

Ethical Management

2019 CASE STUDY

Checking Employees' Ethical Awareness

Preventing unethical behaviors of employees is one of the important goals of the Ethical Management, and it is essential to secure high standard of ethical awareness among each individual employee. In 2019, KT&G measured effectiveness of the Ethical Management system, conducted the ethical awareness check, and reported the results to the board of directors to identify ethical awareness of the employees. We offered employees opportunities to self-evaluate and reconsider their ethical awareness through the checklist composed on items including unethical speech and sexual harassment, corporate confidentiality and information protection, unpublished important information, gifts/bribery and improper treatment, financial transactions, and fair job execution. We will continue to arouse attentions of each employee through the annual ethical awareness checks and enhance the level of the Ethical Management by assessing effectiveness and deriving improvements.

1. Ethical Management System

Ethical Standard and Organization

KT&G enhances ethical awareness of employees, encourages their practices, and sophisticates the Ethical Management System by performing various activities based on the Charter of Ethics and Ethical Regulation as the standard of righteous actions and valuation for all employees. The Compliance Department, as a control tower of the Ethical Management, conducts Ethical Management activities including employees' voluntary check of ethical standard, request for the Ethical Practice Pledge, practice campaign (Think Twice), ethical training, stakeholder survey, and unethical behavior whistleblowing channel operation.

*KT&G website, www.ktng.com  Ethical Management



Whistleblowing System and Treatment Process for Unethical Behaviors

KT&G operates the Unethical Behavior Whistleblowing System to settle the Transparent/Ethical Management. Internal and outside stakeholders including employees and suppliers may report employees' bribery, corruption, authority abuse, collusion, and complaints through the 'Unethical Behavior Whistleblowing Channel' on the KT&G website regardless of time and place. The whistleblowers' identities are protected in accordance with the 'Unethical Behavior Whistleblower Protection Guideline', and they can receive compensation if the report is found to be true.

In 2019, a total of 159 cases were reported through the 'Unethical Behavior Whistleblowing' channel. We treated all received reports, took corrective actions, and developed preventive methods.

Step 1. Receive reports	Receive reports through the Unethical Behavior Whistleblowing channel
Step 2. Check the truth	Authenticate the case and decide on whether to investigate or not (Compliance Support Dept.)
Step 3. Investigate in detail	Investigate truth (Audit Group)
Step 4. Treat	Take corrective actions in accordance with the investigation result

Status of Unethical Whistleblowing Channel Receipt in 2019

Category	No. of Cases (EA)
Consumer complaints	95
Unethical behaviors	4
Others	60
Total	159

Spreading Ethical Management

KT&G strives to spread the culture of Ethical Management as well as preventing unethical actions in the business activities. These efforts are not limited to the domestic operation or head office, but it is applied to all worksites, subsidiaries, and suppliers throughout the world. KT&G makes an effort to comply with the labor principles including laws and schemes, safety and health recommended by the ILO, and worktime in every country and region for fair and transparent trade. In addition, KT&G has prepared various systematic means including the Supplier Code of Conduct and comprehensive supplier evaluation to encourage all suppliers to fulfill their social responsibility based on the Ethical Management. Henceforth, we plan to develop the Ethical Management system, training, and programs and establish the company-wide management system to apply them in global worksites as well. Moreover, we will continuously strengthen the Ethical Management System by amending the Charter of Ethics and the Ethics Regulation by applying legislation and new issues.

Sophisticating the Ethical Management

Since the establishing of an exclusive organization and system related to the Ethical Management in 2003, KT&G has been sophisticating the Ethical Management System so that all employees can use it as a basis for righteous valuation and action.

History of Sophistication of the Ethical Management

Introduction (2003-2004)	<ul style="list-style-type: none"> Amended the Charter of Ethics Established the Ethical Management infrastructure such as organizations and system
Settlement (2005-2009)	<ul style="list-style-type: none"> Audited the work process Improved the Ethical Management infrastructure such as organizations, regulations, and system
Development (2010-2015)	<ul style="list-style-type: none"> Proactively managed business risks Continuously developed the Ethical Management Practice Program and expanded it to the group
Internalization (2016-2018)	<ul style="list-style-type: none"> Established the Ethical Management Audit Group system Strengthened independence and expertise of the Ethical Management organization
Sophistication (2018-2019)	<ul style="list-style-type: none"> Transferred Ethical Management-related work to the Ministry of Justice Established the Compliance/Ethical Management system
Stabilization (2019-)	<ul style="list-style-type: none"> Established the 'Compliance Department' exclusive for Compliance/Ethical Management-related tasks Established the Ethical Management infrastructure through amendment and enactment of relevant regulations

2. Ethical Management Practice Program

Ethics Pledge

All of KT&G's employees acknowledges the Ethical Regulation and promises to actively engage in the Ethical Management pursued by the company by signing the 'Ethical Management Pledge' annually.

Activities for Preventing Sexual Harassment

KT&G performs activities for preventing sexual harassment to improve awareness and customs of sexual harassment and create beautiful and health workplace culture. We regulated obligation for prohibiting and preventing sexual harassment in the rule of employment and set the 'Sexual Harassment Prevention Plan' based on analyses of relevant laws, best practices, and internal system. Moreover, we annually conduct online training to enhance employees' awareness of ethics.

Think Twice Campaign

KT&G regularly conducts the 'Think Twice' campaign that encourages employees' ethical practices. Through the intranet, we share campaigns with themes of not giving and receiving gifts for holidays, preventing year-start and year-end drinking accidents, and prohibiting workplace harassment, in order to preliminarily prevent relevant accidents and incidents.

Ethical Management Training

KT&G performs training on the Ethical Management toward new recruits, executives, and managers to settle the Ethical Management and legal compliance. In 2019, we provided all employees preventive training for workplace harassment to highlight the importance of the issue. Offline training was provided to those who need focused training on work-related laws by job duty and position, and a total of 324* employees participated in 2019.

*No. of training participants is based on cumulative calculation

Spreading the Ethical Management to Stakeholders

KT&G attaches the 'Specialized Terms for Ethical Practices' in the agreement signed with suppliers. Thus, we urge them to practice ethical behaviors and strive to settle the ethical corporate culture in the overall industry. Moreover, we conduct surveys to external stakeholders and monitor transaction satisfaction and our employees' unethical behaviors. Through the survey result, we are not only checking the status but also discovering correcting directions.

3. Measuring Effectiveness of the Ethical Management

KT&G conducts employees' self-check of ethical awareness annually to measure effectiveness of the Ethical Management practices and diagnosis programs. We derive problems, correction methods, and results of corrections by collecting and analyzing the self-check results, and if needed, we consult with relevant departments to solve the issues. Henceforward, we will sophisticate the Effectiveness Measurement System for the Ethical Management to evaluate the effect of the Effectiveness system and programs more objectively.

