

BUSINESS ETHICS AND COMPLIANCE

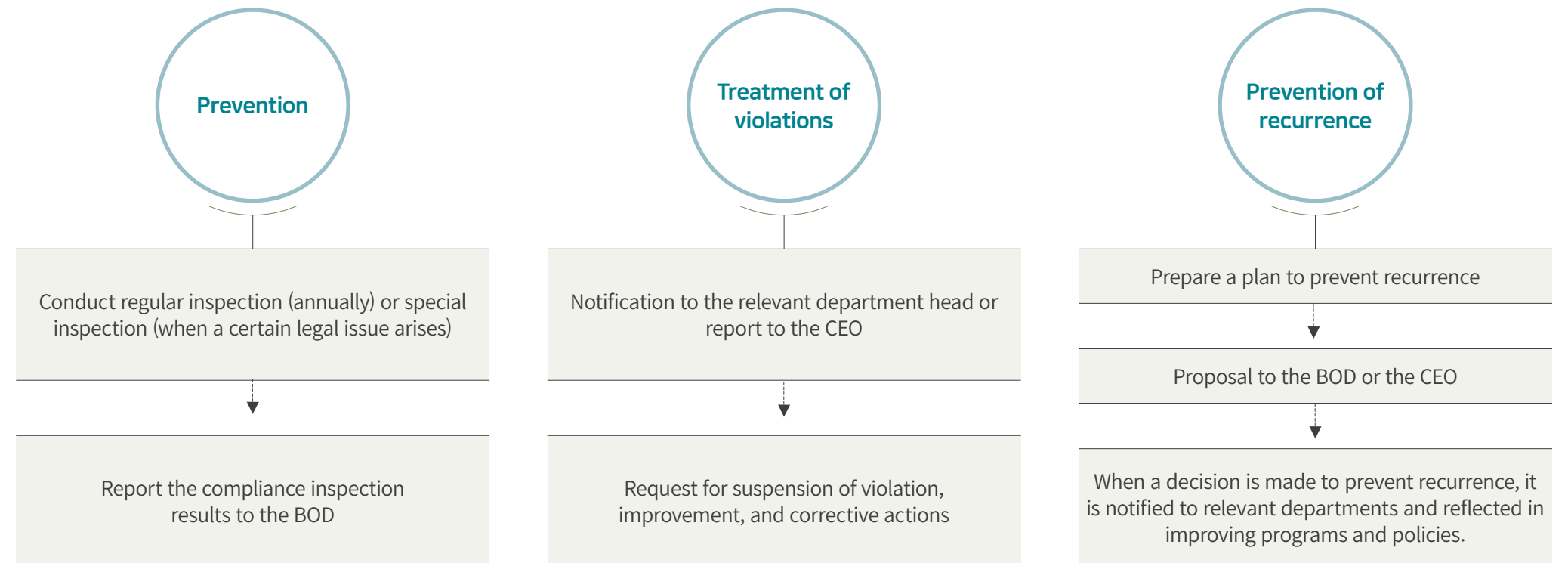


Compliance Management

KT&G operates the Compliance Support Department, an organization dedicated to compliance management, and designated a compliance support manager to periodically check the compliance of employees and report the results to the Board of Directors. The compliance control standards established to secure the company's sound development and customer trust suggest the direction of various compliance activities, including compliance inspections serve as a guide for the company to conduct its business in a fair and transparent manner. Additionally, compliance training and legal information system for employees, which are being implemented to spread the internal compliance culture, and the establishment of ethical compliance evaluation indicators for all institutions greatly contribute to the improvement of individual risk management capabilities.



Compliance Control Process



Compliance inspection

KT&G conducts a compliance inspection according to the 'Commercial Act' and Standards for 'Compliance Control' to inspect and improve employees' compliance with laws. In 2019, we performed inspections on the employees of the relevant institutions at the headquarters regarding brand advertising, fairness in hiring, and subcontracting. In 2020, the compliance inspection was conducted on all employees at the headquarters on the ethical awareness, working conditions, contracting, subcontracting, resolution of the board of directors, and marketing and brand advertisements.

The compliance inspection in 2020 was conducted as a means of autonomous inspection by employees using a checklist for each inspection area achieving an average of 97.3% participation. From 2021, we plan to use the online compliance system to expand the scope of compliance inspections to company-wide employees.

Meanwhile, KT&G also conducts 'effectiveness evaluation' to identify and improve employees' compliance with laws according to the 'Enforcement Decree of Commercial Law' and 'KT&G Compliance Control Standards.' In 2020, we were well received in the regular compliance inspection that our support and inspection system of compliance is operated effectively and adequately.

Establishing compliance guidelines

KT&G runs an employee voluntary compliance system as part of its compliance activities. In 2019, our headquarters established the 'Compliance Guidelines' to allow our employees to self-check legal risks in work and abide by related laws. In 2020, updates were shared with our employees according to the amended laws. The 'Compliance Guideline' categorizes the legal risks that require attention by each headquarters and presents relevant laws and company rules and precautions in the course of business, which our employees utilize in determining compliance risks in the course of their work. We plan to introduce compliance guidelines on a trial basis for specific topics that require follow-up management and publish a 'guidebook for each topic' for efficient allocation of employees and application of work.

Spreading a culture of compliance

KT&G plans to conduct compliance training in consideration of duties and positions to reinforce compliance awareness among employees. In 2020, we conducted 25 regular compliance training sessions following the compliance control standards, compliance training for recruitment, and special compliance training. Regular compliance training for all executives and employees improved their understanding of compliance management and compliance control standards. In contrast, the special compliance training for working-level employees focused on learning fundamental laws closely related to work, such as the Subcontracting Law and the Anti Graft Law. We also emphasized the importance of ethical management, compliance, and risk management in training new employees, executives, and managers.

KT&G operates an online portal site, 'Legal Information System,' to effectively prevent legal risks that may arise in the course of business. This system is easily accessible from the in-house portal, enabling the employees to utilize work-related services such as legal advice and contract review and obtain legal information, including company regulations and legal policy trends. In 2020, the Legal Information System completed a legal review of 6,781 business-related contracts and 216 advisory cases and utilized 24 standard contracts by enacting and revising 12 standard contracts.

In addition, we newly established 'Work Cooperation Degree of Ethics and Compliance' as a common indicator in the performance evaluation of our organizations, contributing to raising the awareness of ethics and compliance among employees and helping them manage compliance risks on their own.

Compliance training in 2020

Classification	Target	Content
Regular (6 times)	All employees	<ul style="list-style-type: none"> • Improve awareness of the disabled • Sexual harassment prevention • Privacy protection • Retirement pension • Workplace bullying prevention • Understanding of compliance control criteria
Recruitment (4 times)	New employees (level 6)	<ul style="list-style-type: none"> • Ethics management sexual harassment prevention • Understanding of tobacco business
	Experienced employees (level 8)	<ul style="list-style-type: none"> • Understanding of tobacco business
Special (15 times)	New executive directors	<ul style="list-style-type: none"> • Understanding of ethics management
	New managers	<ul style="list-style-type: none"> • Understanding of anti-graft law • Understanding of business-related laws
	New employees (level 6 & 10)*	<ul style="list-style-type: none"> • Understanding of anti-graft law • Understanding of ethics management
	Military veterans	<ul style="list-style-type: none"> • Understanding of tobacco business
	All managers	<ul style="list-style-type: none"> • Legal contract and operation • Fair trade with partners • Legal marketing and advertising • Desirable employee ethics
	Employees of Raw Material HQ	<ul style="list-style-type: none"> • Special training on Subcontract Act

*New employees in December 2019

Global Compliance

3P1S framework

As more weights are given to global business every year, KT&G is strengthening its compliance management to comply with the laws of the respective countries. Based on the 3P1S framework designed to advance global compliance capabilities from the perspective of policy, people, process, and system, KT&G seeks to manage legal risks preemptively.

Global compliance 3P1S framework



Each overseas subsidiary enacts company rules that conform to the laws of the host country based on 3P1S and operates a compliance program to comply for this purpose. Notably, it established a GIP (Global Information Portal) and legal information sharing platform and appointed a compliance officer for each branch, playing the role of bridging compliance management communication between the headquarters and overseas subsidiaries.

In 2020, while enhancing our compliance management capabilities by establishing a compliance operation process from a '3P1S' perspective and operating a prevention-responding to issues-recurrence prevention program, we unified the regulatory information investigation process and established a compliance management monitoring system.

Global compliance results in 2020

Performance	Details
Stabilization of compliance program operation	<ul style="list-style-type: none"> Establishment of compliance operation process from a 3P1S perspective Prevention, issue response, and recurrence prevention programs
Unification of regulatory information investigation process	<ul style="list-style-type: none"> Establishment of task and process when new market development issues arise Discovery of local law firms and direct consulting after preemptive investigation of countries to be pioneered (82 countries)
Establishment of compliance management monitoring system	<ul style="list-style-type: none"> Opened a legal information sharing platform (GIP) between Global CIC and overseas subsidiaries Implementation of data visualization (Dashboard) within the platform
Timely response to overseas legal issues	<ul style="list-style-type: none"> Legal advice on establishment, operation, and liquidation of overseas corporations/offices, etc.

Meanwhile, the Global Information Platform (GIP), established in 2019 with the purpose to share legal information between the headquarters and overseas subsidiaries and separately manage global legal risks, consists of legal advice, contract management, regulations and guidelines, and market monitoring menus, and is also actively used as a legal advisory channel between business departments and the global compliance team. In 2020, GIP reviewed 565 contracts and 70 advisory cases related to global business, apart from the existing legal information system.

GIP system menus

Top menu	Legal advice	Contract management	Regulation & guideline	Country monitor
Sub menu	<ul style="list-style-type: none"> Legal Advice Case Request 	<ul style="list-style-type: none"> Review Confirm Registration 	<ul style="list-style-type: none"> Regulation Guideline Work Manual 	<ul style="list-style-type: none"> Laws by Country Market Data

Global compliance training and consulting

Our overseas subsidiaries conduct regular compliance training as part of legal risk prevention activities. In 2020, we conducted 52 training sessions to cope with each country's rapidly changing laws and business-related regulatory environment. In July 2020, the compliance officer of the subsidiaries located in Turkey, Indonesia, and Russia was responsible for examining each corporation's annual HSE plan and the status of using the checklist, daily inspection history, monthly report, and accident management, conducting regular training, and operating the HSE committee organization, and regarded 'insufficient matters' as matters that require improvements in the future.

Global compliance training in 2020



Compliance check and monitoring

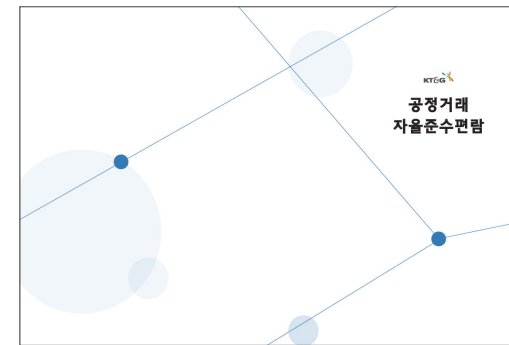
KT&G regularly monitors the status of compliance management performed by overseas subsidiaries through the Compliance Monthly Report prepared by the overseas subsidiaries. Accordingly, we are putting every effort into preventing accidents in advance and sharing activities between overseas subsidiaries to prevent recurrence of the same and similar incidents. Besides, we are conducting activities to prevent violations of local laws and company regulations by frequently examining the overall business status, such as HR, HSE, and compliance of overseas subsidiaries.

Fairtrade and competition

KT&G executes the Fair Trade Compliance Program (CP) based on the 'Operation Guidelines for KT&G Fair Trade Compliance Program' enacted in 2002, and compliance officers appointed by the board of directors are responsible for the self-compliance manager, who oversees the CP operation.

In 2020, we revised the 'Operation Guidelines of KT&G Fair Trade Compliance Program to activate CP, reflecting the revised matters relevant to the regulations of the Fair Trade Commission and the Korea Fair Trade Mediation Agency.' Furthermore, we reflected amendments to the 'Fair Trade Act' and the 'Subcontracting Act' in the 'Voluntary Compliance Manual of Fair Trade' and published E-BOOKs to enhance the accessibility and utilization of employees.

Fair trade voluntary compliance e-book



By providing a checklist to executives and employees in work fields with high compliance risk with the Fair Trade Act due to the characteristics of their work, we enable them to discover risk factors voluntarily and provide professional legal advice when necessary. We provided special training on the subcontracting law and legal information essential for practice for executives and employees in charge of subcontract transactions and a revised version of 'Easy to understand sales-related laws and regulations, including behavioral guidelines for sales employees.

KT&G values customer satisfaction as the top priority in business activities. We endeavor to provide customers with the necessary information to make rational product choices accurately and actively listen to customers' opinions through various channels. You may view our fair trade principles and standards of conduct for customers on the 'Charter of Ethics,' (Chapter 3 Ethics for Customers) and Responsible Marketing Policy (Protecting Consumer Rights).

Ethical management

[Charter of Ethics](#)

[Code of Ethics](#)

KT&G has established the 'Ethics Charter' and 'Ethical Regulations' as the standards for judging correct behavior and value that all employees must comply with and is promoting various activities based on the ethical awareness of its employees. The Compliance Support Department was designated as our ethical management control tower, and employees were asked to self-check their ethical awareness and submitted a pledge of ethical practice. Our other ethical management activities include an ethical practice campaign (Think Twice), ethics training, stakeholder survey, and operating channels for reporting unethical behavior.

Ethical management system

KT&G is devoted to preventing unethical behaviors that may occur in all business activities and spreading an ethical management culture. We ask our employees to self-check their ethical awareness to improve weaknesses. Upon the matter's findings that require further action, we consult with the relevant department to solve the issue. Besides, we established ethical regulations applicable to our overseas workplaces and developed and distributed ethical guidelines and manuals for local employees.

Organization of ethical management

In 2019, the Compliance Support Department was established under the Sustainability Management Headquarters to establish ethical beliefs for employees. The Compliance Support Department, serving as a bridgehead for establishing an ethical and compliance culture and creating performance, strives to preserve sustainable corporate values.



Ethical management activities

All executives and employees are committed to becoming familiar with the Code of Ethics and participating in the ethical management pursued by the company by writing an 'ethical pledge' every year. We provide ethical management training for new employees, executives, and managers on topics of preventing sexual harassment, workplace harassment, and corruption. Compliant to the 'Ethics Regulations,' we ask our employees to conduct a self-check of their ethical awareness annually to check the status compliance with ethical management and run an ethical campaign named 'Think Twice' to prevent incidents and enhance ethical awareness.

With a goal of spreading the ethical management culture throughout KT&G's value chain, we ask our partners to sign the 'Special Terms of Ethics Practice' at the time of signing a contract and monitor fair trade and unethical behavior of our employees via stakeholder surveys.

KT&G ethics management activities



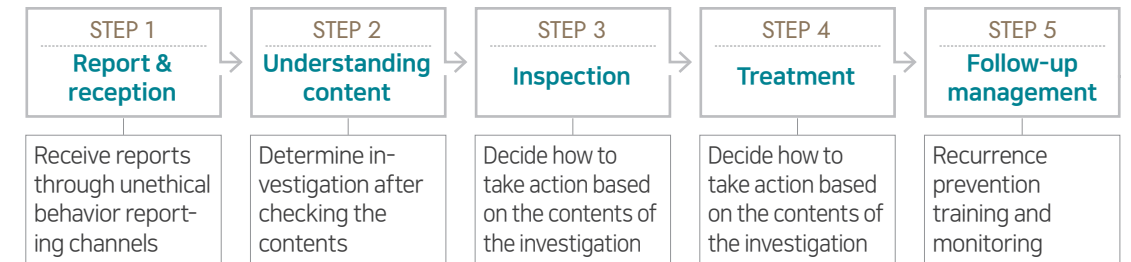
Reporting system of unethical behavior

KT&G operates a system for reporting unethical behavior to settle our ethical management. Our stakeholders, including employees and partners, may use the 'Reporting Unethical Behavior' channel on the KT&G website at any time, anywhere. It can be reported under a real name or anonymously, as the reporter's identity is protected under our 'Guidelines for the Protection of Reporters of Unethical Behaviors.'

Process for handling unethical behavior

Examples of unethical behaviors subject to reporting are defined as bribery, solicitation for a job position, fraudulent acts, sexual harassment and harassment in the workplace, acts of power abuse, and conspiracy. The reporter who recognizes the unethical action shall submit the case through the reporting channel on our website, and KT&G determines whether to proceed with the investigation considering the details of the report. In case the unethical behavior is found to be true, legal action will be taken against the relevant employee by a judicial authority, or orders for improvement will be given. The reporter will be provided with compensation according to the applicable regulations. After dealing with the case, all our employees will be trained and monitored to prevent the recurrence.

Unethical behavior handling process



Status of reporting unethical behavior

In 2020, 124 cases were reported through the 'Report of Unethical Behavior' channel. Depending on the report details, it was handled by ordering improvement measures or transferring to business organizations. If necessary, follow-up management was carried out, such as devising measures to prevent a recurrence. As a result of our global expansion, we opened an English version of the report page in 2020 to improve the accessibility of the 'Reporting Unethical Behavior' channel, which enabled us to receive reports from stakeholders, including consumers worldwide. In the future, we will continue to strive to activate the reporting system by disclosing the 'Guidelines for the Protection of Reporters of Unethical Behavior' and upgrading the system for the convenience of reporters.

Reception of unethical behavior cases in 2020

(Unit: case)



Consumer complaints	68
Unethical behaviors	6
Others	50