

AUDIT COMMITTEE OPERATIONAL REGULATIONS

Established on April 19, 2001
Amended on April 19, 2002
Amended on May 14, 2002
Amended on January 6, 2003
Amended on January 19, 2004
Amended on April 27, 2004
Amended on October 21, 2009
Amended on July 18, 2012
Amended on February 18, 2016
Amended on December 18, 2018

Chapter 1: General Provisions

Article 1 (Purpose)

The purpose of these Regulations is to prescribe matters necessary for the efficient operation of the audit committee (the “Committee”) of KT&G (the “Company”).

Article 2 (Scope of Application)

These Regulations shall govern the matters related to the Committee, except for those specified in laws and regulations, the articles of incorporation and the regulations of the Board of Directors.

Chapter 2: Composition and Roles of the Committee

Article 3 (Composition)

(1) The Committee shall be composed of three or more directors. At least two-thirds of the members shall be outside directors and at least one member shall be accounting or finance expert.

(2) A committee member who is an outside director with a considerable level of knowledge related to accounting or finance and the ability to facilitate communication with various stakeholders such as the Board of Directors, shareholders and creditor regulatory agencies shall be appointed as the chairperson by the resolution of the Committee.

(3) The Committee shall have an internal audit department under the Committee for efficient performance of duties, and matters not stipulated in the Regulations about tasks and operation of the internal audit department shall be governed by the internal audit regulation.

Article 4 (Independence of the Committee)

(1) The Committee shall perform its audit duties in a position independent from the Board of Directors and executive organizations and other departments and maintain objectivity in performing its audit duties.

(2) Members of the Committee shall be independent from the Company and shall not have special relationships, such as family ties, etc. with directors or key shareholder of the Company.

Article 5 (Duties of the Chairperson)

(1) The chairperson represents the Committee, convenes the Committee and oversees the affairs of the Committee.

(2) If the chairperson is unable to attend the Committee, the duties of the chairperson shall be performed by a member of the Committee in the order of seniority in position and seniority in age.

Article 6 (Authority of the Committee)

(1) The Committee shall audit the performance of the duties of the directors.

(2) The Committee has the right to request a director to report on business or the right to investigate the business and status of the assets of the Company. The Company shall provide sufficient information for the Committee's decision-making prior to the convening of a Committee meeting and, if necessary, the Committee has the right to request the management, finance officers, the head of the internal audit department and external auditors of the Company, etc. to attend the Committee meeting.

(3) If there is a risk that a director may cause irreparable damage to the Company as a result of an act in violation of laws and regulations or the articles of incorporation, the Committee has the right to request the director to injunct the act for the Company.

(4) If necessary, the Committee has the right to request the convening of an extraordinary meeting of the Board of Directors by submitting a document specifying the purpose of the meeting and the reason for convening the meeting to the Board of Directors.

(5) If the chairperson of the Board of Directors fails to convene an extraordinary meeting without delay notwithstanding the request in Article 6(4), the Committee has the right to convene an extraordinary meeting of the Board of Directors.

(6) The Committee has the right to request the convening of an extraordinary general meeting of shareholders by submitting a document specifying the purpose of the meeting and the reason for convening to the Board of Directors.

(7) The Committee has the right to request from a subsidiary a report on its business when necessary to perform its duties.

(8) In the case of Article 6(7) above, the Committee has the right to investigate the business and status of the assets of the subsidiary when the subsidiary fails to report without delay or

when it is necessary to confirm the details of the report.

Article 6-2 (Delegation of Authority)

(1) The Committee has the right to delegate the following matters to the head of the internal audit department for the efficient performance of audit duties, and the head of the internal audit department shall report the important details of the delegated matters to the Committee.

1. General matters related to the performance of internal audit duties such as audit planning, implementation and result reporting
2. Checking the measures taken as a result of the audit
3. Other matters related to auditing
4. Matters delegated by the resolution of the Committee

(2) The duties of the head of the internal audit department delegated in Article 6-2(1) shall be governed by the procedures of the internal audit regulations.

Article 7 (Duties of the Committee)

(1) The Committee shall report to the Board of Directors when a director has acted in violation of laws and regulations or the articles of incorporation or when it is recognized that a director is likely to commit such act.

(2) The Committee shall examine the agenda and documents to be submitted by a director to the general meeting of shareholders and state its opinion to the general meeting of shareholders as to whether there is any violation of laws and regulations or articles of incorporation or whether there is any significantly unreasonable matter.

Chapter 3: Operation of the Committee

Article 8 (Convening of the Committee)

(1) The meeting of the Committee shall consist of a regular meeting and an extraordinary meeting.

(2) Regular meetings shall be held every quarter and extraordinary meetings shall be held as the necessity arises.

(3) The meeting shall be convened by the chairperson. If requested by the representative director or members other than the chairperson, the chairperson shall convene the Committee.

Article 9 (Secretary)

A secretary shall be appointed to handle the affairs of the Committee and the secretary shall be the head of the department supporting the Board of Directors.

Article 10 (Quorum and Resolution)

(1) The attendance of a majority of the enrolled members is required for the establishment of a quorum for the Committee and the consent of a majority of the members present is required for a resolution.

(2) < Deleted >

(3) A member who has a special interest in a resolution of the Committee shall not be allowed to participate in the voting on the resolution.

Article 11 (Proposal)

(1) The Committee agenda shall be proposed by the chairperson, the representative director or each member.

(2) If a member other than the chairperson wishes to submit an agenda item, the member shall notify the chairperson of the intent in advance.

Article 12 (Agenda Items)

(1) Matters to be deliberated and decided by the Committee are as follows.

1. Proposal for settlement of accounts
2. Reviews of the soundness and feasibility of corporate finance activities
3. Reviews of the feasibility of changes in important accounting standards or accounting estimates
4. Evaluation of the internal control system
5. Request of the Committee for convening an extraordinary meeting of the Board of Directors
6. Request of the Committee for convening an extraordinary general meeting of shareholders
7. Matters on which the Committee will be advised by external experts
8. Appointment and dismissal of external auditors
9. Evaluation of audit activities by external auditors
10. Consent to appointment and dismissal of the head of the internal audit department
11. Matters concerning the amendment of the Regulations
12. Matters to be delegated to the head of the internal audit department

13. Matters to be audited with respect to legality of the business activities of directors and management
14. Reviews of the adequacy of the financial reporting process and the accuracy of the financial reporting
15. Supervision and evaluation of the activities of the internal audit department
16. Matters related to the establishment and amendment of the internal accounting management regulations
17. Other matters acknowledged by each member to be necessary

(2) Matters to be reported to the Committee are as follows.

1. Matters listed in Article 6-2(1)
2. Quarterly and semi-annual settlement report
3. Status of the operation of the internal accounting management system for each fiscal year
4. Other matters acknowledged by each member to be necessary
5. < Deleted >

Article 13 (Procedure of Submission of Agenda Items)

Each agenda shall be prepared using Annex Form No. 1 for the matters for decision in Article 12(1) or using Annex Form No. 2 for the matters to be reported in Article 12(2) and submitted to the secretary no later than six (6) days before the meeting date; provided, however, the foregoing shall not apply if there are special reasons such as urgency, etc.

Article 14 (Procedure for Convening of Meeting)

The secretary shall notify the details of convening of a meeting in writing or orally in accordance with Annex Form No. 3 no later than three (3) days before the meeting date; provided, however, the procedure for convening of meeting may be omitted with consent of all members.

Article 15 (Explanation of Agenda)

An executive-level employee of the department related to an agenda item shall explain the proposal and conduct Q&A for the agenda item to be submitted to a meeting for discussion; provided, however, it may be entrusted to a working-level employee if necessary.

Article 16 (Minutes of Meeting)

(1) The secretary shall take minutes recording the progress and results of the Committee's

proceedings and shall have the minutes sealed or signed by the members present.

(2) The minutes of the Committee shall be kept by the department that assists the Board of Directors.

(3) The secretary shall prepare the written resolution of the Committee in accordance with Annex Form No. 4, immediately notify each director after having the written resolution sealed or signed by the members present and notify the relevant department of the Committee's resolutions in accordance with Annex Form No. 5.

Article 17 (Audit Report)

The Committee shall prepare an audit report and the audit implementation guidelines and results shall be included in the audit report. The Committee member who conducted the audit shall write his name and seal or sign the audit report.

Chapter 4: External Auditor

Article 18 (Appointment and Dismissal)

(1) The Committee shall appoint an external auditor after receiving a report on the external audit plan from an external auditor candidate and review relevant matters before appointing an external auditor. After appointment, the appointment shall be disclosed to shareholders through public disclosure via Company's website, etc.

(2) When appointing an external auditor, the same external auditor shall act as an external auditor for three (3) consecutive business years and shall be appointed before the start date of the first business year.

(3) The Committee has the right to dismiss an external auditor if the external auditor violates relevant laws and regulations or duties and, if dismissed, a new external auditor shall be appointed within two (2) months from the date of dismissal.

Article 19 (Contract)

(1) When the Committee enters into a contract with an external auditor, the Committee shall review the adequacy of the contract terms (audit hours, audit fees, independence, expertise (audit experience in the same industry, work experience as an auditor, key audit areas, etc.)) and check whether the terms of the contract are consistent with the original terms at the selection stage.

(2) The Committee shall discuss detailed audit plans with an external auditor after the conclusion of the audit contract.

Article 20 (Inspection and Evaluation)

(1) The Committee shall check whether the contract terms at the conclusion of the contract with an external auditor are consistent with the details of external audit.

(2) The Committee shall inspect whether the external audit is being performed in accordance with the audit contract.

(3) The Committee shall evaluate an external auditor after the completion of the external audit and reflect the evaluation when establishing the audit plan for the following year and appointment of an external auditor.

(4) If there is a change in the audit opinion, the Committee shall receive a report from an external auditor on major matters that have influenced the audit opinion and evaluate the appropriateness of the handling.

(5) When the Committee receives a warning from an external auditor during the external audit process, the Committee shall review the matter, conduct internal audits if necessary and notify the result to the external auditor for use as reference in future external audit procedures and the formation of audit opinions.

Article 21 (Communication)

The Committee shall from time to time discuss external audit matters with an external auditor including meeting with an external auditor without the attendance of management executives, etc. to discuss major matters related to the external audit and reflect relevant matters in the audit tasks.

Chapter 5: Evaluation and Reporting

Article 22 (Evaluation and Reporting on Operation of Internal Accounting Management System)

(1) The Committee shall evaluate the operating status of the internal accounting management system reported pursuant to Article 12(2).3.

(2) The Committee shall report to the Board of Directors the results of the evaluation of the operation status of the internal accounting management system pursuant to Article 22(1) every business year.

(3) Correction opinions of the Committee on the management and operation of the internal accounting management system shall be reflected in the report under Article 22(2) and the report shall be kept at the head office of the Company for five (5) years.

Article 23 (Report of Misconduct)

(1) The Committee shall notify an external auditor when it discovers any misconduct or material facts in violation of laws and regulations or the articles of incorporation in relation to a director's performance of duties.

(2) When the Committee is notified of a violation of the Company's accounting standards by an external auditor, the Committee shall appoint an external expert to investigate the violation

and request the representative of the Company to make correction, etc. based on the result.

(3) The Committee shall immediately submit to the Securities and Futures Commission and an external auditor the result of the investigation under Article 23(2) and the outcome of the Company's correction, etc.

(4) The Committee has the right to request the representative of the Company to provide necessary data, information and expenses when performing the duties of Article 22(2) or Article 22(3) and the representative of the Company shall comply with the request unless there is a special reason.

(5) The Committee has the right to request the head of each department to report without delay when there is any misconduct or gross negligence of executives and employees, and in such case, the Committee shall immediately commence an audit. Additionally, the following may be requested and the person receiving the request shall comply with the request unless there is a special reason.

1. Matters about relevant information within the Company
2. Attendance and answers of the head of the relevant department
3. Matters related to warehouses, safes, books and related documents, evidence and goods
4. Other matters necessary to conduct audits

Chapter 6: Miscellaneous

Article 24 (Advisory Service)

(1) The Committee has the right to receive advice from an external expert at the Company's expense if necessary.

(2) When the Committee has received advice from an external expert pursuant to Article 24(1), the chairperson shall report the background and contents of the consultation, the measures taken following the consultation and the effect thereof to the Board of Directors.

Addendum

These Regulations shall come into effect from April 19, 2001.

Addendum (May 14, 2002)

These Regulations shall come into effect from the date of issuance.

Addendum (January 6, 2003)

These Regulations shall come into effect from January 2, 2003.

Addendum (January 19, 2004)

These Regulations shall come into effect from January 19, 2004.

Addendum (April 27, 2004)

These Regulations shall come into effect from April 27, 2004.

Addendum (October 21, 2009)

These Regulations shall come into effect from October 21, 2009.

Addendum (July 18, 2012)

These Regulations shall come into effect from July 18, 2012.

Addendum (February 18, 2016)

These Regulations shall come into effect from February 18, 2016.

Addendum (December 18, 2018)

These Regulations shall come into effect from December 18, 2018.

[Annex Form No. 1]

(Front Cover)

Meeting Title	Audit Committee Meeting No. []
Agenda No.	
Date of Resolution	
Public Notice (Yes/No)	

Matters for Decision

(Contents)

1. Proposal for Resolution
2. Reason for Proposal (Reason for Amendment)
3. Key Points
4. Note
 - a. Relevant laws
 - b. Budgetary measure
 - c. Agreement
 - d. Others
5. Agenda (Enclosed)
6. Comparison Table of New and Old Provisions (Enclosed)

Title of Agenda

Proposed by	KT&G Audit Committee
Reported by	
Date of Submission	

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[Annex Form No. 2]

(Front Cover)

Meeting Title	Audit Committee Meeting No. []	Matters to be Reported
Report No.		
Date of Report		
Public Notice (Yes/No)		

(Title of Agenda)

Proposed by	KT&G Audit Committee
Reported by	
Date of Submission	

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[Annex Form No. 3]

Notice of Convening of the Audit Committee Meeting

Attention:

Please attend Audit Committee Meeting No. [] which will be held as follows.

- A. Date and Time:
- B. Location:
- C. Agenda

Enclosure: Agenda of Audit Committee Meeting No. []

[DATE]

The Chairperson of KT&G Audit Committee

(Seal)

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[Annex Form No. 4]

Resolution of the Meeting of the Audit Committee No. []

Voters	Member	Member	Member	Chairperson
Date	20 . . . (: ~ :)	Location		
Prepared by				
Agenda No.	Proposed by	Title		Voting Result
Resolution				

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[Annex Form No. 5]

Notice of the Audit Committee Resolution

Attention:

We hereby notify that the agenda of the meeting of the Audit Committee Meeting No. [] has been (resolved, resolved with amendment, denied, withheld) as follows.

Agenda No.	Title of Agenda	Result of Voting
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The Chairperson of KT&G Audit Committee

(Seal)

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