

Transparent Disclosure

Tax policy

KT&G pays taxes by interpreting the tax law from a conservative point of view pursuant to the management philosophy of 'an upright company' and does not transfer income to low-tax countries for the purpose of tax evasion. Our domestic and overseas subsidiaries also abide by the laws of each country in which they operate, following the parent company's policies and faithfully fulfill their tax obligations. To this end, we manage a transparent taxation and accounting system and faithfully submit legal evidence upon the request of data from the tax authorities. Besides, all our executives and employees responsible for tax affairs conform to tax laws following KT&G's tax policy and maintain a transparent relationship with the tax authorities.

All internal and external transactions of the company are handled under the Korea International Financial Reporting Standards (K-IFRS). Especially, transactions with overseas subsidiaries are carried out within the normal price range according to the transfer pricing policy. Corporate tax is calculated and paid based on the above principles and tax laws, whereas other taxes are on the basis of accounting standards and related tax laws.

Tax risk management activities

Tax risk is managed at the company level and the operational level. At the company level, KT&G interprets the tax law from a conservative point of view based on the spirit of compliance, calculates and pays related taxes, and informs subsidiaries within the group of these principles. At the operational level, each department within the company consults with the finance department in advance for new or high-value transactions to review compliance with accounting standards and tax laws. Hence, we report and pay corporate tax by adjusting the income and expenses according to K-IFRS and the corporate tax regulations. At this time, the data that serves as the basis for calculating the corporate tax are linked to the company's computer system to ensure the reliability of the information. Temporary monetary differences that arise during tax adjustment are recorded and managed transparently. We also manage taxes other than corporate tax, i.e., value-added tax, similarly to corporate tax, and report and pay according to the tax laws.

Tax risk assessment process

An external tax expert (accounting firm) verifies our compliance with the corporate tax law, and all subsidiaries within the group receive expert advice to calculate, report, and pay corporate tax. External tax experts are selected from a pool of experts above a certain level in the region and country, and the expert information is shared and managed within the company. The major accounting process, which is the basis for calculating corporate tax, is carried out in advance following the advice of external experts.

Honest taxpayer

In 2020, our consolidated pre-tax profit was KRW 1.61 trillion when the nominal tax amounted to KRW 426.7 billion, recording a nominal tax rate of 26.47%. Meanwhile, the net tax amounted to KRW 440.5 billion, recording a net tax rate of 27.32%. The average nominal tax rate for the past two years is 26.51%, and the average net tax rate is 28.15%, of which the net tax rate is higher by 1.64%p. Such difference appeared to have been attributed to the effects of non-taxable income and non-deductible expenses, changes in the unrecognized amount of deferred income tax for temporary differences, and tax credits and reductions.

Tax and tax rate from 2019 to 2020 on a consolidated basis

(Unit: KRW 100 million)

Classification	2019	2020	Average
Profit before tax	14,602	16,121	-
Nominal tax amount	3,878	4,267	-
Nominal tax rate	26.56%	26.47%	26.51%
Real tax amount	4,230	4,405	-
Real tax rate	28.97%	27.32%	28.15%

Sales and corporate tax of consolidated subsidiaries from 2018 to 2020

(Unit: KRW 100 million)

Classification	Region	2018	2019	2020	Remark
Sales by region	Korea	42,998	47,300	51,306	Aggregation of financial statements by consolidated subsidiaries
	Russia	868	794	772	
	Indonesia	2,034	2,609	1,951	
	Turkey	79	128	185	
	Others	2,338	2,890	3,941	
	Total	48,317	53,721	58,155	
Corporate tax by region	Korea	3,515	3,903	4,288	
	Russia	(9)	14	22	
	Indonesia	71	89	(20)	
	Turkey	0	0	0	
	Others	6	15	20	
	Total	3,583	4,021	4,310	