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KT&G Supplier Code of Conduct



KT&G SUPPLIER CODE OF CONDUCT

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KT&G Supplier Code of Conduct

Overview

Objective of Policy Establishment

KT&G Corporation (hereinafter "KT&G") exerts its best efforts to comply with all rules and regulations, treat employees with respect, guarantee safe work environment, fulfill its environmental responsibilities and perform business activities in an ethical manner. KT&G also expects all Suppliers included in the Company's supply chain and their partners to take their social, environmental and ethical responsibilities to the fullest. It is to this end the Company established KT&G Supplier Code of Conduct (hereinafter "Code of Conduct").

Code of Conduct requires all partners to thoroughly comply with all rules and regulations applicable to business activities and carry out best operating practices across ethics, environment, labor/human rights, safety/health and business management system. KT&G hopes to see suppliers not only growing into a company that earns bigger respect from society by complying with the Code of Conduct but also make it an opportunity for shared growth. To this end, we will work together with partners.

Code of Conduct is based on the code of conduct set forth in the Responsible Business Alliance. Various global standards and guidelines from ILO and ISO have all been used as reference for additional information. If there is any difference in the degree of regulation between this Code of Conduct and a relevant law, the stricter standard shall apply with priority.

Scope of Application

The Code of Conduct is applicable to all parties in the supply chain that supply goods and services to KT&G (including overseas offices and subsidiaries) and signed agreement with the Company for other transactions. Suppliers that are subject to the Code of Conduct can advise their Suppliers to acknowledge the Code of Conduct and request their compliance.

Roles and Responsibilities of Suppliers

KT&G's Suppliers shall take into consideration all matters that the Code of Conduct suggests in the decision-making and business operation process. Code of Conduct does not completely specify duties of Suppliers and it can be improved or revised through regular review in order to build the Company's sustainable supply chain. Code of Conduct and its revisions, if any, are accessible in KT&G website.

KT&G's Efforts

KT&G shares Code of Conduct upon signing transaction agreement with Suppliers and strives to emphasize compliance to it and improves it by regularly performing due diligence on supply chain and providing ESG consulting. KT&G also runs a channel to file unethical behavior where Suppliers or their employees can file grievance arising from transactional relations with KT&G or from business operation. Filing can be done in anonymity. Any party who files grievance in real name is also protected by making sure his/her identification is kept from exposure.

Supply Chain Due Diligence and Monitoring

Within the permissible legal boundary, KT&G can visit Suppliers to inspect their compliance with the Code of Conduct and perform due diligence in order to more effectively manage the actual or potential negative impacts that may result from a Supplier's business operations. Inspection and due diligence can be performed by a third party outsourced by KT&G, which shall be in compliance with OECD's due diligence guidelines. Suppliers must provide reasonable cooperation with any due diligence related to the Code of Conduct by ensuring that KT&G or the third party designated by KT&G is granted access to the documents and data requested by KT&G. Documents and data obtained by Suppliers shall only be used for due diligence purposes.

Results of inspection and due diligence can be used as basis for KT&G to recommend improvement in the identified risks within the scope not violating laws and regulations. In response, Suppliers shall set improvement plans and take actions based on mutual discussions with KT&G on areas of improvement. Monitoring is performed based on qualitative and quantitative factors and performed at least once per year, but may be performed without delay in the event of a serious change or in the event the possibility of a new risk arising is reasonably acknowledged.

In the case of farm Suppliers, we actively recommend participation in supply chain ESG programs that are based on international standards such as the STP (Sustainable Tobacco Program), etc., and request that Suppliers aim for participation in such programs in the medium to long term. For major raw material origins or areas with a high ESG risk, participation in a supply chain ESG program or equivalent supply chain due diligence is required, and this may be reflected in contract provisions. Furthermore, KT&G operates self-evaluations, due diligence, external inspections, etc., in order to examine whether there has been compliance with this Code of Conduct.

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Human Rights and Labor

Suppliers shall strive to strictly comply with all rules and regulations related to employment and labor, protect human rights of workers and respect them. This shall apply to workers across employment types including temporary workers, migrant workers, students, contract-based workers and regular workers, etc.

Ban on Forced Labor

All work shall be voluntary and Suppliers shall not unfairly limit workers' resignation or change in jobs. Also, they shall not demand workers to hand over their ID card, passport or work permit issued by the government as condition for recruitment.

Ban on Child Labor

Suppliers shall not employ minors under the age of 15 or anyone younger than the minimum age of employment as specified by the law. Related laws and regulations shall be subject to compliance for internship program and any worker aged less than 18 shall not perform a task deemed hazardous from safety and health perspective. In case labor by a child aged less than 15 is discovered in a worksite, the child's health condition shall be checked and proper measures shall be taken including supporting compulsory education subject to the child's will.

Ban on Discrimination and Harassment

Suppliers shall not harass or discriminate workers based on ethnicity, skin color, age, gender, sexual orientation, race, disability, pregnancy, religion, political orientation, nationality and marriage status, etc. in employment including promotion, compensation and opportunities for training, etc. Suppliers shall not discriminate executives and employees in wage payment and fringe benefits and demand conditions not required by their jobs when recruiting executives and employees.

Humanitarian Treatment

Suppliers shall not treat workers inhumanely such as sexual harassment, sexual abuse, punishment, emotional and physical coercion and verbal violence, etc

Workhour Compliance

Suppliers shall not exceed workdays and workhours dictated by laws and regulations of countries and regions where they perform business. Also, maximum workhours including overtime work shall not exceed 60 hours/week in accordance with the key treaties signed by International Labor Organization. All overtime work shall be voluntary subject to workers' consent and any inevitable overtime work shall be fairly compensated as per local rules and regulations. All workers are entitled to minimum one or more off-days in a week.

Wage and Fringe Benefits

Suppliers shall comply with all rules and regulations related to wage including fringe benefits and others like minimum wage and overtime work allowance as specified by law. Wage shall be paid on the designated date and shall be accompanied with wage statement specifying payment details.

Freedom of Association and Collective Bargaining

Suppliers shall respect workers' basic rights including but not limited to association, collective bargaining and appointment of representative as set by the law. Also, workers shall be allowed to engage in free communication with management on work conditions without fear of discriminatory treatment, retaliatory act, intimidating act or harassment.

Health and Safety

Suppliers shall put efforts to comply with rules and regulations related to health and safety and provide healthy and safe work environment to workers. They shall also take proper measures to prevent potential safety hazards.

Establishment of Safety and Health Management Structure

A. Health and Safety Permit

Suppliers shall acquire necessary permits related to health and safety, operate, keep them updated and comply with filing/reporting requirements.

B. Health Check-up

Suppliers shall provide regular health check-up to workers. In case disease associated with condition at worksite is discovered, they shall provide support for further check-up and monitoring on the disease. They shall also take improvement measures such as job shift or reduced workhours subject to check-up results.

C. Rest Space

Suppliers shall provide rest space of sufficient size to workers to keep them from overworking. Rest space shall be maintained in clean conditions.

D. Dormitory Maintenance

Workers' dormitory provided by Suppliers shall satisfy such basic conditions as hygiene and safety. They shall also be guaranteed with fair authority on entrance and exit and personal space.

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Safety Management

Suppliers shall provide fair design, engineering control, administrative control, safety inspection of facilities, work procedures and training on incident risk and hazards in work space to ensure workers are not exposed to chemical, biological and physical safety risk factors. They shall provide appropriate personal protective gear to workers in case hazards cannot be fully controlled with these means. They shall also perform safety risk assessment regularly to identify hazards in advance and put forth corrective measures and safety program subject to assessment results.

Emergency Response

Suppliers shall be able to discern potential emergency situations that could arise from work and put forth emergency plan and response procedures with which to minimize damage to life, environment and property in each situation. Also, regular drill should be provided to respond to emergency situations and emergency evacuation route and guiding lights shall be posted and maintained to ensure swift evacuation in case of emergency. Fire detector, alarm and firefighting facilities shall be installed as required by related law and shall be subject to regular inspection.

Incident and Injury Management

Suppliers shall create a work environment that is free of incidents and injuries as per rules and regulations for all employees and workers employed by contractors at site. Notwithstanding such efforts, Suppliers shall immediately suspend work in the event incident breaks out or serious disease diagnosed and necessary actions shall be taken such as evacuation and transport to hospital. In case of occupational incident or disease, Suppliers shall report the situation, track root cause, establish improvement measures and put forth process to put those measures into action.

Environment

Suppliers shall make efforts to establish recycling procedures during manufacturing activities, perform activities to keep adverse impact to local communities and the environment to minimum and comply with rules and regulations related to the environment.

Environmental Management Structure

Suppliers shall put forth scheme to practice environmental management and build a process with which to continuously improve environmental performance as foundation to mitigate negative impact to the environment. Suppliers are recommended to make efforts to continuously improve environmental results by implementing environmental management standards and practices such as ISO 14001 or an equivalent standard, and to disclose to the public the results and status of implementation of initiatives such as the Science Based Target initiative (SBTi), Science Based Target Network (SBTN), and Carbon Disclosure Project (CDP).

Environmental Permit and Report

Suppliers shall acquire all mandatory environmental permit, approval and registration and keep them updated as well as comply with all requirements in relation to operation, filing/reporting.

Hazard Control

Suppliers shall track chemicals and other substances that have the risk of causing environmental pollution and safety control them during handling, transport, storage, use, reuse, recycle and discard. Places where chemicals are used and containers where they are stored shall be marked with information on chemicals and their hazard.

Waste and Air Pollutants Management

Suppliers shall be aware of characteristics of wastes of all types and manage them to ensure they are managed, handled and disposed in accordance with related rules and regulations. They shall also measure and manage waste amount and emission of air pollutants and make efforts to bring them down.

Less Use of Resources

Suppliers shall put efforts to fundamentally reduce or remove all types of wastes including waste water and waste energy through process improvement, raw material replacement, preservation, recycling and reuse of materials and other efforts towards improvement.

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Biodiversity Protection, Deforestation Prevention, and Land Conservation

Suppliers must commit to protecting and preserving natural ecosystems, including species diversity, forests, and soil. They must also comply with the laws and regulations of the countries and regions where their business sites are located, as well as KT&G's biodiversity and deforestation prohibition policies, particularly insofar as international agreements (World Heritage areas, IUCN Category I-IV protected area) are enforced.

Additionally, suppliers must act to minimize adverse impacts on biodiversity, forests, and land. In line with international biodiversity guidelines, including IUCN resolutions and recommendations on biodiversity, suppliers must - in cooperation with local communities and stakeholders - monitor risks relating to biodiversity degradation/loss, illegal deforestation, and soil contamination in key biodiversity areas that may be affected by their business operations. Suppliers should also strive to mitigate any reasonable concerns that may arise.

*Key Biodiversity Area (KBA): An area designated based on scientific evidence, such as the distribution of IUCN Red List endangered species and the level of ecosystem risk.

Water Resource Management

Suppliers shall manage water resources used and discharged in accordance with laws and standards imposed by countries and regions where they have worksite. They shall measure and manage water consumption, waste water discharge amount and water pollutants and make efforts to bring them down. Suppliers are expected to reduce water consumption and increase water recycling, and are recommended to engage in business with the aim of reducing water-based risks from their business operations and supply chain based on the standards set by the international Alliance for Water Stewardship or an equivalent standard.

Use of Energy and Greenhouse Gas Emission

Suppliers shall make efforts to measure, manage and reduce energy consumption and greenhouse gas emissions amount.

Ethics

Suppliers shall observe integrity, honesty and fairness and observe strict ethical standards across business activities.

Business Integrity

Suppliers shall uphold highest level of integrity in all transactional relations nor offer or receive any types of bribes including inappropriate money or gift, etc. Inappropriate act including corruption, unfair gains and embezzlement shall be strictly prohibited as well.

Compliance with Special Agreement on Ethics Commitment

Suppliers shall comply with KT&G's Special Agreement on Ethics Commitment. Violation of the Agreement may result in penalty in accordance with regulations on procurement and ethics.

Protection of Intellectual Property Rights and Trade Secrets

Suppliers shall make efforts to operate their business in a fair manner in order to protect intellectual property rights and trade secrets of their stakeholders including customers, etc.

Protection of Whistleblower

Suppliers shall operate a channel whereby workers can file or report grievances or unethical behaviors. The channel shall protect identification of whistleblower and any disadvantage against the whistleblower such as retaliatory act shall not be tolerated.

Information Protection

- ① Suppliers shall not information acquired from business operation for purposes other than carrying out business activities nor shall they keep or use information acquired from executing business without prior permission or approval by customers and counterparty to the transaction.
- ② Suppliers shall make efforts to establish a management structure in general on keeping, handling, sending and sharing information and comply with Personal Information Protection Act and other related rules and regulations in order to protect personal information of all personnel (including customers, Suppliers, consumers, executives and employees) pertaining to business management at a reasonable level.

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Responsible Procurement of Raw Materials

Suppliers shall check if any serious infringement of human rights or environmental damage arose from the course of producing and distributing raw materials, minerals, parts and products. They shall identify origin and source of all raw materials, minerals, parts and products distributed. In particular, they shall make efforts to track and check if tin, tantalum, tungsten and gold(3TG) had been acquired from the Democratic Republic of Congo and nearby conflict regions in unethical ways. Suppliers must make efforts to perform suitable due diligence, and must perform reasonable investigations of the origins of raw materials so that the products or materials supplied to KT&G is free of conflict minerals (certain minerals produced in high-risk areas affected by conflict that may directly or indirectly finance or benefit armed groups or human rights abusers).

Fair Competition

Suppliers must engage in ethical business based on the principle of fair and transparent transactions, and must comply with the Fair Trade Act in addition to the competition laws (or anti-monopoly laws) of the region where the business takes place.