

CORPORATE GOVERNANCE



Sound Corporate Governance

[Articles of Incorporation / BOD rule](#)

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[Corporate Governance Charter](#)

Board of Directors

As the premier permanent decision-making body in the company, KT&G Board of Directors sets the core management goals and policies such as ‘mid and long-term strategy and business plan’ to maximize interest for shareholders as well as the company. Board of Directors fulfill its most fundamental function by keeping the management activities in check and ensuring that decisions are made in a reasonable manner.

Especially in 2019, we reorganized the roles and functions of Board of Directors and the sub-committees through the ‘governance advancement project’ aimed at improving the company governance. Then in 2020 when EGS management was growing in importance, we revised Board of Directors regulations to allow directors to decide on the ‘matters regarding the establishment and implementation of ESG strategy’ on September 22nd.

Operation of Board of Directors

Matters related to general operation of Board of Directors such as responsibilities, power, and procedures are set forth in the Articles of Incorporation and Board of Directors Regulations. Board meetings are convened both on a regular and irregular basis in accordance with the Article 34 of Articles of Incorporation and Article 9 of Regulations. A total of 14 sessions (7 regular and 7 irregular meetings) were held in 2020 and ESG management plan was presented to reinforce functions of Board of Directors, in particular, regarding ESG management. KT&G shares materials with directors regarding the floated agenda before Board of Directors meetings and holds briefing sessions as necessary, thus ensuring that directors have in-depth and efficient meetings.

Process of Appointing CEO

KT&G advanced the process of appointing CEO through the ‘governance advancement project’ undertaken in 2019. With the establishment of the Governance Committee in 2019, we revised and updated regulations on governance such as matters regarding establishment and operation of president succession plan and matters regarding training program for president candidate. Also by granting Governance Committee the power to decide on matters regarding CEO succession, we reinforced the CEO candidate verification process from the existing two-step structure of ‘president candidate recommendation committee - Board of Directors’ to three-step structure of ‘Governance Committee - President Candidate Recommendation Committee - Board of Directors’, thus securing independence and transparency from candidate recommendation.

Process of Appointing External Directors

In accordance with the Article 542-8 of the Commercial Act, the External Directors Recommendation Committee recommends independent candidates through a transparent and fair evaluation process. The External Directors Recommendation Committee screens candidates recommended by Governance Committee according to the rigorous set of evaluation criteria before sending the short list to the shareholders' meeting. The company specifies the qualifications for external directors as 'independent individuals with professional knowledge and experiences on economy, management, law, or relevant technology, but without disqualifications set in relevant regulations.'

Operation of teams dedicated to assisting external directors

KT&G operates teams dedicated to assisting external directors (Office of Strategy and Planning and Management Coordination Division) to support external directors. Their tasks include arrangement of Board of Directors meetings, providing relevant information, training on implementation of duties, and support for compliance, all aimed at ensuring effective operation of Board of Directors.

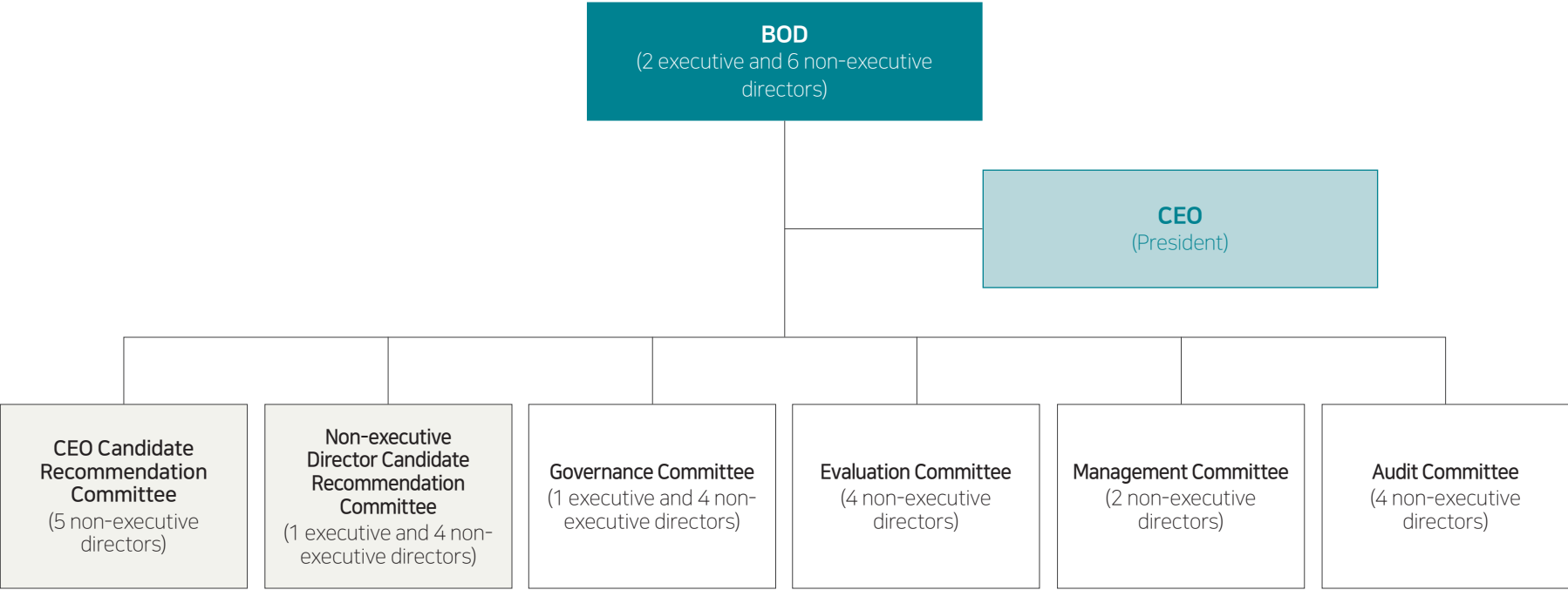
Structure of Board of Directors

In order to ensure effective discussion and decision-making, KT&G's Board of Directors consist of members with professional capabilities and diverse backgrounds. External directors take up a higher share in the seats of Board of Directors so that they can make independent decisions required to monitor the management. As of the end of April 2021, Board of Directors consist of 8 directors (two internal and six external), with external directors accounting for 75% of the members, thus exceeding the required share under relevant laws and regulations. External directors possess practical expertise in management, finance, accounting, global, law, and ESG management. Their expertise is not confined to a specific background or field. We began appointing female external directors since 2016 to ensure diversity in knowledge, experience, capabilities, and gender.

BOD composition (As of Apr. 30, 2021)

Classifi- cation	Name	Gen- der	Position	Appointed	Expira- tion	Profes- sionalism
Exec- utive director	Baek, Bok-in	Male	CEO Management Committee Chairman	2015.10.08	2024	Professional manager
Non-ex- ecutive director	Bang, Kyung- man	Male	Head of Business Division and Strategic Planning HQ	2021.03.20	2024	Professional manager
	Youn, Hai- su	Male	BOD Chairman	2016.03.19	2022	Professional manager / external cooperation
	Lee, Eun- kyung	Fe- male	-	2016.03.19	2022	Finance
	Baek, Jong-soo	Male	Governance Committee Chairman	2018.03.17	2024	Law
	Kim, Myung- chul	Male	Evaluation Committee Chairman	2020.04.01	2023	Global / finance
	Koh, Yun- sung	Male	Audit Committee Chairman	2020.04.01	2023	Finance / accounting
	Lim, Min- kyu	Male	-	2021.03.20	2024	Global / ESG

BOD organization



※ The CEO Candidate Recommendation Committee and Non-executive Director Candidate Recommendation Committee are non-standing committee.

Sub-committees under Board of Directors

KT&G Board of Directors operates sub-committees to ensure specialty and efficiency. Sub-committees include Governance Committee, Evaluation Committee, Management Committee, and Audit Committee. Non-permanent committees are President Candidate Recommendation Committee and External Director Recommendation Committee. All committees, except for Management Committee, have external directors who take up the majority number of directors for the purpose of enhancing independence. Committee head is appointed from one of external directors.

Subcommittee (As of Apr. 30, 2021, standing committees, unit: persons)

Subcommittee	Non-ex- ecutive	Execu- tive	Total	Ratio of non-ex- ecutive directors	Chair- person	Remark
Governance Com- mittee	3	1	4	75%	Baek, Jong-soo	Non- executive
Evaluation Com- mittee	4	0	4	100%	Kim, Myung- chul	Non- executive
Management Committee	0	2	2	0%	Baek, Bok-in	Executive
Audit Committee	4	0	4	100%	Koh, Yun- sung	Non- executive

Evaluation and rewards

KT&G runs Evaluation Committee which exclusively consists of external directors. They conduct management evaluation on a yearly basis to ensure fair reward for CEO and the management. Evaluation Committee resolves matters regarding wages and retirement allowance for managing executives and severance pay for employees, and sets management goals to be agreed with president candidate. In addition, it reviews matters related to wages and retirement allowance for president and internal directors in advance, while resolving management evaluations and reward for president. Evaluation Committee was convened twice in 2020, resolving matters such as evaluation of CEO's short-term management goals and short and long-term management evaluations of the previous year.

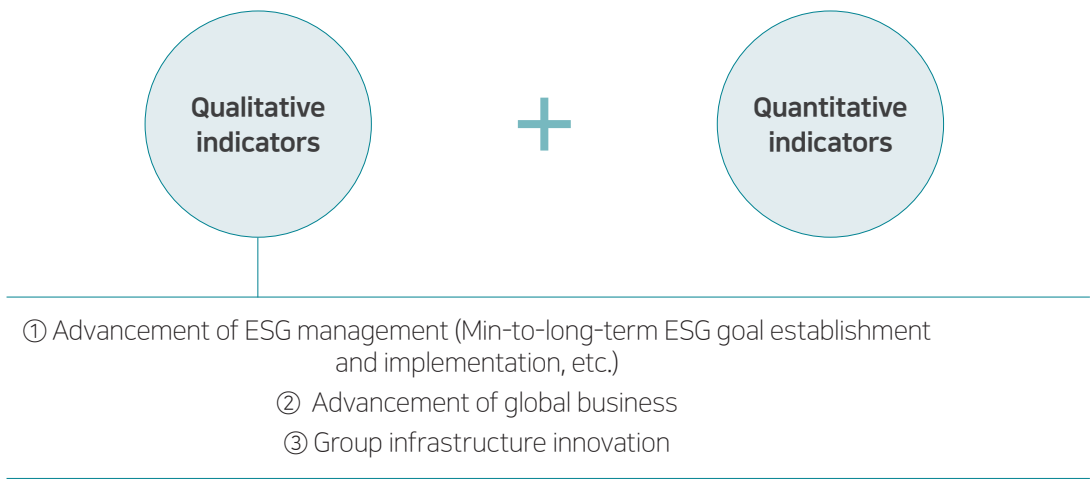
CEO evaluation and reward

KT&G evaluates CEO performance against indicators for ESG management and internalization thereof to ensure top management carry out activities aimed at generating long-term values for the company. We strive to raise the company value through ESG by tying ESG management performance with KPIs.

As part of efforts to improve the wage system for top management, we decided to pay the CEO a certain amount of long-term bonus as stocks. We strive to maximize shareholders' value by encouraging responsible management and aligning shareholders' interests with that of management through the performance-based stock rewarding system.

KT&G will maintain rewarding programs based on the best efforts on the part of the management and their performances rather than depending on unilateral rewarding system.

CEO evaluation indicators that reflect ESG factors



* KT&G is operating a policy of recovering and reducing short-term and long-term incentives for the parties concerned when matters related to the management's intentional or gross negligence or payment errors are identified.

External director evaluation and reward

The Article 34-6 of the Article of Incorporation and the Article 17 of the Board of Directors Regulations of KT&G stipulate that 'Board of Directors may conduct independent evaluation of external directors for their performance and activities'. Hence, evaluation of external directors is conducted on a yearly basis to ensure effective operation of Board of Directors and reasonable improvement of the company governance. Evaluated items included, among others, ① roles and responsibility of Board of Directors, ② operational efficiency of Board of Directors, ③ Sub-committee under Board of Directors, and ④ mutual evaluation among external directors. The evaluation consists of 5-point items and opinions hearing through description.

Wages for external directors are set in consideration of that in the same industry, rival companies, or businesses with similar asset size. Wages are approved in shareholders' meeting and paid not to exceed the cap for the approved amount. Specific amount, or method of payment are set by Board of Directors. Wage paid to external directors comprises actual costs such as duty allowance and traveling costs. They are paid in connection with external directors' performance to ensure that the wage system is aligned with shareholders' long-term interest.

Evaluation item		Points (out of 5)
Role and responsibility of the BOD (4.80 points)	Fair and faithful performance of duties for the benefit of the company and all shareholders	4.86
	Review of major strategies and financial goals, etc. and continuous observation of the degree of achievement	4.71
	Active participation in the management evaluation and compensation	4.86
	Supervision and checks on the management	4.71
	Understanding corporate ethical and social responsibility and reflecting decision-making	4.86
Efficiency of the BOD operation (4.83points)	Frequency and regularity of BOD meetings	4.86
	Adequacy of the composition of the board of directors	4.86
	Fidelity of materials provided by the Board of Directors	4.86
	Fidelity in the preparation and implementation of the rules for the operation of the board of directors	4.86
	Adequacy of training and support for new directors	4.71
Subcommittees under the BOD (4.81points)	Expertise in Committee Composition and Proportion of Outside Directors	4.86
	Appropriateness of committee operation method	4.86
	External expert support for the committee	4.71

※ Mutual evaluation of outside directors (out of 5) is not disclosed because there is a risk of impairing objectivity.

Independence and specialty of Board of Directors

Independence

In order to ensure that external directors keep the management in check, KT&G takes 'independence' as the core pillar of their operation. By stipulating in Board of Directors regulations that 'chair of Board of Directors shall be appointed from external directors by Board of Directors' resolution', we established the objective and independent governance which separates CEO from chair of Board of Directors. The ratio of external directors, at 75%, is the highest for domestic businesses. Sub-committees under Board of Directors (except for Management Committee) have external directors who hold the majority. Audit Committee and Evaluation Committee, in particular, fully comprise external directors, keeping the management in check.

External directors, recommended by outside search firms and appointed by External Director Candidate Recommendation Committee at the shareholders' meeting, undergo double-screening from the appoint stage for the independence standards through both internal and external verification. The 'external director qualification certificate' is checked with the candidates themselves before shareholders' meeting in a bid to appoint directors who are free of critical interest with the company.

Education date	Target	Attendee	Content
2020.01.16	Governance Committee members	Song, Up-kyo, Youn, Hai-su, Lee, Eun-kyung, Baek, Jong-soo	Corporate governance
2020.04.06	New non-executive director	Kim, Myuung-chul	Understanding of KT&G
2020.04.07	New non-executive director	Koh, Yun-sung	Understanding of KT&G
2020.05.26	New non-executive director	Kim, Myuung-chul, Koh, Yun-sung	Status of Sintanjin Plant (KT&G) and Korea Ginseng Plant (KGC)
2020.05.27	New non-executive director	Kim, Myuung-chul, Koh, Yun-sung	Domestic tobacco market
2020.06.25	-	All directors	Business environment changes and growth strategy
2020.09.22	-	All directors	Growth engines in the next decade based on big data
2021.03.22	New non-executive director	Lim, Min-kyu	Understanding of KT&G

Expertise of Board of Directors

KT&G's Board of Directors possess practical experiences in management, finance, accounting, global, law, and ESG management. Their expertise is not confined to a specific background or field, thus ensuring that they are able to provide professional advice and make well-informed decisions regarding critical matters for the company from different perspectives. This structure ensures that the management is kept in check by external directors.

Teams dedicated to assisting external directors provide both human and physical support so that they can acquire knowledge and skills necessary to perform their duties and to enhance specialty. They also run field visit program to help newly appointed external directors to become familiar with the company in general. Also by hosting various training programs, they help Board of Directors make the best-possible decision for the company.

Audit Committee

Audit Committee consists of external directors in the entirety to ensure objectivity in duty implementation. Article 3 of the operation regulations of Audit Committee stipulates that one or more accounting or finance experts be included. However, Audit Committee has two accounting or finance experts of the four committee members, which exceeds the requirement by Commercial Act and internal regulations. Audit Committee also operates audit team under its direct supervision as an internal audit organization. Audit Committee consists of CPA and other members with diverse backgrounds such as sales, marketing, manufacturing, procurement, and ICT. They conduct audit in accordance with the yearly audit schedule and report to Audit Committee on a quarterly basis.

Audit Committee is convened on a quarterly basis in accordance with the Article 8 of the operation regulations thereof and can be held if deemed necessary by Chair. A total of 11 Audit Committee was convened in 2020, discussing agenda such as shareholders' meeting agenda review, internal accounting management system, business plan for Audit Committee, result of internal audit, and matters regarding external auditors.

Audit Committee

Position	Non-ex-ecutive	Name	Career and qualification	Field
Chairper-son	○	Koh, Yun-sung	• Professor in Busines Administration (Accounting), Hankuk University of Foreign Studies (Mar. 2010~present) • Ph.D. in Business Administration (Accounting), Yonsei University (Feb. 2007) • Director, Korean Accounting Society and Korea Tax Association (Jan. 2010~present)	Accounting, finance
Member	○	Lee, Eun	• Senior executive director in finance and operation, PVH Korea Calvin Klein (Jul. 2012~present)	-
Member	○	Baek, Jong-soo	• Lawyer, Dongin Law Firm (Mar. 2015~present) • Tax legal advisor, Seoul Regional Tax Office (Nov. 2015~Oct. 2016) • Inspector, Busan District Prosecutor's Office (Dec. 2013~Feb. 2015)	-
Member	○	Kim, Myuung-chul	• CFO, Shinhan Financial Group (Jul. 2007~Sep.2008) • Finance Director, Shinhan Bank (Mar. 2005~Mar. 2006) • Foreign Currency Team Head, Shinhan Bank (Jul. 1993~Feb. 1998)	Financial institution