human Resources Development Institute from June 27 to 29. They presented their marketing plans, gaining valuable practical marketing experience and creating lasting memories.

SangSang Friends

“SangSang Friends” is a team of college student operators of SangSang Univ. participated by a total of 3,998 university students since 2010 through 2023. In 2023, 165 university students from 11 regions nationwide were selected as the 16th generation of SangSang Friends, and over approximately nine months, they planned and operated various SangSang Univ. programs aimed at local revitalization and ESG practices in their respective regions, serving as local communicators. Going forward, SangSang Friends will continue to develop and manage programs involving many regional university students, playing a leading role in fostering regional youth culture as a prominent group of university students.

Local Project

Since 2021, SangSang Univ. has been conducting local projects to support local youth culture or solve community issues. In 2023, we held performances and festivals in collaboration with university students from 11 regions, and thus contributed to the revitalization of local youth culture and supported the recovery of local commerce and industry.

| Region | Program Name | Description |
|-----------|-----------------------------------------------------|----------------------------------------------------------------------------------------------------------------------------------------------------------------------------|
| Seoul | SangSang Fashion Runway | A fashion festival where university students debut as fashion designers and models, taking to the runway themselves |
| Busan | SangSang Shoe Festival | A shoe festival where university students become shoe designers to help rejuvenate Busan's shoe industry |
| Daegu | SangSang Univ. Small-Scale Design Marketing Project | A collaborative regional project where university students help revitalize Daegu's traditional markets by proposing improvements and sales strategies for small businesses |
| Incheon | SangSang Cheerleading Festival | A university student cheerleader development project unfolding in Incheon, the city of sports |
| Gyeonggi | SangSang Univ. Comedy City | A comedy festival featuring talented university students |
| Jeonnam | Univ.-Roadway | A musical festival where university students perform as musical actors |
| Chungnam | SangSang Univ. Dancing Universal | A dance festival involving university student dancers |
| Gyeongnam | SangSang Univ. Youth Mak&Jang | A college theater festival where students direct and perform on stage |
| Gangwon | SangSang Univ. Harmony Night | A choir performance festival created by local university students and soldiers |
| Chungbuk | SangSang Color Bomb | A local volunteer and color bomb festival themed around colors associated with Chungbuk |
| Jeonbuk | SangSang Short Film Production Project | A film festival where university students produce and showcase short films to an audience |



Major Achievements of SnagSang Univ. in 2023

SangSang Jiphyeonjeon

5,950 persons



SangSang Marketing School

800 persons



SangSang Friends

165 persons



SangSang Village Festival

508 persons



SOCIAL RESPONSIBILITIES

KT&G's unique culture of sharing to unveil a better tomorrow with unconventional imagination

All employees of KT&G support and participate in the corporate social responsibility initiatives that the company advocates. As members of the communities where the company operates, they contribute to various social responsibility initiatives through actions like donating to the SangSang Fund and volunteering. The company leverages the efforts and dedication of its employees as valuable resources, actively seeking ways to accompany and thrive together with the local communities.



KT&G Social Responsibility Activities in 2023

Support for Kimchi making and winter supplies for the disadvantaged communities

KT&G has been continuing its tradition of year-end giving for the benefit of the needy in the local community, extending a helping hand during the cold winter. In the winter of 2023, sharing activities valued at a total of about KRW 1.9 billion were carried out. These included contributions from the employee-generated SangSang Fund, the KT&G Welfare and Scholarship Foundations, the SangSang Madang social contribution platform, and activities by group affiliates such as KGC. Through the SangSang Fund, which is supported by employee contributions, nationwide support activities such as kimchi-making events, donations of heating oil and coal, and providing food ingredients to low-income families were conducted. The KT&G Welfare Foundation offered support for heating expenses, while KGC distributed ginseng products, thereby sharing warmth with neighbors who might otherwise feel isolated.

Employee volunteer group "SangSang Together"

Since 2007, KT&G has been running the "SangSang Together Volunteer Group" made up of employees. This group undertakes a variety of activities, including environmental clean-up efforts near business locations, free meal services for the underprivileged, and year-end sharing initiatives. In 2023, a total of 749 employees participated in programs such as coastal clean-ups to protect the environment, plogging around business sites, and the "Briquette Run Volunteer Activity" for distributing coal briquettes to the underprivileged at year's end, bolstering KT&G's corporate social responsibility efforts.

Support for the underprivileged for a healthy society

In 2023, KT&G collaborated with the Ministry of Justice to conduct sponsorship activities worth KRW 150 million, aiming to help the socially vulnerable live in better conditions and settle into society stably. Over three years (2021-2023), projects such as establishing horticultural facilities for the psychological stabilization of patients and medical staff at the National Law Hospital under the Ministry of Justice were completed. Home renovation activities for about 90 housing units for protected persons and support for IT equipment for self-reliance were also provided.



WIN-WIN GROWTH

Soil for sustainable growth rooted in cooperation and mutual prosperity

Sustainable agriculture that cherishes people and protects the environment is the basis of increasing sustainability of KT&G and farms. We are therefore focused on exploring various ways to collaborate with farms and to achieve win-win growth so that the seeds of change can take root and bear fruit. In addition, KT&G is seeking to realize a better future by pursuing joint growth with SMEs, which are the basis of the local economy of where we operate our business.

Activities Aimed at Win-win Growth in 2023

Efforts to achieve joint growth with farms

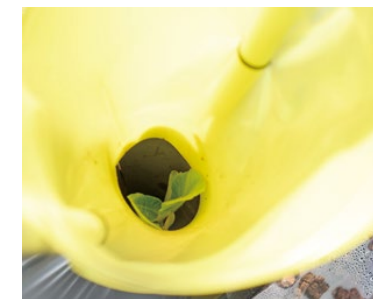
As part of ESG management, KT&G is making various efforts for joint growth with leaf tobacco farms that are raw material suppliers. Among tobacco companies running business in Korea, KT&G is the only company that purchases domestic leaf tobacco to protect the farms. In 2023, we purchased 6,240 tons of domestic tobacco leaves worth KRW 65.5 billion, and we plan to purchase approximately 7,200 tons of domestic tobacco leaves in 2024.

Tobacco farming involves raising seedlings in nurseries before transplanting them, a crucial task influencing the annual yield and characterized by labor-intensive work due to the difficulty in mechanization. However, with the decreasing rural population and aging issues, farms face challenges in securing labor. To address these issues and pass on the know-how for producing high-quality tobacco, KT&G annually dispatches employee volunteer groups during transplanting and harvesting seasons to assist with the labor shortage. This volunteer activity has continued consistently since 2009, and in 2023, consolation money of KRW 75 million was provided to tobacco farms affected by weather disasters.

Furthermore, since 2013, KT&G has been delivering welfare enhancement grants to tobacco farms annually, with about KRW 400 million provided in 2023. KT&G has conducted various activities over the long term with sincerity to continuously coexist with farms, and it plans to continue sharing activities that provide practical help to farmers, enjoying the joy of growing together.

Efforts to Grow Together with SMEs

According to the basic statistics on SMEs compiled by the Ministry of SMEs and Startups in 2020, the number of SMEs in Korea is 7,286,023, accounting for 99.9% of all companies, and the number of SME employees accounts for 81.3% of all employees. As SMEs are the backbone of our economy and the basis of the local economy considering this statistics, KT&G signed a business agreement for joint growth with Industrial Bank of Korea (IBK) and is providing low-interest loans to SMEs located in the Chungcheong region. KT&G deposited KRW 100 billion in IBK to contribute to facilitating local economy and creating jobs and created a fund worth KRW 200 billion based on the deposit. The fund is used to provide loans at lower interest rates than the market to corporations in five fields, including start-ups and small business owners located in Daejeon City, Sejong City, and Chungcheong Province. As of 2023, a cumulative total of 680 companies benefited from low-interest loan support, and the amount of interest reduction supported in 2023 was KRW 5.17 billion.



PLANET

Incorporating environmental value into corporate social responsibility, we create value for all.

KT&G's vision extends to the global community, and beyond that lies the natural environment. In global communities where social and environmental issues urgently need resolution, we hope that our tailored social contributions become seeds of innovation, and the forests we create bear fruits to lead changes in addressing the climate crisis. To this end, we are expanding the scope of social value creation to the global stage and fulfilling our role as a global corporate citizen.



ENVIRONMENTAL CSR ACTIVITIES

KT&G is reducing its environmental impact while raising social value, thereby developing into an ESG-leading company.

KT&G is actively looking into ways to reduce its carbon footprint in the process of use and disposal of our products. We encourage stakeholders to participate in and identify with our efforts to find measures, thus fulfilling our social responsibilities and making diverse efforts to create social value. In addition, we are carrying out various social contribution activities to protect and restore the natural environment to improve environmental issues, which have become a global task.

Smoking Environment Improvement Program

KT&G has been carrying out the smoking environment improvement program for more than a decade to actively fulfill social responsibilities in an area that is related to its business. As a leading activity, we are building an infrastructure (smoking room, cigarette butt collection box, portable ashtray) to establish a clean street environment and make environmental improvements by eliminating illegal littering of cigarette butts. We are expanding the establishment of smoking rooms at major publicly-used facilities, including airports, train stations, and large public facilities. We have set up a cumulative 591 smoking rooms across the nation, including the 80 rooms established in 2023. To more effectively prevent illegal littering of cigarette butts in areas that are difficult to set up a smoking room, such as narrow alleyways, we supported the establishment of cigarette butt collection boxes. We commenced a pilot project in 2021, followed by the installation of a total of 3,924 cigarette butt collection boxes by the end of 2023 in major cities around the nation, including Seoul and Busan. In addition, we are producing and distributing portable ashtrays and have distributed around 220 thousand ashtrays in collaboration with local governments and environmental NGOs since 2022, through which we expect to raise consumer awareness and improve smoking habits.

Ssudam Ssudam Campaign

KT&G runs the "Ssudam Ssudam Campaign" to build an infrastructure that helps prevent illegal littering of wastes, including cigarette butts, while raising consumer awareness. Meaning "please throw away your cigarette butts in the trash can," the Ssudam Ssudam Campaign is an environmental campaign that has been continuously carried out since its implementation in 2020 based on the suggestions made by the SangSang Realization Committee (currently Junior Board), a corporate culture improvement organization. Since May 2021, we have been applying the Ssudam Ssudam pictogram that encourages the practice of smoking manners to all products sold in Korea (around 70 types). In addition, we set up Ssudam Ssudam Campaign posters at convenience stores (around 46,000) across the nation, and attached campaign slogans to 1,200 business fleets.



Smoking Environment Improvement Program

Installation of smoking room

591 smoking rooms, KRW 8,020 million
(2011-2023)

Installation of cigarette butt collection box

3,924 boxes, KRW 760 million
(2021-2023)

Distribution of portable ashtray

222,000 ashtrays, KRW 1,550 million
(2022-2023)

* As of the end of 2023, and cumulative basis



ENVIRONMENTAL CSR ACTIVITIES

Natural Environment Preservation Program**Forestation projects in Korea and overseas**

Since 2006, KT&G has consistently engaged in forestry CSR, contributing to the improvement of forest environments in Korea and abroad. As a first step, from 2006 to 2012, volunteer activities were initiated to plant 38,000 trees in the Naksansa Temple wildfire-damaged area in Yangyang County, Gangwon-do. From 2013 onwards, 14,000 trees have been planted for ecological restoration of Bukhansan, along with the removal of harmful plants. Following the forest restoration through volunteer activities, KT&G expanded its scope to support communities affected by wildfires. In 2019, KRW 500 million was donated for the relief of victims of the Goseong/Sokcho wildfire, KRW 50 million was provided in 2021 for the restoration of wildfire damage in Türkiye, and KRW 500 million was donated in 2022 for the relief of wildfire victims in Uljin/Samcheok.

From the first generation focused on restoring damaged forests, and the second generation supporting disaster victims during major wildfires, in 2022, as part of its strategic ESG management efforts, KT&G launched the "KT&G SangSang Forest" creation project. In 2023, a KT&G SangSang Forest was established in Mongolia, one of countries where we operate our business. The forest creation costs in each country were funded through the SangSang Fund, collected through voluntary contributions from KT&G employees, and were carried out in conjunction with domestic and international employee volunteer activities, striving to fulfill the management philosophy of an "Inclusive Company."

In 2023, approximately 5,500 nectar-bearing trees were planted over an area of about 1.8 hectares in Hwacheon-ri, Bonghwa County, Korea. This area was affected by a wildfire in 2022, leading to the establishment of Korea's second SangSang Forest. By selecting tree species that provide food for bees, this effort not only restores the forest area but also significantly enhances biodiversity, adding deeper significance to the project.

In Mongolia, around 5,000 trees were planted in 2023 on the outskirts of Ulaanbaatar, involving about 1,000 local households, to complete the second SangSang Forest. A similarly scaled project for an additional SangSang Forest is currently underway, with completion targeted for 2024. The Mongolian SangSang Forests are designed as community-engaged urban forests to enhance tree survival rates and promote local community contribution. The initiative supports sustainable tree management in desertification-prone areas by distributing fruit trees to residents. These residents cultivate the trees as a source of income, thereby generating both environmental and social value.

**Achievement of Forestation Project in 2023**Value of the SangSang Forest in Bonghwa-gun created in 2023¹⁾CO₂ absorption of **54,000** kg/yearFine dust absorption of **110** kg/yearValue of the SangSang Forest in Mongolia created in 2023²⁾CO₂ absorption³⁾ of **862.2** tCO₂eq/yearDesertification prevention effect of **5.2** ha (equivalent to the area of 7 soccer field)

¹⁾ Estimated by Tree Planet, a partner organization, based on "National Institute of Forest Science, 2012, Standardized carbon uptake of major forest tree species," "National Institute of Forest Science, 2017, Basic data analysis of fine dust reduction capacity of forests in Hongneung Forest Science Test Forest," etc.

²⁾ Estimated by Green Asia, a partner organization, based on "Ministry of Environment, 2020, Research on sources of yellow dust particulate matter reduction in Northeast Asia," etc.

³⁾ including soil carbon sequestration resulting from the restoration of desertified land



ENVIRONMENTAL CSR ACTIVITIES

Biodiversity Conservation

In 2022, KT&G signed an MOU for “Ecosystem Conservation and Biodiversity Promotion” with the National Institute of Ecology. Starting in 2023, they initiated a three-year mid-to long-term cooperation project. In line with this agreement, KT&G annually plans and executes activities with the National Institute of Ecology to protect ecosystems and restore biodiversity.

In the first year of collaboration in 2023, KT&G promoted wetland protection activities in Janggumeogi Wetland located in Yeongyang County, near the Yeongju Plant. Janggumeogi Wetland, a mountainous wetland of approximately 38,000m², is a biologically rich habitat undergoing a detailed wetland survey by the National Institute of Ecology’s Research Center for Wetland for the proposed designation as a protected wetland area. However, due to soil influx and scouring caused by surrounding roads, the habitat has been damaged, reducing biodiversity. KT&G and the National Institute of Ecology completed the restoration work and will continue research on the species inhabiting the area.

Furthermore, in 2024, the second year of the project, a restoration initiative for the black stork—designated as Natural Monument No. 200 and a Class I endangered species—will be undertaken. This effort will be part of ongoing collaborative activities aimed at protecting endangered plants and animals and conserving their habitats, thereby fostering more diverse and secure biodiversity.

Marine Ecosystem Protection

To address the issue of marine pollution caused by marine debris, KT&G has been collaborating with the Korea Marine Environment Management Corporation since 2021 to carry out a marine ecosystem protection project. In the first year of the project in 2021, activities were conducted including underwater trash clean-up by professional divers and coastal clean-up by employee volunteers. In 2022, the scope was expanded to the “Adopt-A-Beach” program organized by the Korea Marine Environment Management Corporation, a project where companies adopt beaches in need of environmental protection and care for them through clean-up activities, similar to caring for pets. The scope of program increased from four beaches in 2022 to six in 2023, making them clean and beautiful through trash collection and landscape improvement activities.

In 2023, a total of 916 people participated in the marine environmental protection project, including employees and civic groups. During the nationwide beach cleaning activities, about 17.3 tons of waste were collected, and during the nationwide underwater cleaning activities involving professional divers, about 3.3 tons of underwater waste were collected, contributing to marine ecosystem protection. Additionally, to raise public awareness about marine environmental destruction, a junk art exhibition made from trash was organized in 2022 and continued in 2023. The junk art exhibitions held at SangSang Madang Hongdae and Daechi Gallery in 2023 attracted about 1,536 visitors, raising awareness about marine ecosystem destruction and reemphasizing the importance of environmental protection.

Water Purification Support Project in Africa

KT&G supports gravity-fed water purification systems in tobacco leaf importing countries that need assistance. Following the provision of water purifiers to Tanzania in 2022, a project is underway to supply 400 water purification units worth about KRW 100 million to Uganda, aiming for completion in the first half of 2024. This support is expected to provide approximately 40 million liters¹⁾ of clean drinking water annually to local residents, helping to address water scarcity and waterborne diseases in the region. Moreover, by distributing gravity-fed filters that do not require burning fossil fuels or wood, an annual reduction of about 3,500 tCO₂e¹⁾ in greenhouse gases is anticipated.

¹⁾ This calculation is based on the Gold Standard’s “EMISSION REDUCTIONS FROM SAFE DRINKING WATER SUPPLY” methodology estimated by the collaborating organization, Water and Life.



2023 Outcomes of the Agreement to Ecosystem Conservation and Biodiversity Promotion

- Target Area: Janggumeogi wetland nearby the KT&G Yeongju Plant
- Restoration Area: Approximately 38,000 m²
- Major Species Identified
 - Endangered Wildlife Class II: 1 bird species (goshawk), 3 mammal species (yellow-throated marten, leopard cat, siberian flying squirrel)
 - National Red List Near Threatened (NT): 1 insect species (migrant hawk)
 - National Red List Least Concern (LC): 3 plant species (trigonotis icumae vine, etc.), 7 insect species (agelastica coerulea Baly, etc.)

2023 Performance of the “Adopt-A-Beach” Program

Collected waste



Approximately **21** tons

Volunteers



916 persons

Junk art exhibition visitors



1,536 persons

GLOBAL CSR ACTIVITIES

We fulfill responsibilities as a global corporate citizen to become a truly global top-tier player.

As KT&G’s global expansion gains speed, its roles and responsibilities toward local communities around the world are also growing. KT&G is fulfilling social responsibilities as a global corporate citizen by carrying out social contribution activities in diverse countries, including countries where its businesses have a presence. We provide emergency disaster relief overseas and conduct country-tailored social contribution activities, in addition to Korean language education, Korean culture dissemination activities, and job support activities. We are providing help that is needed around the world in accordance with our unique social contribution value system.

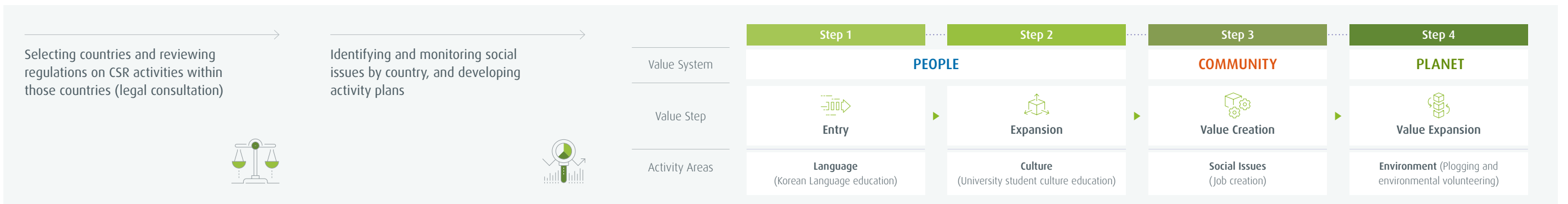
Global CSR Activities Framework

As a global corporate citizen, KT&G is committed to social contributions that integrate people, society, and the environment. Overseas CSR efforts follow the same management philosophy (Inclusive Company) and value system (People-Community-Planet) as in Korea. Before selecting the most appropriate collaborative activities, an analysis of the diverse issues and current situations faced by each developing country needing economic support is conducted. Typically, CSR activities prioritize four areas – language, culture, employment, and environment.

Country-Tailored CSR Activities

KT&G implements tailored CSR activities globally to address social and environmental issues faced by local communities. In 2023, particularly after a major earthquake in Türkiye, where a KT&G manufacturing plant is located, we donated tents and relief supplies worth about KRW 300 million to help set up temporary shelters and provide emergency supplies for affected local residents. Additionally, with a target completion in the first half of 2024, KT&G has initiated a project to provide water purification devices to Uganda, where there is a critical need for clean drinking water. In Mongolia, facing severe environmental challenges due to desertification, KT&G has been working since 2022 through the Agroforestry Training Center in Mongolia, established by the KT&G Welfare Foundation. Together, we have developed urban forests under the KT&G SangSang Forest initiative, completing a second forest comprising 5,000 trees in 2023.

KT&G is also dedicated to improving educational conditions in global communities. In Kazakhstan, where KT&G has recently expanded its operations, the company opened a Korean language school in June 2023. This school provides Korean language education to both local residents and Korean descendants and organizes a variety of activities to foster Korean cultural exchange, such as Korean speech contests and writing competitions. Additionally, KT&G is enhancing school facilities in Vietnam and Indonesia, and implementing scholarship programs for local university students in Indonesia, Türkiye, and Kazakhstan.



GLOBAL CSR ACTIVITIES



Global scholarship program in Kazakhstan



Delivery of COVID-19 test kits to Russia



Creation of the SangSang Forest in Mongolia



Improvement of the educational environment in Vietnam

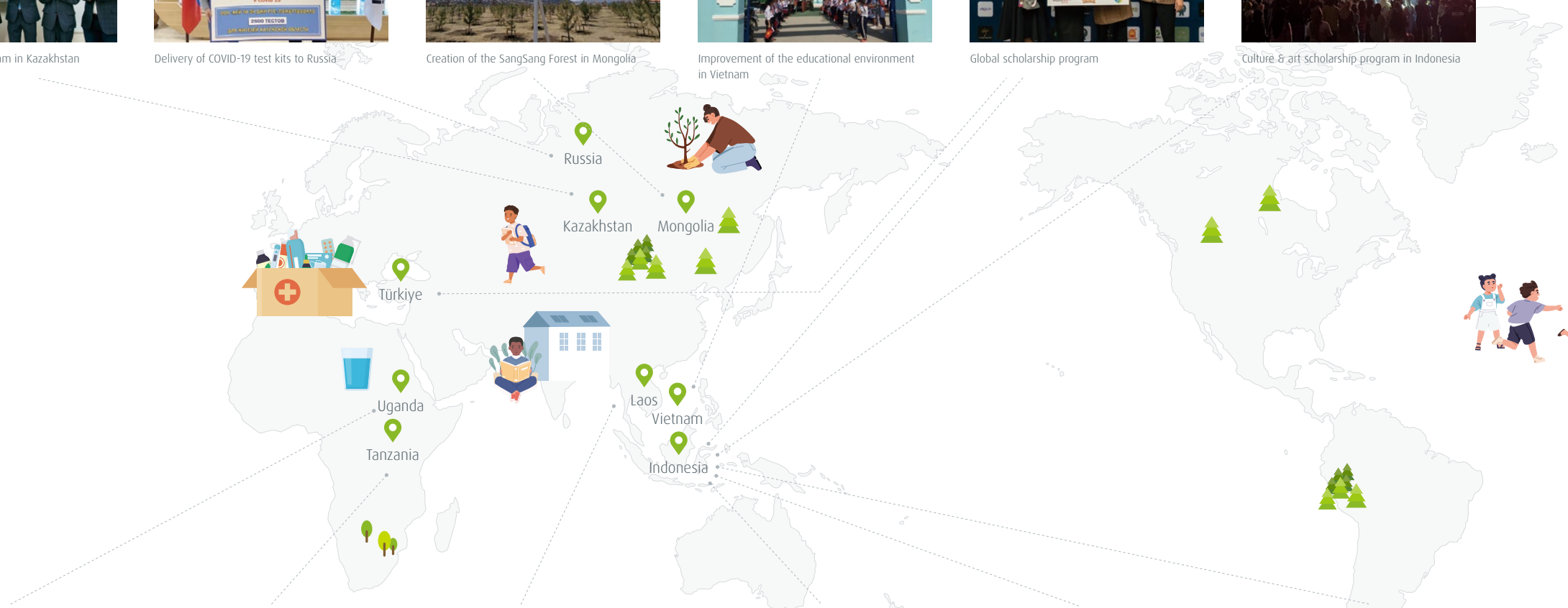


Global scholarship program



Culture & art scholarship program in Indonesia

14 countries, KRW 25.4 billion
* As of the end of 2023, and cumulative basis



Water purification device support project in Uganda



Water purification device support project in Tanzania



Construction of elementary school in Laos



Improvement of the educational environment in Indonesia



Environmental CSR in Indonesia



Vocational training center in Indonesia



CASE

KT&G CSR IN INDONESIA

CSR Activities in Indonesia

Indonesia is one of key overseas markets of KT&G, and we have been engaging in various social contribution activities with the mindset of being a member of the Indonesian community.

Leading examples include the SangSang Univ. which has been operated centered around Jakarta, aimed at enhancing the cultural knowledge and personal growth of university students. It offers local students diverse experiences and opportunities in cultural arts, hobbies, and career development, which are typically not available in their major courses. In 2023, various events were held to commemorate the 50th anniversary of diplomatic relations between Korea and Indonesia. These included "SangSang Festa," a university student festival featuring presentations by students and performances by celebrities, "SangSang Startup School," which educates and supports university students pursuing entrepreneurial dreams, and "Ssudam Ssudam Green Run," an event where Indonesians and Koreans together run through the city to collect trash. In 2023 alone, these activities drew about 40,000 participants to the SangSang Univ. programs.

We are also conducting various CSR activities outside of Jakarta. In Surabaya, a Korean language institute operates Korean language classes for university students and locals, with over 1,700 participants completing the course so far. In Malang, a vocational training center has been established to provide sewing and computer job training, supporting the economic independence of the local vulnerable populations. KT&G plans to continue its vigorous CSR activities in Indonesia as a global corporate citizen.

CSR Project Areas and Major Social Contribution Projects in Indonesia

Project Areas



PEOPLE

Spread human-driven social values



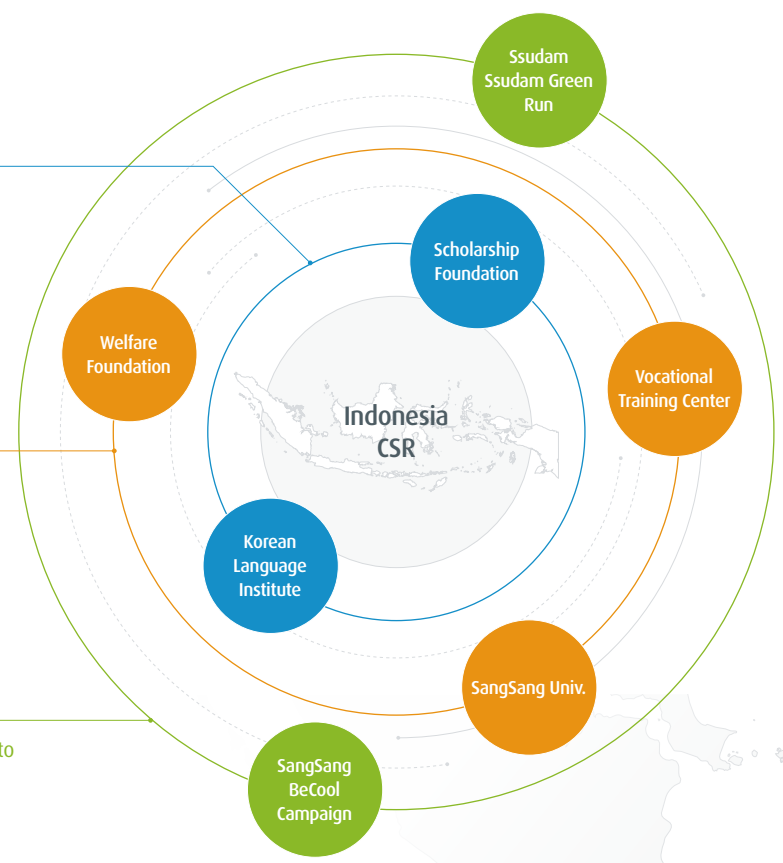
COMMUNITY

Solve issues in local communities and spread their impact



PLANET

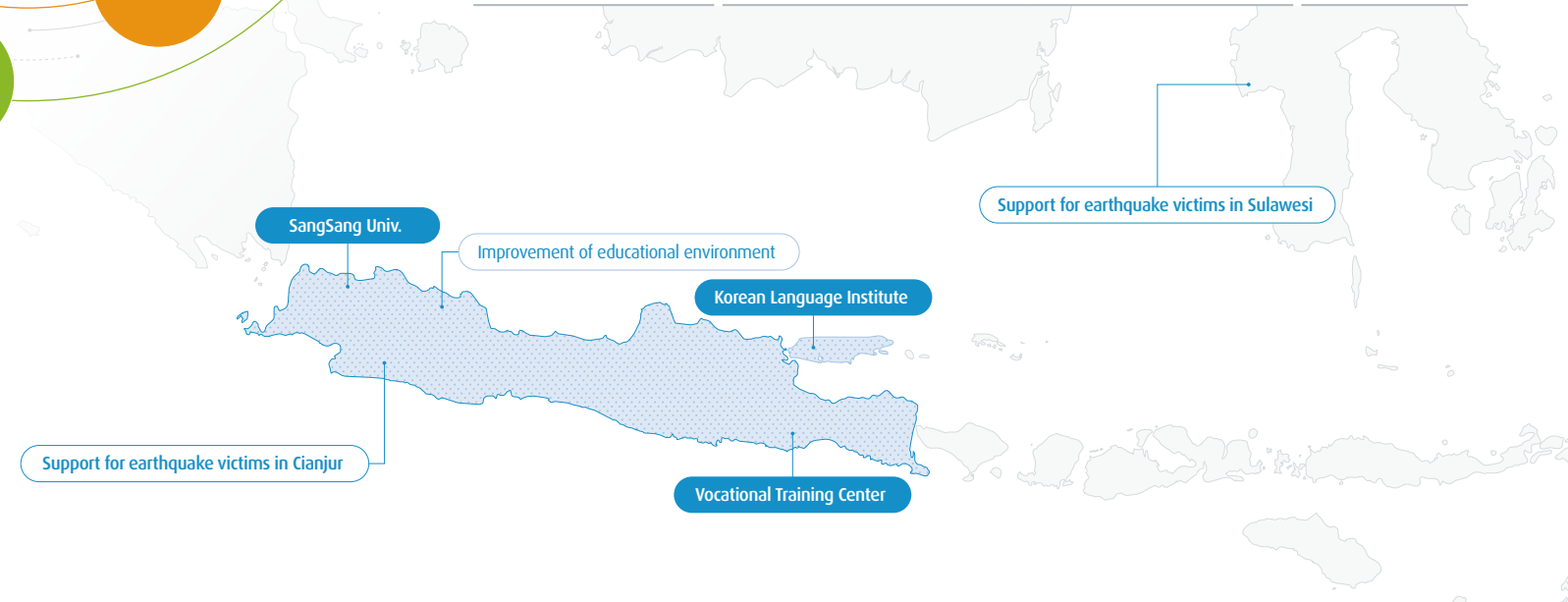
Identify new agendas to solve global issues



- Scholarship for outstanding students
- Dispatch of university student volunteer groups
- Living environment improvement projects
- Support for university student entrepreneurs
- COVID-19 emergency support

Major Social Contribution Projects

| Platform | Main Projects | Main Beneficiaries |
|-----------------------------------|---------------------------------------------------------------------------------------------|----------------------------------------------------------------------------------------------------------------------|
| Korean Language Institute | Korean language education (basic, intermediate, advanced) Hanbok self-photography studio | Cultural festival (SSUBSUB Festival) Local communities |
| Scholarship Foundation | Scholarship for outstanding students selected | Scholarship for outstanding teams in the startup competition Youth/Adolescents University students |
| SangSang Univ. | Online/offline classes (in collaboration with local universities) SangSang Festa | SangSang Startup School Volunteer activities (orphanage visits, cooling paint, etc.) Youth/University students |
| KT&G SangSang Univ. | Ssudam Ssudam Green Run (plogging) SangSang BeCool Campaign (cooling paint) | Planting mangrove on the coast Alleyway clean-up Vulnerable social group Local communities |
| Vocational Training Center | Sewing skill training Computer skill training | Giving-back-to-community activities Vulnerable social group |
| Welfare Foundation | Improvement of educational environment | Dispatch of university student volunteer groups Vulnerable social group |



LANGUAGE**KT&G Korean Language Institute**

The KT&G Korean Language Institute offers Korean language education and Korean cultural experience opportunities to the community members in Surabaya, having started in Jakarta. When KT&G first entered Indonesia, there was a rapid increase in interest in Korea locally. Therefore, as a Korea-based company, KT&G established the first Korean Language Institute by a Korean company in 2014 to meet the local demand for Korean language and culture, and it has been actively operated for over ten years.

**CONTENTS**

- 1 — Korean language education (basic, intermediate, advanced)**
Year-round operation through regular/special semesters (10 courses, 35 lectures/year)
Free of charge except for activity costs such as textbooks and refreshments
- 2 — Hanbok self-photography studio**
A permanent program at the Korean Language Institute offering free Hanbok rental and self-photography
- 3 — Cultural festival**
Korean cultural experience event "SSUSUB Festival" for local residents, cultural lectures, club activities, etc.



Establishment

Mar. 2014



Collaborating Institution

bbb Korea



Location

No.48A Lantai 5,
Keputran, Kec.
Tegalsari, Surabaya

Number of Graduates

2,504 persons¹⁾¹⁾ Cumulative as of 2023,
excluding cultural event participants

CULTURE**SangSang Univ.**

SangSang Univ. is KT&G's distinctive CSR platform providing free classes in culture, arts, and entrepreneurial skills to university students who are future leaders of Indonesia—a country with a significant youth demographic. Launched in 2017, it aims to fill the gap in educational opportunities beyond major subjects and to enrich students' lives with experiences that cultivate memories and aspirations. The program includes both offline and online classes in collaboration with local universities through "Univ. Zone." Additionally, "SangSang Festa" supports graduates' self-actualization, "SangSang Startup School" aids students with entrepreneurial aspirations, and various service projects planned by student leaders regularly enhance the lives of young people and the community.



1



3

CONTENTS

- 1 — Online/offline classes (Culture & arts, language, K-Culture, career management, etc.)**
Univ. Zone (3 locations): UNJ (Universitas Negeri Jakarta), BINUS (Bina Nusantara University), UNTAR (Universitas Tarumanagara)
Class: Continuously offering various courses such as English conversation, novel writing, digital marketing, pound fit, barista training, K-drama and culture, in line with trends and needs
- 2 — SangSang Festa**
A representative annual program of SangSang Univ., consisting of presentations of graduates' achievements, booth installations, and performances by famous singers
- 3 — SangSang Startup School**
Support for Indonesian university students' startup idea competitions, expert training, final presentations, and awards for outstanding teams
- 4 — Volunteer activities led by university students (orphanage visits, alleyway clean-up, etc.)**
Orphanage visits: Providing supplementary lessons to children through regular visits to orphanages
Alleyway clean-up: Conducting alleyway cleaning and vacant lot planting activities with local residents



4



2

Establishment

Jan. 2017



Collaborating Institution

PT. EPIN



Partner Universities for Univ. Zone Operation

State University of Jakarta, Bina Nusantara University, Tarumanagara University



Number of Participants

89,668 persons¹⁾¹⁾ Cumulative as of 2023, excluding Festa and other activity participants

SOCIAL ISSUES**Vocational Training Center**

The KT&G Vocational Training Center actively supports the economic independence of the vulnerable through sewing and computer skills training. In response to massive unemployment caused by COVID-19 in 2020, KT&G prioritized long-term sustainability over temporary aid and established a job training center in Malang in 2021, focusing on middle-aged and female residents to enhance economic activities and independence. In 2023, the center expanded its programs to include computer skills education for teenagers and young adults. Additionally, the practical outcomes of the trainees and their contributions of talent are fostering a virtuous cycle within the community.

**CONTENTS**

- 1 — Sewing skill training and volunteering**
Providing basic/intermediate level sewing training that can be immediately applied in practice, and distributing the produced items (school uniforms/uniforms) from the practical sessions to the underprivileged in the community
- 2 — Completion Event (Malang Festival)**
Holding a fashion show featuring outfits made by the students and a local festival as part of the graduation ceremony
- 3 — Computer skill training**
Operating courses in collaboration with IT professors and teaching assistants from Brawijaya University, a public university in Indonesia (newly launched in 2023)



Establishment

Dec. 2020



Collaborating Institution

FRIENDS



Location

Jl. Lematang 14A,
Malang

Number of Graduates

449 persons¹⁾¹⁾ Cumulative as of 2023,
excluding cultural event participants

ENVIRONMENT



Environmental CSR

KT&G is committed to improving Indonesia's environmental issues and protecting the natural environment. The severity of Indonesia's increasing waste management problem has become a national issue. Accordingly, KT&G hosts "Ssudam Ssudam Green Run," a plogging event where university students and citizens run through downtown Jakarta to pick up trash. Furthermore, Indonesia is experiencing prolonged dry seasons and heatwaves due to recent environmental changes, leading to excessive use of air conditioning and a consequent surge in greenhouse gas emissions. In response, KT&G has launched the "SangSang BeCool Campaign," which involves applying heat-reflective paint to building roofs to help lower indoor temperatures for vulnerable populations. Additionally, the company is intensifying its efforts to create a sustainable environment through various volunteer and philanthropic activities, including planting mangrove trees.



CONTENTS

1 — Ssudam Ssudam Green Run

2 — SangSang BeCool Campaign

3 — Others

Planting mangrove on the coast, contributing to carbon reduction and flood prevention



WELFARE FOUNDATION**KT&G Welfare Foundation**

KT&G Welfare Foundation explores ways for the corporation and society to collectively share happiness through progressive welfare activities, providing cultural and economic support to underserved individuals and communities. In Indonesia, the foundation enhances the educational environments of suburban schools with inadequate facilities. Furthermore, it boosts local students' development by conducting environmental improvement projects and regularly deploying student volunteer groups to provide both material and emotional support, fostering an improved educational environment for the next generation to realize their potential.

CONTENTS**1 — Educational Environment Improvement Project (Elementary School Expansion)**

Construction of a new three-story building with 12 classrooms at Bogor Ananda Elementary and Middle School to address the shortage of classrooms and program rooms

2 — Dispatch of SangSang Univ. Student Volunteer Group

Volunteer activities (painting the interior and exterior of buildings and creating murals) and educational volunteering (one-day classes), as well as sports events and cultural tours with local students

**SCHOLARSHIP FOUNDATION****KT&G Scholarship Foundation**

KT&G Scholarship Foundation implements scholarship programs in various fields to turn everyone's dream of learning into reality. It awards scholarships to academically outstanding students who are economically disadvantaged, including both local university students in Indonesia and international students residing in Korea. The foundation also identifies and nurtures university students with entrepreneurial aspirations, actively supporting their efforts to realize their dreams and become future leaders. The Foundation remains committed to continuously expanding educational opportunities to all students.

CONTENTS**1 — SangSang Scholarship (in collaboration with local universities and institutions, scholarship support)**

In collaboration with the Indonesian Ministry of Industry, we signed an MOU with the Polytechnic Community Academy and selected scholarship recipients.

Providing scholarships to academically outstanding students and those from economically disadvantaged backgrounds

1 — Support for prospective university entrepreneurs

Selecting outstanding teams through a startup competition and providing scholarships (in conjunction with the SangSang Univ. program)



APPENDIX

Financial Status of Social Contribution

(Unit: KRW 100 million)

| Category | 2021 | 2022 | 2023 |
|---------------------------------------------------------------------------------------|-------|-------|--------------|
| KT&G Welfare Foundation | 149.6 | 146.1 | 148.1 |
| KT&G Scholarship Foundation | 44.7 | 46.3 | 49.7 |
| SangSang Planet | 16.7 | 12.9 | 11.6 |
| SangSang Fund | 40.7 | 39.7 | 38.9 |
| SangSang Madang | 175.6 | 201.8 | 239.2 |
| SangSang Univ. | 42.5 | 47.5 | 46.5 |
| Support for win-win growth, etc. | 30.2 | 71.2 | 102.2 |
| Sponsorship projects such as global CSR | 21.6 | 22.5 | 14.0 |
| Smoking environment improvement, environmental CSR, and other social responsibilities | 18.5 | 32.1 | 28.4 |

KT&G Social Contribution Network

| | | |
|-----------------------------|------------------------------|-----------------|
| KT&G | www.ktng.com | T.080-931-0399 |
| KT& KT&G Welfare Foundation | www.ktngwelfare.org | T.02-563-4459 |
| KT&G Scholarship Foundation | scholarship.ktngtogether.com | T.070-4124-6451 |
| KT&G SangSang Planet | www.sangsangplanet.com | T.070-7439-9436 |
| KT&G SangSang Madang | www.sangsangmadang.com | T.02-3404-4589 |
| KT&G SangSang Univ. | www.sangsanguniv.com | T.02-3404-4346 |

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