Flashlight Capital

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to Stop

Price Decline

RESTORE SHAREHOLDER VALUE

with

GOVERNANCE REFORM

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Flashlight Capital Partners

- Flashlight Capital Partners ("FCP") is a Singapore-based investment management firm focused on improving corporate governance and unlocking long-term value at its portfolio companies.

- FCP was founded by Carlyle Group's former Head of Korea, Sanghyun Lee, in 2020.

- The firm takes an in-depth private equity style approach to investing and its principles are grounded in the following:
  - ✓ ESG begins with Governance; and
  - ✓ Aligning management's interests with shareholders at "ESG laggards" can help unlock long-term value.

- Sanghyun Lee, FCP's Managing Partner, is a Korean native with more than 20 years of active investment management experience.
  - ✓ Prior to serving as the Head of Korea at The Carlyle Group, Mr. Lee was a management consultant at McKinsey & Company in Seoul.
  - ✓ Mr. Lee holds his BA from the Seoul National University and his MBA from Harvard Business School.

Summary

Shareholders Suffered

- KT&G's stock price is trading at the same level as 15 years ago
- Currently trades at 47% discount[1] compared to peers
- Vastly underperforms peers in profitability, valuation and total shareholder returns
- Returns 58% of net income to shareholders vs. peers returning 91%[2]

Poor Governance

1. Poor insider ownership: executives hold 293 shares
2. Mgt entrenched via shadow voting (funded by Treasury Shares)
3. CEO compensation not linked to stock performance
4. Defensive BOD engagement
5. BOD unwilling to distribute cash to shareholders
6. BOD refuses to cancel treasury shares
7. Token ESG mindset of "form over substance"

Our Plan

- **Step 1**: Fix governance issues by adding our two highly qualified and independent directors to KT&G's Board
- **Step 2**: Restore shareholder value by distributing excess cash and cancelling treasury shares

We believe taking these steps can help KT&G trade at its intrinsic value (2x Current Price) in the near-term

Note 1: See page 8
Note 2: 2008-2022; (Dividend +TS Buyback)/Net Income, Peers are: PMI, BAT, Altria, JT, Imperial, ITC; Source: Bloomberg, KT&G Annual Reports

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Section I:

The Case for Change at KT&G

KT&G is a Conglomerate Trading at the Price of 15 Years Ago

Business Overview

- Started in 1883 as government agency (privatized in 2002)
- 2022 Revenue / Net Income: KRW5.5 / 1.0 Tn ($4.4 Bn / 0.8 Bn)[1]
- Five-year revenue and EBIT CAGR: 4.6% and (-2.5%)[1]
- Tobacco business is the #1 cigarette manufacturer in Korea, #5 globally
- Korea Ginseng Company ("KGC", 100% subsidiary) is #1 brand/producer in the world

Valuation

- Market cap: KRW12.2 Tn ($9.2 Bn); 26th largest KOSPI-listed company[2]
- Current stock price is the same level as 15 years ago[3]
- Returned 58% of net income to shareholders vs. peers returning 91%[4]
- 15-year TSR of 6.3% p.a. (vs. 14.4% Peers[5])
- FY23 Cash-adjusted EV/EBITDA 2.9x[6] (vs. 10.1x peer avg[7])

Note 1: Source: KT&G Annual Reports from 2017-2022; $1 = KRW1,322 (Feb 28, 2023)
Note 2: Source: KRX as of Feb 28, 2023; $1 = KRW1,322 (Feb 28, 2023)
Note 3: Source: KRX, price as of May 19, 2008 and Feb 28, 2023
Note 4: 2008-2022; (Dividend + TS Buyback)/Net Income, Peers are: PMI, BAT, Altria, JT, Imperial, ITC; Source: Bloomberg, KT&G Annual Reports
Note 5: Annualized TSR (Jan 02, 2008 - Feb 28, 2023; Source: Bloomberg, KT&G Annual Reports
Note 6: See page 8
Note 7: Source: Bloomberg, EV/EBITDA 2023(E); Peers are: PMI, BAT, Altria, JT, Imperial, ITC

15 Year-Old Vicious Cycle

- BOD with lack of relevant skill sets[1]
- BOD not truly independent from management
- Management owns 293 shares
- Shadow voting funded by Treasury Share donations

- Lost 15 years and counting…
- EV/EBITDA of 2.9x[6]
- Stock 27% down under current CEO[7]
- Consistently trading at a huge discount to intrinsic value
- Poor investor communications
- Shareholders in defeatism

- Growth without profitability
- Loose budget/target setting[2]
- Regressive, reckless Capex plan[3]
- Sending tobacco executives to serve as CEO of its subsidiary, Korea Ginseng Corp (a health food company)[4]
- Cross-shareholdings[5]

- Low growth, deteriorating margins
- Cash piles up in Balance Sheet
- 9 sub-scale, non-core businesses
- Series of investments failures

Note 1: See page 26
Note 2: According to its 4Q 2022 IR, KT&G's 2023 EBIT is lower than 2022, and even 2021. Source: KT&G 22 4Q IR (page 5, 12) https://en.ktng.com/report?cmsCd=CM0044
Note 3: See page 19
Note 4: Since 2012, Korea Ginseng Corp (KGC) had 5 CEO's, and 4 out of 5 were KT&G executives (including the current CEO). KGC's BOD has six directors. Other than CEO (ex-KT&G) and only one external director (a lawyer), all others are KT&G executives. Source: KGC public filing
Note 5: See page 45
Note 6: EV/EBITDA 2023(E); Source: Bloomberg; See page 8
Note 7: Oct 8, 2015 - Feb 28, 2023

Excess Cash on the Balance Sheet and 47% Discount

Sum of the Parts Valuation (KRW Bn)

	EBITDA[1]	Value
Tobacco	1,212	12,298[2]
Subsidiary: KGC	159	2,388[3]
Treasury Shares (15% of total)[4]		1,864
Real Estate Investment[5]		2,161
Non-core business[6]		311
Consolidated Gross Cash[7]		4,002
Financial Debt[7]		(193)
Net Pension Liabilities[7]		77
Total Net Cash/Monetizable Assets		8,222
Total Value of KT&G		**22,908**
Mkt Cap[4]		12,178
Discount to Intrinsic Value		**-47%**

68% of Mkt Cap:

From 15-yr long shareholder starvation during which KT&G's shareholder distribution averaged **58% vs. 91% at Peers**[8]

KT&G is **the only** one with net cash among Global Top 5 tobacco players

Note 1: Source: 2023(E) EBIT from Citi Research (Feb 9, 2023); used Actual 2022 D&A from KT&G consolidated audit report (2022) to get EBITDA
Note 2: Tobacco Business valued on 10.1x of 2023 EBITDA, Avg. of peers; Peers are: PMI, BAT, Altria, JT, Imperial, ITC; Source: Bloomberg
Note 3: Korea Ginseng Company valued on 15x of 2023 EBITDA, avg. valuation of peers (Health Food/Non-alcoholic beverage): Peers are: Hain Celestial, Simply Good Food, Natl Beverage, A.G.BARR, Lotte Chilsung, Britvic PLC, Itoen, Arca Continental
Note 4: Value as of Feb 28, 2023
Note 5: FMV of Real Estate Investment. Source: KT&G consolidated audit report (2022)
Note 6: Non-Core subsidiaries include market value of only one company, Yungjin Pharmaceuticals (stock price of Feb 28, 2023). We conservatively assumed zero value for all others.
Note 7: As of 2022, Source: KT&G consolidated audit report (2022); Includes KRW1,437 Bn of MSA Escrow; See page 43
Note 8: 2008-2022; (Dividend + TS Buyback)/Net Income, Peers are: PMI, BAT, Altria, JT, Imperial, ITC, Source: Bloomberg, KT&G Annual Reports

Long-Term Valuation Gap Relative to Intrinsic Value

KT&G has traded at a 20-50% discount to the value of net assets over past 15 years.
The value of its operating assets has DECLINED due to focus on sales over profit.

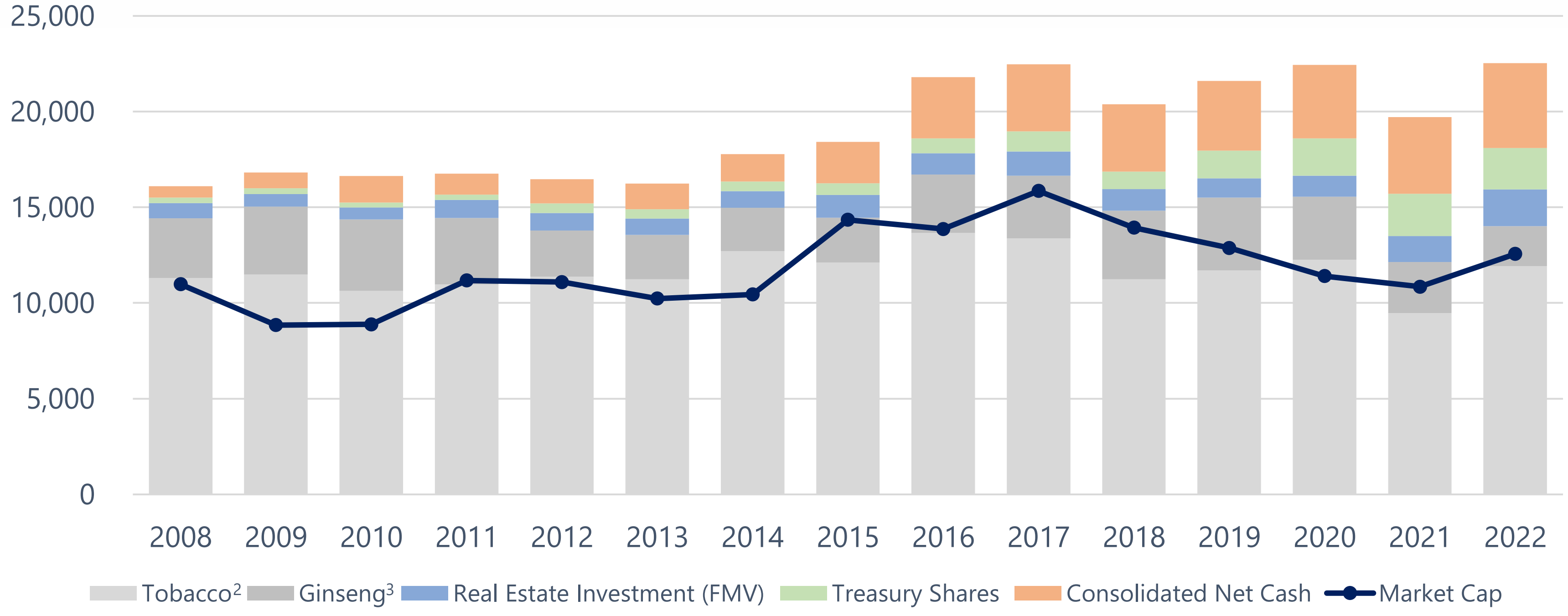
2008
Tobacco Sales
KRW2.6 Bn

Tobacco EBIT
KRW990 Bn

Ginseng Sales
KRW643 Bn

Ginseng EBIT
KRW193 Bn

KT&G Asset Value vs. Market Cap[1]



2022
Tobacco Sales
KRW3.6 Bn (+39%)

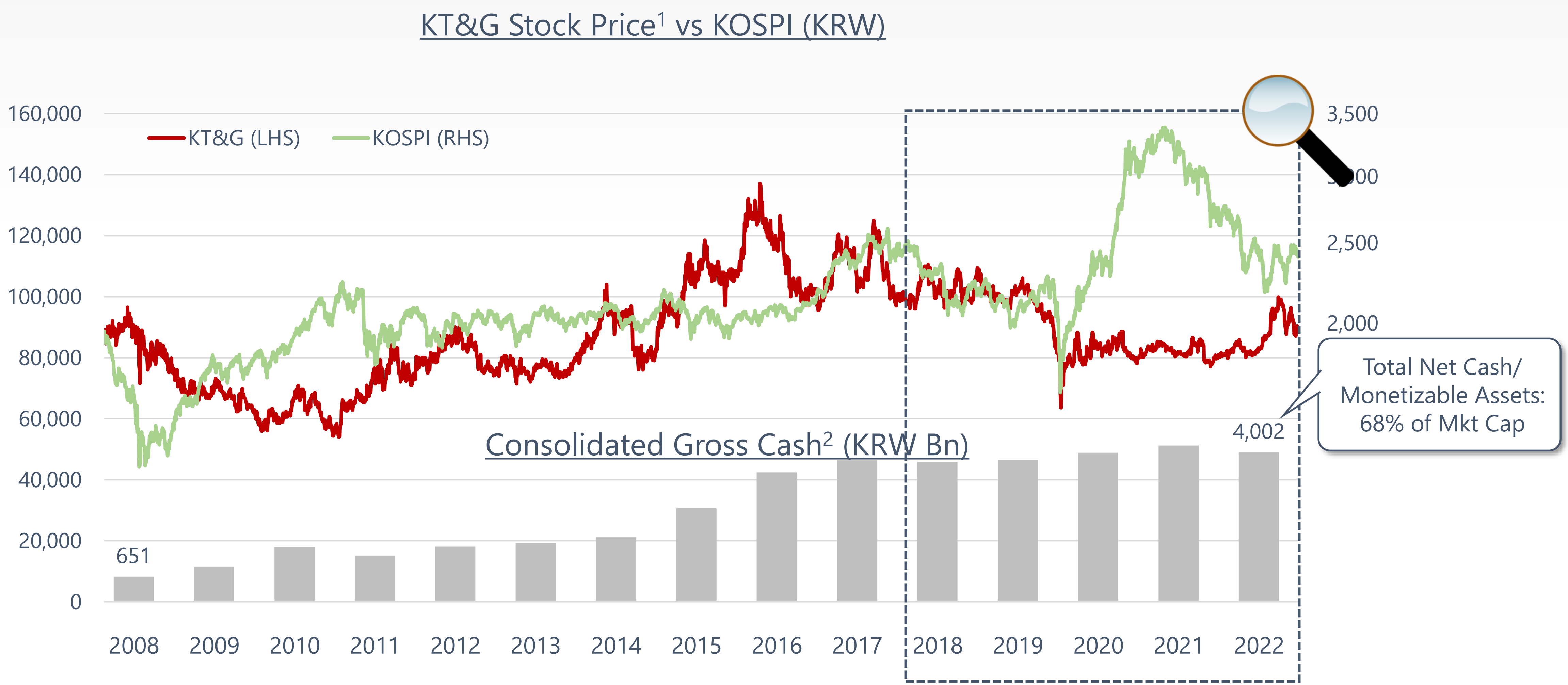
Tobacco EBIT
KRW1,036 Bn (+5%)

Ginseng Sales
KRW1.4 Bn (+116%)

Ginseng EBIT
KRW89 Bn (-54%)

Note 1: Source: KT&G Annual Reports, Bloomberg
Note 2: Tobacco Business valued on 10.1x of 2023 EBITDA, Avg. of peers; Peers are: PMI, BAT, Altria, JT, Imperial, ITC; Source: Bloomberg
Note 3: Korea Ginseng Company valued on 15x of 2023 EBITDA, avg. valuation of peers (Health Food/Non-alcoholic beverage): Peers are: Hain Celestial, Simply Good Food, Natl Beverage, A.G.BARR, Lotte Chilsung, Britvic PLC, Itoen, Arca Continental

KT&G's Stock Price is the Same as in 2008…

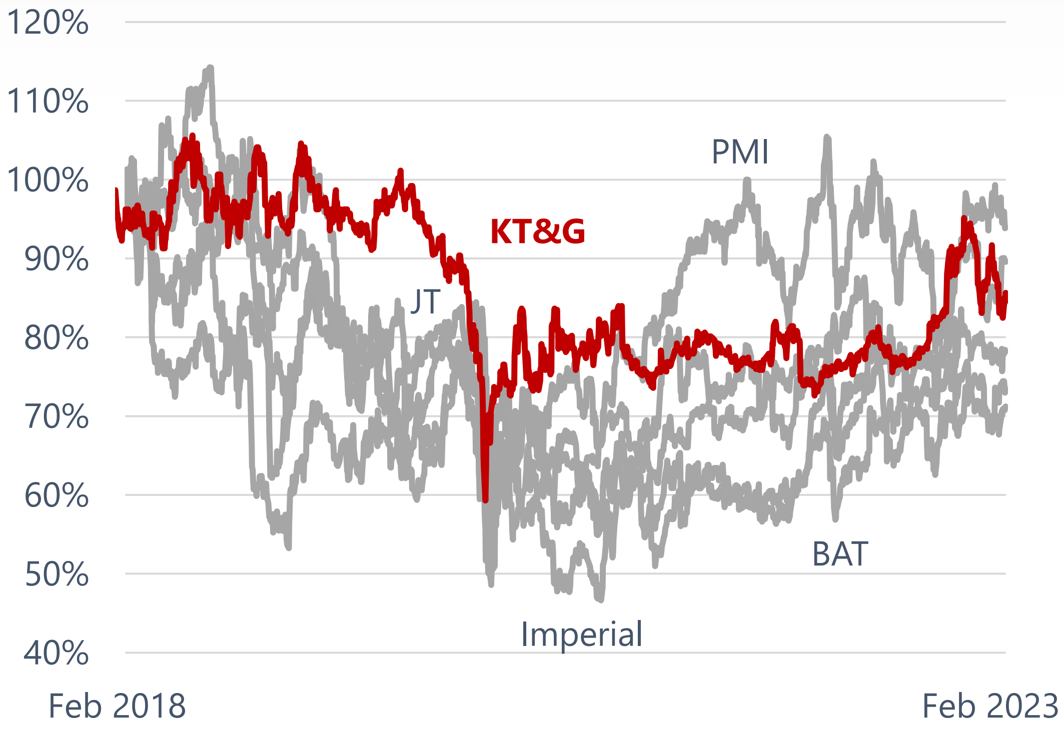


Note 1: Historical pricing not adjusted to reflect dividends, Source: Bloomberg
Note 2: Includes MSA Escrow

.. and Substantially Below Peers

KT&G will say[1]

"In the past 5 years, we went down less than others."



Truth

KT&G is trading so low that it can't get cheaper.

	EV/Rev[2] 2023E	EV/EBITDA[2] 2023E	P/E 2023E
KT&G	0.8x	**2.9x**	11.0x
Peer Avg.	**4.3x**	**10.1x**	**12.4x**
PMI	5.6x	13.0x	15.6x
Altria	5.0x	8.4x	9.3x
BAT	3.8x	7.9x	8.1x
Imperial	2.9x	6.5x	6.8x
JT	2.2x	7.0x	11.3x
ITC	6.0x	18.0x	23.3x

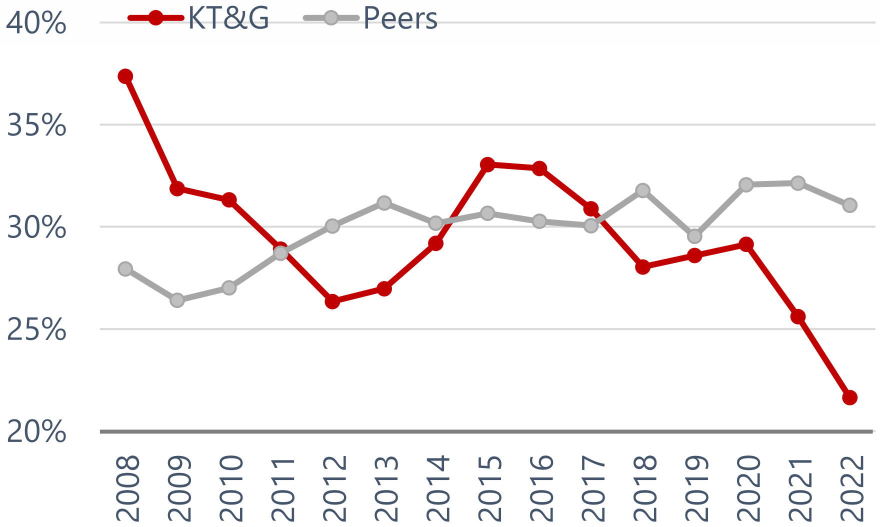
Then KT&G will say[1]...

"It's due to Korea's geopolitical risk[3]"

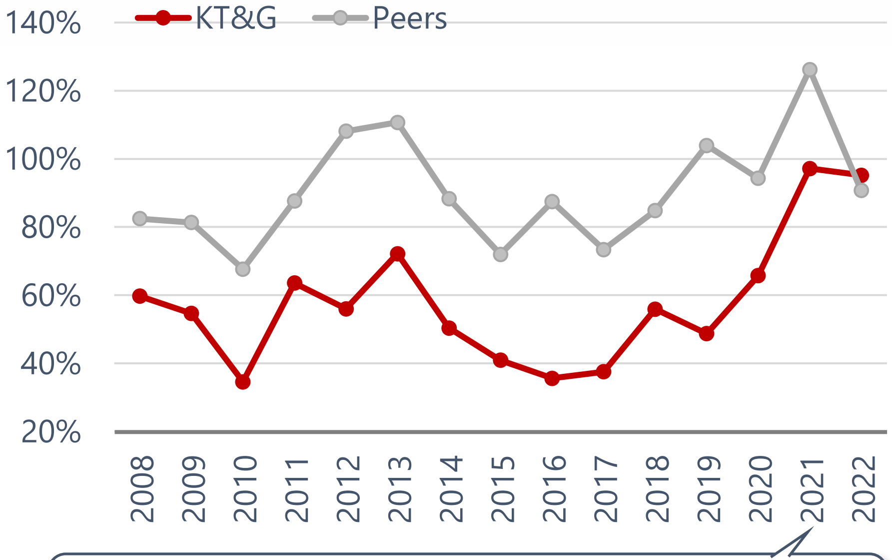
Note 1: KT&G said this during a conference call in Feb 2023.
Note 2: We used Bloomberg Mkt Cap, adjusted by Total Net Cash/Monetizable Assets we outlined on page 8; 2023(E) is from Citi Research (Feb 9, 2023).
Note 3: We believe the discount is driven by poor governance. See https://www.economist.com/finance-and-economics/2012/02/11/minority-report

Low TSR is the Result of Lack of Profit Motive and Poor Distribution

15-Year EBIT Margin vs. Peers[1]



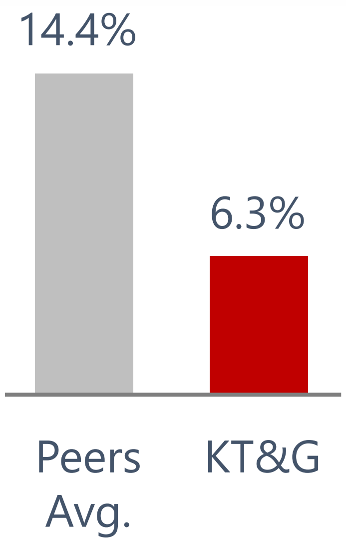
15-Year Shareholder Distribution%[1,2]



KT&G claims they did well in the past two years, so shareholders should forget about the past and move on.[4]

FCP demands catch-up distribution of Excess Cash.[5]

15-Year TSR[3]



Note 1: Peers are: PMI, BAT, Altria, JT, Imperial, ITC; Source: Bloomberg, KT&G Annual Reports
Note 2: Jan 2 2008-2022; (Dividend + TS Buyback)/Net Income, Peers are: PMI, BAT, Altria, JT, Imperial, ITC, Source: Bloomberg, KT&G Annual Reports
Note 3: Annualized TSR (Jan 02, 2008 - Feb 28, 2023; Source: Bloomberg, KT&G Annual Reports
Note 4: See page 29
Note 5: See page 23 and page 30

Management Has Insufficient Alignment with Shareholders…

With near zero ownership levels, we question management’s commitment to shareholders’ best interests.

Two Directors Own **0.0002%** of Total Shares

CEO (Mr. Baek)

- 293 shares worth $20,000[1]

COO (Mr. Bang)

- ZERO shares[2]

- 2016 Annual Report shows Mr. Baek owned 3,893 shares, worth ~$300,000[1]
- 2017 Annual Report shows Mr. Baek has 293 shares, **92%** less than previous year.
- Even if Mr. Baek had all 3,893 shares, the value would still be less than 30% of his all CASH compensation in 2020.

- 2016 Annual Report shows Mr. Bang owned 2,295 shares, worth ~$200,000[2]
- 2017 Annual Report shows Mr. Bang has zero shares.

Note 1: According to KT&G Disclosure in 2017 KT&G Annual Report, Source: https://dart.fss.or.kr/dsaf001/main.do?rcpNo=20171222000190
Note 2: According to KT&G Disclosure in 2017 KT&G Annual Report, Source: https://dart.fss.or.kr/dsaf001/main.do?rcpNo=20171222000048

… But Supported by Shadow Voting[1]

KT&G has given away more than 11 million treasury shares & KRW100 Bn of its cash to foundations and other charities. No donations have ever been approved by shareholders.[2]

Two Directors Own **0.0002%** of Total Shares

CEO (Mr. Baek)
- 293 shares worth $20,000

COO (Mr. Bang)
- ZERO shares

Six Institutions Own 11% of Total Voting Shares

KT&G Welfare Foundation[3]
2% stake[4]

KT&G Academic Foundation
1% stake[4]

Employee Welfare Funds
4% stake[4]

Employee Gongje Funds
0.4% stake[4]

Employee Gong-young Funds
0.1% stake[4]

KT&G ESOP
4% stake[4]

Note 1: See page 37 for KT&G filing of these giveaways
Note 2: Donation of Treasury Shares DOES NOT require Shareholder's Approval.
Note 3: Mr. Min was CEO of KT&G until 2015 when he resigned in the middle of the Prosecutor's investigation on charges including embezzlement. Source: https://www.seoul.co.kr/news/newsView.php?id=20160106010014
Note 4: % of total # shares with voting rights Source: KT&G Shareholder Registry (as of Dec 2022)

Korean Media on KT&G's Government Issues

한국경제

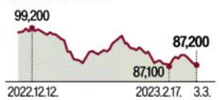
한국경제

2023년 3월 6일 월요일 A11면 기업 25.4 x 14.6㎝

KT&G 사내 우호 지분 11% … 국민연금보다 많다

자사주 매입 놓고 논란

KT&G 주가 (단위:원)



행동주의펀드와 표대결 예고
업계 "경영권 방어 역할 가능성"
일각 "자사주 소각은 왜 안하나"
KT&G "매입도 주주가치 도움"

행동주의 펀드 플래시라이트캐피탈파트너스(FCP)의 공격을 받는 KT&G의 사내 기금·재단, 우리사주조합이 보유한 지분이 약 11%(지난해 9월 말 기준 추정치)에 달하는 것으로 파악됐다. 감사보고서상 최대주주인 국민연금관리공단(지분율 7.44%)보다 많다. 투자은행(IB)업계에선 이들이 KT&G의 '방어벽' 역할을 할 가능성을 배제할 수 없다고 본다.

5일 IB업계에 따르면 KT&G 우리사주조합을 포함해 사내 6개 기금·재단이 보유한 지분은 감사보고서상 최대주주인 국민연금보다 많다. 지난 3일 종가 기준으로 1조3000억원 규모에 달한다. KT&G는 현재 장학·복지를 위한 2개 재단과 임직원을 위한 3개 사내복지기금을 운영 중이다.

이에 대해 KT&G 관계자는 "11%의 지분은 시장에 유통이 불가능한 주식"이라며 "사회적 약자 지원 등 사회적 책임을 다하기 위해 회사가 재단 등에 자사주를 기부한 것"이라고 설명했다. 의결권 행사 여부에 관해서는 "각 재단, 기금이 자체 판단해 결정한다"고 말했다. 경영권 방어와는 상관없다는 얘기다.

증권업계에선 공익법인인 사내 재단들도 KT&G 현 경영진에 우호적일 수밖에 없다는 평가가 나온다. 2018년부터 KT&G복지재단(2003년 설립)을 이끄는 민영진 이사장은 KT&G 대표(2010~2015년) 출신이다.

올해로 임기 6년째인 백복인 KT&G 사장은 KT&G장학재단(2008년 설립) 이사장을 함께 맡고 있다. 증권업계 관계자는 "우리사주조합과 사내기금은 의결권 행사 시 현 경영진의 결정을 따를 공산이 크다"고 말했다.

3월 말로 예정된 KT&G 주주총회에서 KT&G와 FCP의 표 대결이 한 치 앞도 알 수 없는 박빙으로 전개될 것이란 전망이 나오는 데는 이런 배경이 있다. FCP는 KT&G의 100% 자회사인 KGC인삼공사 분리 등을 요구하며 지난 1월부터 총 11건의 주주제안서를 보내 KT&G를 흔들고 있다. 현재 약 15%의 자사주를 보유한 KT&G는 올해도 3000억원어치를 추가 매입할 예정이다.

일각에선 KT&G가 자사주 매입에 사내 기금을 활용한 것에 관해 부정적인 반응도 나온다. 자사주를 매입한 뒤 소각하지 않은 게 투자자들에게 '경영진이 경영권 방어에 활용하려는 목적 아닌가' 하는 오해를 불러일으킬 소지가 있기 때문이다. 이상헌 하나증권 연구원은 "자사주가 기업가치 개선 이외의 용도에 사용되는 일이 빈번하다"며 "기업의 중장기 가치를 높이기 위한 자사주 활용법은 소각 외엔 없다"고 잘라 말했다.

이와 관련해 KT&G 측은 1월 말 기업설명회에서 "자사주 소각만이 주주가치 제고에 도움이 된다고 볼 수 없다"고 주장했다. 회사 관계자는 "자사주는 소각 시점이 아니라 매입 시점에 자본 감소가 발생한다"며 "자기자본이익률(ROE)같이 기업가치와 연관된 지표에 직접적인 영향을 미치는 것은 자사주 매입 시점"이라고 강조했다. 박동휘 기자

(On KT&G's 11% of shadow voting stake; Mar 6, 2023)

THE KOREA ECONOMIC DAILY
GLOBAL EDITION

6/3/23, 10:15 PM

THE KOREA ECONOMIC DAILY
GLOBAL EDITION

2023-3-6

KT&G's hidden saviors in activist fight: In-house funds

…ployee stock ownership association, in-house funds and foundations of …a's top tobacco maker hold a larger stake than the Nat'l Pension Service

A KT&G tobacco production line in South Korea (Courtesy of KT&G)

…G Corp., the world's fifth-largest tobacco maker, will likely get support from in-house shareholders in a battle against activist funds with larger stakes than its top shareholder.

The employee stock ownership association, as well as the company's five funds and foundations, were estimated to have held a combined 11% stake in the leading South

https://www.kedglobal.com/newsPrint/ked202303060007?lang=us

Page 1 of 4

(Same as left; Mar 6, 2023)

이데일리

현 CEO 3연임 기간 중 17% 하락

KT 다음은 KT&G?

'주인 없는 기업' 지배구조 개편 이어지나

KT CEO 교체 주도한 국민연금
KT&G도 최대주주 지위 보유

백복인 사장 체제 9년간 주가 약세
행동주의펀드 '주가 부양' 목소리
국민연금 움직임에 금투업계 관심

…대표가 연임을 포기하면서 …한 시기 민영화된 KT&G …조에도 관심이 쏠리고 있다. …정부가 소유분산기업, 이른 …없는 회사'의 지배구조 개선 …고 있는 가운데 행동주의펀 …가치 제고 방안을 요구하고 …이같은 움직임이 KT&G에 …중인 백복인 사장 체제에도 …지 주목된다.

…융투자업계에 따르면 대표 …분산기업인 KT와 KT&G, …모두 국민연금이 최대주주 …연금은 KT&G(7.4%), KT …스코(8.5%) 주식을 대량 보 …다. 업계에선 '민영화 3형제' …력으로는 둘째인 KT&G를 …고 있다. KT&G 지분을 갖 …금융투자업계 한 관계자는 …는 기업 중 거버넌스에 문제 …KT뿐이 아니다"라며 KT …목했다.

…15년 취임 후 3연임

…래쉬라이트캐피탈파트너스 …행동주의 펀드가 KT&G를 …하는 이유는 주가 상승률이 …로 낮다는 데 있다. 현 대표이 …간 주가 상승률을 단순 비교해 보면 KT는 구 대표가 취임한 2020년 3월 30일부터 지난 23일까지 주가가 61% 올랐다. 포스코도 최정우 회장이 2018년 취임해 연임에 성공한 현재까지 1% 상승률을 기록하고 있다. 반면 KT&G는 백 사장이 취임한 2015년 10월 8일부터 지금까지 주가가 17% 하락하며 같은 기간 코스피 지수(21% 상승)를 크게 밑돈다.

백 사장이 3연임을 이어간 건 경쟁이 치열하지 않았기 때문이라는 점도 지적된다. KT의 경우 지난해 11월부터 12월까지 한 달여간 내부 후계자 양성 프로그램에서 검증된 13명과 사외인사 14명 총 27명 후보를 제치고 구 대표가 최종 후보로 낙점됐지만 "경선 과정이 공정하지 못하다"는 국민연금 제동에 결국 연임 의사를 철회했다. 포스코는 2020년 11월 이사회가 단독 후보로 추천한 최 회장이 3개월 뒤인 2021년 2월 연임에 성공했다. KT&G는 2021년 2월 후보 추천부터 백 사장의 3연임 결정까지 걸린 기간이 11일로 가장 짧다.

대표이사가 보유한 회사 지분 역시 KT&G가 가장 적다. 지난해 반기보고서에 따르면 백 사장의 보유주식 수는 293주로 전체 지분의 0.00021% 수준, 2600만원 규모에 그친다. 이는 KT 구 대표(3만 6571주, 약 12억원)나 포스코 최 회장(1526주, 약 5억원)에 비해 미미한 수준이다.

최고매출 3년 연속 경신은 긍정적

다만 주주총회 절차를 거쳐 뽑힌 사장인 만큼 결과를 존중해야 한다는 반론도 있다. KT&G 측은 "백 사장 선임은 정관 등 사규에 따라 당시 전원 사외이사로 구성된 사장후보추천위원회(사추위)에서 공정하고 엄격한 자격심사를 거쳐 사장 후보자 선정결과를 이사회에 보고하게 돼 있다"며 "사장 후보자 선임과 추천에 관한 모든 권한은 사추위에 귀속돼 있었다"고 설명했다.

백 사장의 임기 기간 동안 KT&G 주가가 오히려 하락했다는 지적에 대해서도 반박했다. 환경·사회·지배구조(ESG) 투자 트렌드가 강화되면서 외국인 비중이 축소되며 주가에 영향을 미쳤지만, 필립모리스(PMI)·BAT로스만스·일본담배산업(JT) 등 글로벌 동종업계에 비하면 주가 흐름이 나쁘지 않다는 것이다. 백 사장 임기 동안 BAT로스만스와 JT 주가는 각각 16.44%, 32.01% 하락했다. 반면 필립모리스 주가는 17.26% 올랐다.

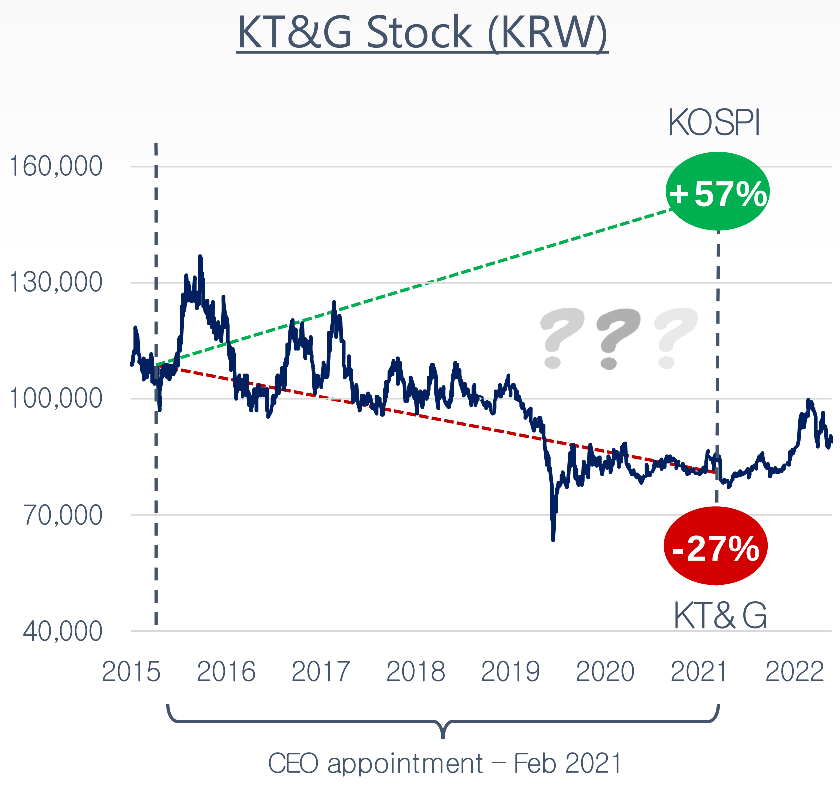
백 사장이 보유한 KT&G 주식 규모가 적다는 지적도 반박했다. 공시의무가 없는 우리사주를 합하면 4000주 가량을 보유 중이라는 것이 KT&G 측 입장이다. 이는 약 3억6120만원 규모다.

기업 성장세가 지속되고 있다고도 강조했다. KT&G는 "백 사장 취임 이후 글로벌 사업 확대 및 수익성 강화 노력으로 취임 전 대비 매출액과 영업이익이 각각 42.8%, 5.9% 증가했다"며 "특히 2020년부터 2022년까지 3년 연속 최고 매출액 기록을 경신했다"고 짚었다. 그는 이어 "특정 시점의 주가를 단순비교하는 것보다는 경영실적과 잠재력 등을 종합 고려해 기업가치를 판단해야 한다"고 주장했다.

김보겸 기자 kimkija@

(KT&G's governance comparison vs. other former government-owned companies: KT and POSCO; Feb 27, 2023)

CEO Compensation Increased While Shareholder Value Has Been Destroyed



- In 2021, CEO was awarded KRW2.6 Bn[1], the most since his appointment and 118% increase from 2020[2]. He is the highest paid Food & Beverage CEO in the industry[3].
- Mr. Baek's compensation has always been **100% in cash**.
- Between 2017 and 2022, **Revenue CAGR was +4.6%**, and **EBIT CAGR "negative" -2.5%.** In 2021, BOD re-nominated CEO Baek for his 3rd term in **just under 11 working days**.[4]
- KT&G's BOD said it made "comprehensive evaluation". FCP requested an analysis for the Board's decision[5], but the request was rejected.
- According to KCGS's "Evaluation Committee Guideline[6]", BOD should set "specific target" for "each factor" and "is responsible to provide sufficiently specific explanation" to shareholders.[7]

Is the Board fulfilling its duty to Shareholders?

Note 1: Source: KT&G 2021 1H semi-annual report (Aug 2021)
Note 2: CEO Baek's total compensation (all cash) was KRW1.1 Bn in 2020; Source: KT&G Annual Report
Note 3: Source: http://www.4th.kr/news/articleView.html?idxno=2004060
Note 4: Source: KT&G 2021 1Q report (May 2021)
Note 5: All we could find was a paragraph in KT&G 2021 1H semi-annual report (Aug 2021). BOD evaluated at least five criteria including TSR, ROE, "Biz Portfolio", "Strategic Brand", and "New Generation Tobacco". No definitions of the quote terms were provided. According to the report, BOD made "comprehensive evaluation of all factors", but no detailed analysis (e.g. how much weight was given to TSR) was provided. FCP requested explanation in December 2022, BOD rejected.
Note 6: Korean Institute of Corporate Governance and Sustainability ("CGS" or "KCGS")
Note 7: According to KT&G, KT&G received the highest rating of A+ from KCGS for two consecutive years (2018-2019) and was awarded "Grand Prize" in 2019. Source: https://www.ktng.com/esg

KT&G's Board Has Refused to Engage with Shareholders

Poor Investor Relations

- Quarterly IR call not proactively notified to shareholders[1]
- KT&G provides only two weeks notice for AGM, while best practice for peers is four weeks
- Opaque shareholder communications (See page 38-40)

Timeline of FCP Interactions w/ KT&G (2022)

- **May 2022** – FCP's two-hour presentation to mgt team.[2]
- **Jun 2022** – asked KT&G for an intro to BOD (rejected).
- **Oct 2022** – sent a letter to BOD requesting a meeting and outlined its plan.[3] BOD never responded.[4]
- **Dec 2022** – sent a 2nd letter to BOD. No response.

KT&G Rejects FCP's Requests (Jan 26, 2023)

- At "*Investor Day 2023*", KT&G rejected all FCP's requests, including increasing the dividend and cancelling the treasury shares
- Instead, the Company announced a Capex plan of KRW3.9 Tn (consists of 67% of 2022 revenue, approved by the Board), and **no ROI provided during Investor Day**.
- Since Oct 2022, FCP has asked for KT&G's cooperation to prepare for a KGC spin-off plan, but was rejected. In Feb 2023, KT&G claimed that FCP's spin-off proposal is not legitimate because BOD did not prepare a spin-off plan.[5]

Note 1: IR call is publicized on the Dart (http://dart.fss.or.kr), but KT&G does not proactively notify its shareholders by email.
Note 2: FCP's presentation material to mgt is available at: https://flashlightcap.com/flc/wp-content/uploads/2022/10/Presentation-to-Management-Team-May-10-2022.pdf
Note 3: See https://flashlightcap.com/flc/wp-content/uploads/2022/10/Letter-to-Shareholders-Oct-26-2022.pdf (Oct 26, 2022)
Note 4: FCP sent a letter addressing each and all BOD members including the Chairman. FCP received a letter from KT&G's COO, who also sits at BOD, but no response came from BOD itself, Chairman of BOD, or any of six external directors.
Note 5: On Feb 28, 2023, during court hearing, KT&G said "Spin-off plan must be prepared by BOD, but FCP's plan was made without BOD." See page 36.

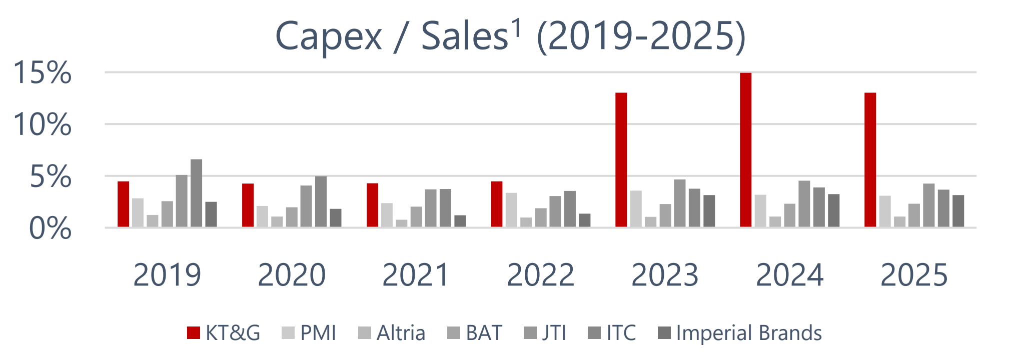
The Market Prefers FCP's Plans over KT&G's Failing Strategy

Note 1: Stock price Ex-dividend; Source: Bloomberg
Note 2: Stock price Oct 25, 2022 – Nov 4, 2022; Source: Bloomberg
Note 3: Oct 26, 2022
Note 4: Jan 26, 2023
Note 5: Stock price Jan 26, 2023 - Mar 15, 2023, Source: Bloomberg

Our Questions for KT&G's Excessive KRW3.9 Tn Capex Plan

1 *Did the Board review the economic rationale?*

- The capex plan is 67% of 2022 revenue. Still KT&G does not disclose any ROI.



- KRW3.9 Tn Capex plan includes KRW0.9 Tn for cigarette factories in Indonesia and Turkey.
- KT&G is not disclosing profitability of its tobacco export business[2], but we understand Indonesia is one of the LOWEST cigarette prices globally.[3]

2 *Does the Board have an ESG mindset?*

- Indonesia's all Top 5 leading causes of death are all tobacco-related. Indonesia has one of the highest smoking rates in the world, with an estimated 68.1% of the adult population smoking.
- According to KT&G, the Company was advised on its investment plans by Boston Consulting Group and Goldman Sachs (Consulting fees for Q4 22 totaled KRW26 Bn) and said, "**Demand is high. We have no choice. We will use the money we make from combustible cigarettes to invest in health food business.**"
- KT&G's plan to expand combustible cigarettes is against the global trend of a "smokeless future."

Note 1: Source: Bloomberg
Note 2: According to Nomura research report, as of 2022 KT&G's export business had gross margin of 28%, vs. domestic business of 67%.
Note 3: "*(Indonesia is)… some of the LOWEST cigarette prices globally*" (Barclays, Jan 14, 2021); "*A package of cigarettes in Indonesia can be bought for less than a US$ 1, among the lowest and more affordable prices in the world.*" (World Bank) https://blogs.worldbank.org/health/world-no-tobacco-day-highlighting-indonesias-ominous-tobacco-use-and-disease-burden

Writing on the Wall: Series of Investment Failures

1 Trisakti (2011-2021, KRW276 Bn)

Indonesian tobacco company KT&G acquired at KRW276 Bn between 2011 and 2021 through Renzoluc.[1]

- **(Renzoluc) Accumulated loss (2011-2022): (KRW51 Bn)**
- **(Trisakti) Accumulated profit (2011-2022): KRW55 Bn**

2 Cosmocos (2011-2017, KRW143 Bn)

Between 2011 and 2017, KT&G acquired 99% of Cosmocos, a Korean cosmetic company, at a total cost of KRW143 Bn.

- **Accumulated loss (2011-2022): (KRW87 Bn)**
- Net loss (2022): KRW1.1 Bn

3 Sang Sang Stay (2015, KRW112 Bn)

100% subsidiary est. in 2015. Owns Marriott Hotel Namdaemun, located at an iconic tourist spot in Seoul, operated by Marriott International. Total cash injected (2015 -2021) is KRW112 Bn.

- **Accumulated loss (2015-2022): (KRW40 Bn)**
- D/E ratio (2022): 1,805%.
- Net loss (2022): KRW2.7 Bn

4 US Export (2010-2021, KRW1.4 Tn)

Unclear when KT&G started US combustible cigarettes export, but KT&G Annual Report shows that US subsidiary was set up in 2010.

- Total Revenue (2010-2022): KRW1.9 Tn
- **Accumulated loss (2010-2022): (KRW36 Bn)**
- KRW1.4 Tn of MSA escrow (2022): locked for 20 years[2]

Note 1: Renzoluc is a holding company in Singapore that owns 100% of Trisakti
Note 2: See page 43

Section II:

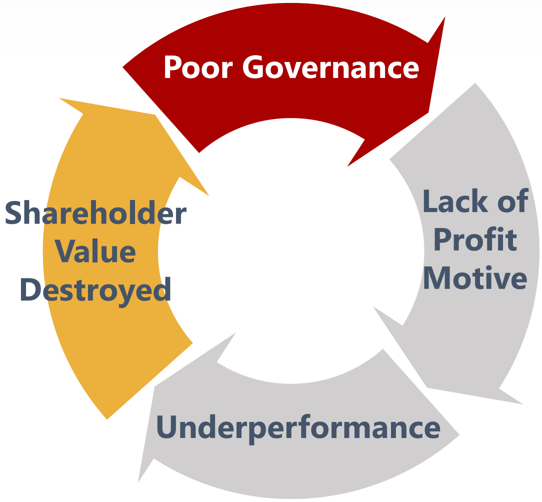
Our Proposals and Vision for Value Creation

How We Plan To Break The Cycle

STEP 2

Restore Shareholder Value

- Catch-up shareholder return / Right-size the balance sheet
- Cancel the treasury shares
- Add quarterly dividends in KT&G's Charter
- Spin-off of Korea Ginseng Corporation



STEP 1

Fix Governance

- Nominate two <u>independent</u> candidates to BOD and to the Audit Committee
- Establish an Evaluation Committee in KT&G's Charter

Overview of Our 2023 AGM Proposals

STEP 1 Fix Governance	Appointment of Suk-Yong Cha as Outside Director (7-6, 8-7) Appointment of Ou-Jin Hwang as Outside Director (7-7, 8-8)	• Greater independence from management • B2C and Large Corp CEO expertise
	Appointment of Suk-Yong Cha as Audit Committee (9-5) Appointment of Ou-Jin Hwang as Audit Committee (9-6)	• Nominees with deep financial backgrounds • Transparency with independent directors
	Amendment to and Enactment of Provisions Concerning Evaluation and Compensation Committee[1] (3-1)	Install objective CEO compensation package to align with shareholders
STEP 2 Restore Shareholder Value	Cash Dividends of KRW10,000 per Share (2-3) Acquisition of Treasury Shares (5) Enactment of New Provisions for Quarterly Dividends (3-3)	Catch-up Distribution: Distribution of KRW2.4 Tn (50:50 = dividend : buyback) vs. KRW4.0 Tn Gross Cash and KRW6.5 Tn Cashable Assets[3]
	Cancellation of Treasury Shares[2] (4) Addition of Right to Decide Cancellation of Treasury Shares (3-2)	Cancel 15% of treasury shares to help stock price and prevent unauthorized donations
	Ginseng Spin-off[4]	For Shareholder Value & Governance of KGC

Note 1: KT&G has non-institutionalized Evaluation Committee (which approved CEO performance-based pay in 2021, See page 16), but it's not stipulated in the Article of Incorporation.
Note 2: Change in Article of Incorporation ("AOI") is needed for shareholders to approve Proposal #10
Note 3: See page 8. KRW6.5 Tn does not include 15% Treasury Shares, Financial Debt, Net Pension Liabilities.
Note 4: On Mar 6, 2023, FCP withdrew ginseng spin-off proposal; KT&G not cooperate on spin-off plan; FCP will first improve governance w/ two directors, and then try ginseng spin-off at a later time, with the help of KT&G BOD

Suk-Yong Cha Biography

Suk-Yong Cha is the CEO and Chairman of the Board of LG H&H, where he has been responsible for 17 years of consecutive growth and was recognized as one of the top CEOs in Korea. Mr. Cha has a track record of extraordinary value creation in the consumer goods industry, which would be additive to KT&G's Board.

Since 2005, Mr. Cha has served as CEO and Chairman of the Board of LG H&H (KRX: 051900, mkt cap of KRW10.4 Tn[1]), a producer of household goods that manages cosmetics, household goods and beverages business. Former President of Procter & Gamble (NYSE: PG) ("P&G") Korea, and Former President and CEO of P&G Ssangyong Paper, a paper manufacturer. Former CEO of Haitai Confectionery and Foods Co Ltd. (KRX:101530), a manufacturer of instant foods, such as confectionery, beverages and ice creams. Mr. Cha lives in Korea.

Education

MBA from Cornell University / Attended JD course of Indiana University School of Law / New York State University, Management (Accounting) / AICIPA

Key Achievements

- During his 18 years of CEO tenure at LG H&H (2005-2022), **stock price increased 2,229% under his leadership.[2]**
- Directly responsible for over 30 domestic/cross-border M&A's; Grew overseas revenue by 41x, from 10% of total revenue to 41%.[3]
- Various awards include Harvard Business Review Best Performing CEO (2015) and awards from the Korean government related to ESG activities including Dongbaek, 3rd highest Order of Civil Merit, for his contribution on social welfare

Skill Sets

❶ Truly Independent ❷ Large Corp CEO ❸ Global Biz ❹ B2C ❺ Finance[4] ❻ Legal ❼ Manufacturing ❽ Supply Chain ❾ M&A ❿ ESG

Mr. Cha has not been and will not be paid by FCP or any of its affiliates.

Note 1: As of Feb 28, 2023
Note 2: Between Jan 3, 2005 and Nov 24, 2022 (date when Mr. Cha announced his plan to resign)
Note 3: LG H&H Annual Reports
Note 4: Mr. Cha acquired AICPA, and he worked as CFO of P&G Korea (1989-1994), P&G Philippines (1995-1996), P&G Asia (1997-1998)

Ou-Jin Hwang Biography

Ou-Jin Hwang is the former CEO of Prudential Life Korea[1] (a private company) <u>the most profitable life insurance company in Korea</u>[2] that more than doubled revenues over a seven-year period under Mr. Hwang's leadership. Mr. Hwang's executive and board leadership experience improving governance and company operations would be additive to KT&G's Board.

Chief Marketing Officer of International Division (Italy/Brazil) of The Prudential Insurance Company of America (NYSE: PRU) / Board member of ADT Caps (now known as SK Shieldus), the 2nd largest security services company in Korea / Vice Chairman of Ceragem Group, a global healthcare company / CEO of Ceragem Health & Beauty, global health & beauty care company. Mr. Hwang lives in Korea.

<u>Education</u>
MBA from Sogang University Graduate School of Business, and BA from Sogang University English Literature.

<u>Others</u>
- During 7-year tenure as CEO at Prudential Life Korea (2003-2010), **revenue grew 2.3x under his leadership.**[3]
- Divested non-core subsidiaries (Prudential Securities and Prudential AMC) to maximize shareholder value.[4]
- Chairman of Make a Wish Foundation Korea (2003-2010) and Director of Save the Children (2019-2021)
- Various awards include Top 100 CEO by Maeil Business Newspaper (2010)

<u>Skill Sets</u>
❶ Truly Independent ❷ Large Corp CEO ❸ Global Biz ❹ B2C ❺ Finance ❻ Regulatory ❼ Operation ❽ Social Resp ❾ M&A ❿ ESG

<u>Mr. Hwang has not been and will not be paid by FCP or any of its affiliates.</u>

Note 1: Prudential Life Korea was acquired by KB in 2020 and is now called KB Life Insurance
Note 2: http://m.insweek.co.kr/2033
Note 3: Source: Annual Report of Prudential Life Korea
Note 4: Prudential Securities and Prudential AMC were sold in June 2010

Our Director Candidates Bring Relevant Skill Sets to KT&G's Board

KT&G's Board lacks important skill sets, and FCP's two new director candidates will bring fresh perspectives and significantly enhance shareholder value.

before | after | PEERS[2]

KT&G BOD's External Directors

	Skill Sets	Mr. Kim	Mr. Koh	Mr. Baek	Mr. Lim	Mr. Shon	Ms. Lee	Mr. Cha	Mr. Hwang
A	True Independence	×	×	×	×	×	×	●	●
B	Large Corp CEO[1]				○	○		●	●
	Global Biz	○			○	○		●	●
C	B2C Biz							●	●
	Fin/Accounting	○	○					●	●
	Legal/Regulatory			○				●	●
	Social Responsibility							●	●
	Op/Manufacturing	○			○	○		●	●
	Supply Chain					○		●	
	M&A	○				○		●	●
D	ESG[4]	×	×	×	×	×	×	●	●

Terms Expire in 2023 (Mr. Kim, Mr. Koh)

Directors FCP Recommends (Mr. Cha, Mr. Hwang)

Change after Two New Directors[3]

A *True Independence*
0 → 33% vs 100%

B *Large Corp CEO Experience*
33% → 67% vs 68%

C *B2C Business Experience*
0% → 33% vs 61%

D *ESG Expertise*
0% → 33% vs 69%

Note 1: Large Corporations defined as company with annual revenue over US$1 Billion
Note 2: Peers are: Altria and PMI. Source: web sites of respective companies
Note 3: % of external directors that satisfy criteria
Note 4: Governance failures and the approval of new combustible cigarette capacity in Indonesia are contrary to the BOD's self-assessment of expertise in ESG. See page 42.

Our Two New Directors vs. Two Directors Whose Term Expires in 2023

Myung-Chul Kim[1]
Director since 2020,
Expires Mar 2023

- Chairman of the Board, Chairman of Evaluation Committee[2], and Member of the Audit Committee
- Experience: Advisor of SEE (Space Entertainment Enterprise) / CFO of Youlife Solutions / Head of America Shinhan Bank
- Education: B.A., Kyunghee University (English Education)

- *Mr. Kim was present when the Board approved CEO performance-based pay in 2021 (See page 16)*
- *FCP did not receive any response from Mr. Kim on our first letter (Oct 22) or 2nd letter (Dec 22)*
- *Shinhan Financial Group (that owns Shinhan Bank) entered into cross-shareholdings with KT&G since 2007.*[3]

Yoon-Sung Koh[1]
Director since 2020,
Expires Mar 2023

- Chairman of the Audit Comm, Board, Member of Evaluation Comm, Member of ESG Comm
- Experience: Professor, Hankuk University of Foreign Studies / Korean Accounting Association / Korean Academic Society of Taxation
- Education: PhD, Yonsei University (Management)

- *Mr. Koh was present when the Board approved CEO performance-based pay in 2021 (See page 16)*
- *Mr. Koh was present when the Board approved KRW0.9 Tn capex for combustible cigarette factories in Indonesia and Turkey*
- *FCP did not receive any response from Mr. Koh on our first letter (Oct 22) or 2nd letter (Dec 22)*

Suk-Yong Cha
New Nominee

- Experience: CEO and Chairman of the Board of LG H&H (Mkt Cap of KRW10.4 Tn) / President of P&G Korea / President and CEO of P&G Ssangyong Paper / CEO of Haitai Confectionery and Foods Co Ltd. (KRX:101530) / CFO of P&G Korea / CFO of P&G Philippines / CFO of P&G Asia
- Stock Price increase of 2,229% under his leadership at LG H&H
- Education: MBA, Cornell University / B.A., Indiana University School of Law (JD course) / B.A., New York State University (Accounting) / AICIPA

Ou-Jin Hwang
New Nominee

- Experience: CEO of Prudential Life Korea, CMO of Prudential International (Italy/Brazil) / Board member of ADT Caps / Vice Chairman of Ceragem Group / CEO of Ceragem Health & Beauty / Chairman of Make a Wish Foundation Korea / Director of Save the Children International
- Revenue grew by 130% under his leadership at Prudential Korea
- Education: MBA, Sogang University Graduate School of Business, and B.A., Sogang University (English Literature)

Note 1: Profiles are from KT&G Annual Report
Note 2: Evaluation Committee that approved CEO performance-based pay in 2021, See page 16
Note 3: Mr. Kim, Myung Chul is from Shinhan Bank, a subsidiary of Shinhan Financial Group, with which KT&G entered into a cross-shareholdings in 2007. See page 45

KT&G Has an Extraordinary Amount of Cash on its Balance Sheet

Bloomberg will show KRW2.0 Tn

033780 KS KRW ↑ 87300	At 14:24 d Vol 159,5
In Millions of KRW	2022 Y
12 Months Ending	12/31/2022
Market Capitalization	10,639,612....
- Cash & Equivalents	1,995,199.18
+ Preferred & Other	42,935.63
+ Total Debt	193,172.08
Enterprise Value	8,880,521.49

Total cash = "KRW2.0 Tn"[1]

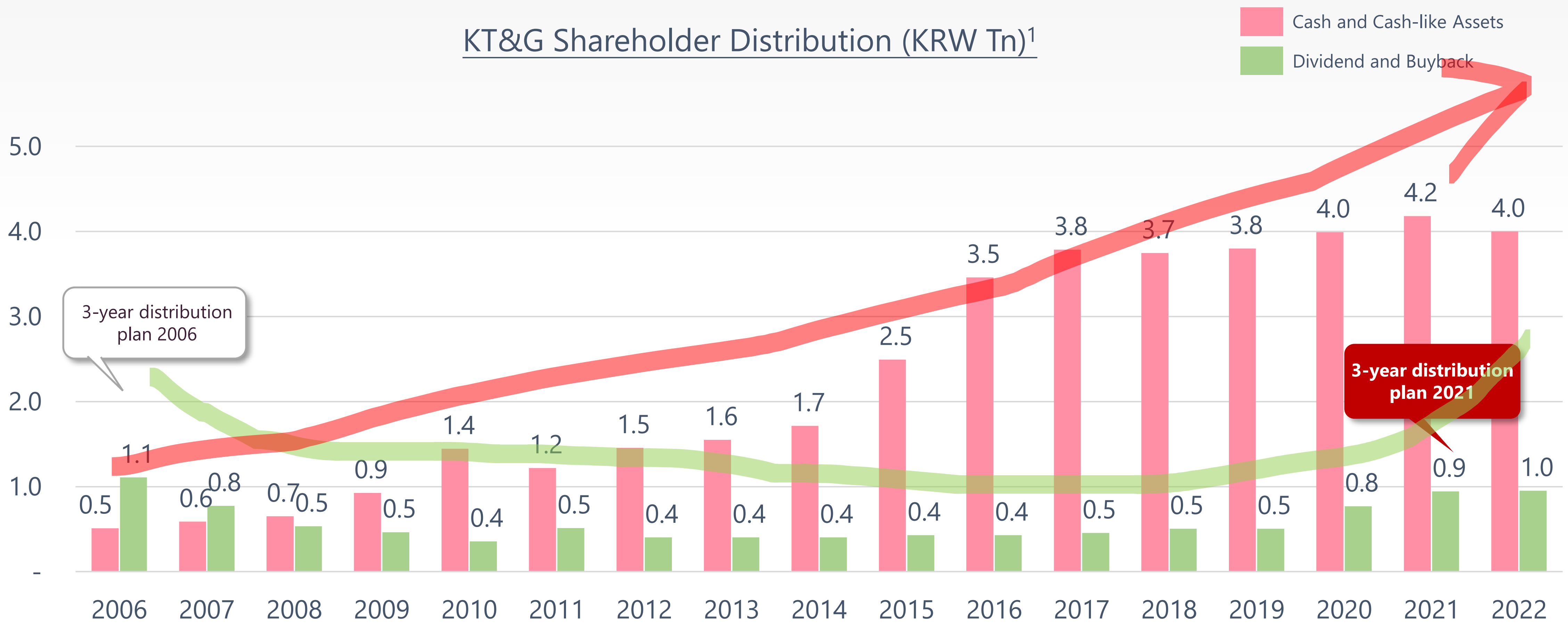
But if you read Annual Report[2] carefully…

과 목	주석	제 36(당)기
자산		
유동자산		
현금및현금성자산	5, 31, 32	1,401,018,438,794
기타금융자산	5, 31, 32, 33	201,074,895,450
당기손익-공정가치금융자산	6, 31, 32	393,106,179,920
매출채권및기타채권	7, 24, 30, 31	1,528,511,308,801
파생상품자		
재고자산		
환불자산등		
비유동자산		
장기기타금융자산	5, 31, 33	42,826,342,939
장기예치금	31, 33	1,437,130,373,415
장기당기손익-공정가치금융자산	6, 31	320,429,121,314
장기매출채권및기타채권	7, 30, 31	108,476,071,963
기타포괄손익-공정가치금융자산	9, 31	206,493,540,726
지분법적용투자자산	4, 10, 30, 33	274,534,172,041
유형자산	4, 11, 33	1,837,040,709,535

	KRW Bn
1) Cash and Cash Equivalents	1,401
2) Current Other Financial Assets[3]	201
3) Current fair market value profit or loss[4]	393
4) Long-term other financial assets[5]	43
5) Long-term deposits in MSA Escrow Fund[6]	1,437
6) Long-term fair value through profit or loss[7]	320
7) Fair value through other comprehensive income or loss[8]	206
Total Cash and Financial Assets	**KRW 4.0 Trillion**

Note 1: As of 2022. Source: Bloomberg
Note 2: As of 2022, Source: KT&G consolidated audit report (2022)
Note 3: Short term bank deposit / CD (Certificate of Deposit), Source: KT&G Annual Report
Note 4: Investment in Money Market Trust, Equity Linked Securities, Money Market Deposit Account and others through financial institutions; Source: KT&G Annual Report
Note 5: Bank deposit; Source: KT&G Annual Report
Note 6: Deposit made under Tobacco Master Settlement Agreement (MSA) under the Escrow Statue of the US state government. The deposit consists of T-Notes, T-bills and demand deposits. This is cash locked up for 25 years, due to KT&G's US business. We understand that, due to this MSA Escrow obligation, KT&G always had significantly negative cash flow. KT&G discontinued US business in 2021. Source: https://dart.fss.or.kr/dsaf001/main.do?rcpNo=20211214000395;See page 43.
Note 7: Real Estate Project Financing Funds and Venture Capital Fund Investment
Note 8: See page 45

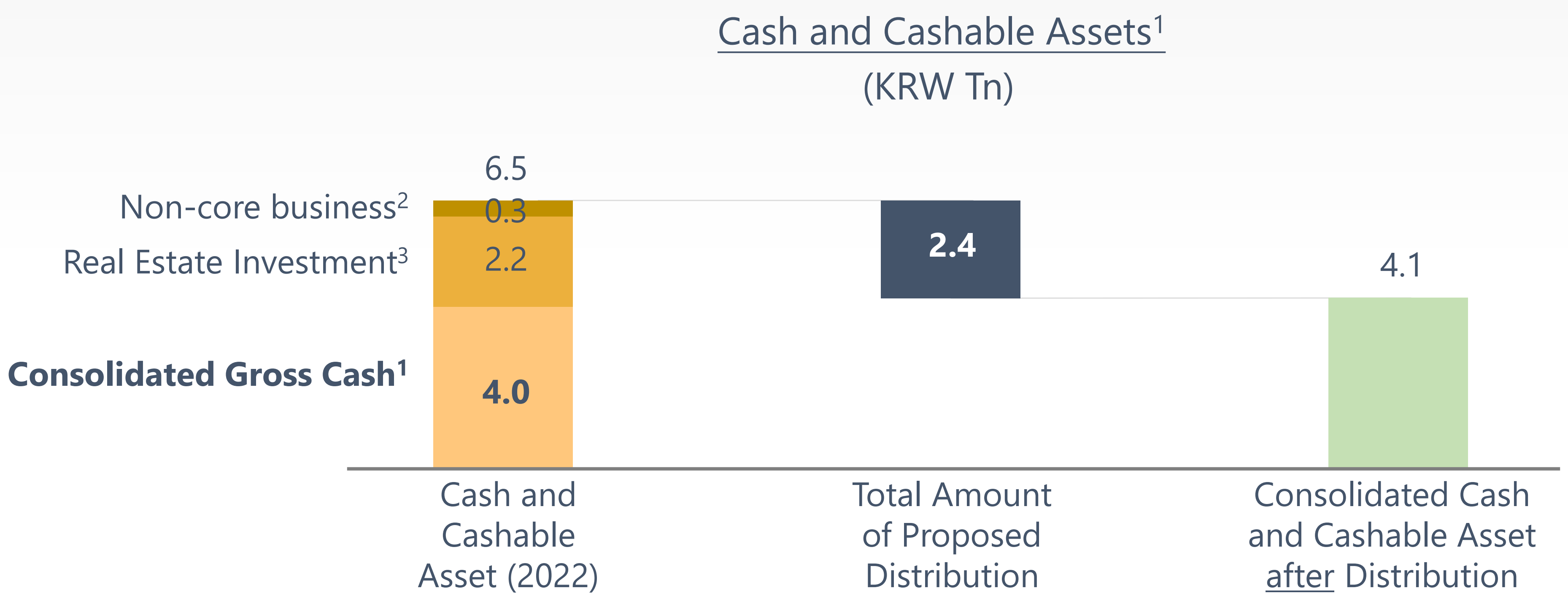
KRW4.0 Tn = 15 Years of Starvation



"KT&G claims it distributed last two years, and that shareholders should not ask about excess cash accumulated over 15 years"[2]

Note 1: KT&G Annual Reports
Note 2: Source: Kim & Chang Presentation (Page 6, Feb 28, 2023) "KT&G's Recent Dividend Payout Ratio is higher than that of avg. Korean listed companies."

KT&G Will Remain Net Cash Positive Even After Distribution



Note: KT&G is **only one with net cash**[5] among five top global tobacco companies

- PMI: net debt of 3.0x EBITDA
- Altria: net debt of 1.8x EBITDA
- BAT: net debt of 3.0x EBITDA
- Imperial Brands: net debt of 2.2x EBITDA
- JT: net debt of 0.1x EBITDA
- KT&G NET CASH of KRW4.0 Tn

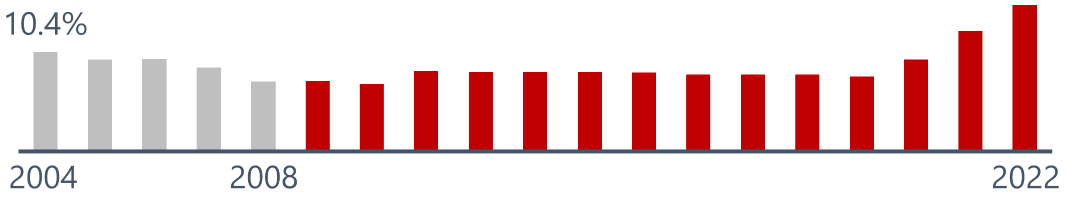
Note 1: Source: KT&G Annual Report; See page 28
Note 2: Non-Core subsidiaries include market value of only one company, Yungjin Pharmaceuticals (stock price of Feb 28, 2023).
Note 3: FMV of Real Estate Investment. Source: KT&G consolidated audit report (2022)
Note 4: As of 2022; Source: Bloomberg

Cancel 15% of Treasury Shares

History of KT&G Treasury Shares

- Treasury Shares were consistently cancelled until 2009, and stock price increased by 263% (from KRW18,350 to KRW66,600) between Sep 17, 2002 and Nov 24, 2009.[1]
- Since 2008, Treasury Shares has been accumulated and grew to become 15% of total shares outstanding.[2] The current stock price is the same as price in 2008.[3]

Treasury Shares as % of Total Shares Outstanding[3]



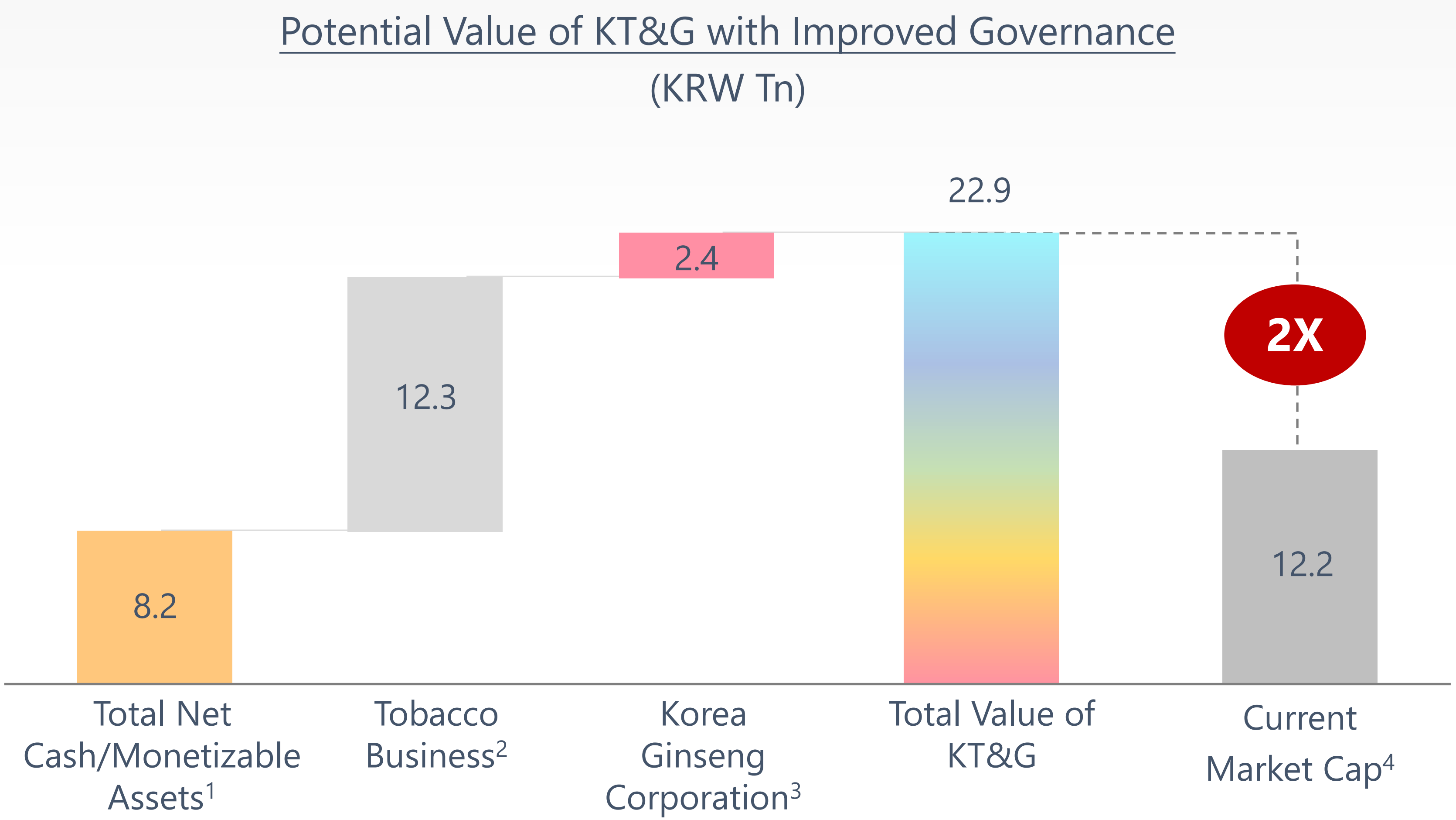
- During its Jan 26 Investor Day, KT&G said it would NOT cancel Treasury Shares.

Why Treasury Shares Must be Cancelled

- Recently the Korean government (Financial Supervisory Service) announced that it would change the law to encourage listed companies to cancel their T/S, so that stock price goes up.[4]
- In YTD 2023, total 6 companies in Korea with over KRW10 Tn Mkt announced T/S cancellation (below 1% on avg), and their stock prices increased by avg. of 3.4% on the day of announcement.[5]
- A recent paper by Seoul National University also attest that announcement of T/S cancellation boosts stock more than actual T/S acquisition.[6]
- If not cancelled, we believe KT&G management could use Treasury Shares to strengthen their entrenchment through **donations** or **share swaps with "friendly" companies**, as they did in 2007 (See page 45).[7]

Note 1: Source: KT&G disclosure, KRX
Note 2: Source: KT&G filings, KT&G Annual report
Note 3: Source: KRX as of May 19, 2008, and Feb 28, 2023
Note 4: Source: http://news.heraldcorp.com/view.php?ud=20220921000343
Note 5: Until Feb 28, Samsung C&T, Hyundai Motors, KIA, Hana Fin. Group, Shinhan Fin. Group, KB Fin. Group; **These companies announced avg. 0.9% of T/S cancellation, yet stocks increased by 3.4%, which is more than 300% ratio**. Source: DART, KRX
Note 6: Source: Effect of Treasury Shares on Firm Value:Evidence from Korea / Woojin Kim, Jieun Im
Note 7: https://www.wsj.com/articles/SB118349431784757001

We Believe Improved Governance Can Help Bring an Immediate Re-rating



Note 1: See page 8
Note 2: Tobacco Business valued on 10.1x of 2023 EBITDA, Avg. of peers; Peers are: PMI, BAT, Altria, JT, Imperial, ITC; Source: Bloomberg
Note 3: Korea Ginseng Company valued on 15x of 2023 EBITDA, avg. valuation of peers (Health Food/Non-alcoholic beverage): Peers are: Hain Celestial, Simply Good Food, Natl Beverage, A.G.BARR, Lotte Chilsung, Britvic PLC, Itoen, Arca Continental
Note 4: As of Feb 28, 2023

Investor-Driven Change is Needed at KT&G's 2023 Annual Meeting

A vote FOR ALL of our Proposals at the upcoming AGM will…

Stop KT&G from destroying shareholder value

- Stop CEO pay disconnect to align with shareholder's best interests
- Stop inappropriate treasury share donations that further entrenches the Board and management team
- Stop investing in regressive and environmentally harmful cigarette factories in Indonesia / Turkey
- Stop shareholder obfuscation

Enhance KT&G with best-in-class ESG practices

- Improve Governance with our two truly independent director candidates
- Install an ESG mindset in all of KT&G's investment decisions
- Align interest between KT&G's CEO and shareholders
- Restore shareholder-friendly distribution policy
- Revamp investor communications with proactive and meaningful outreach

Real Governance Enhancements Can Break the 15-Year Vicious Cycle

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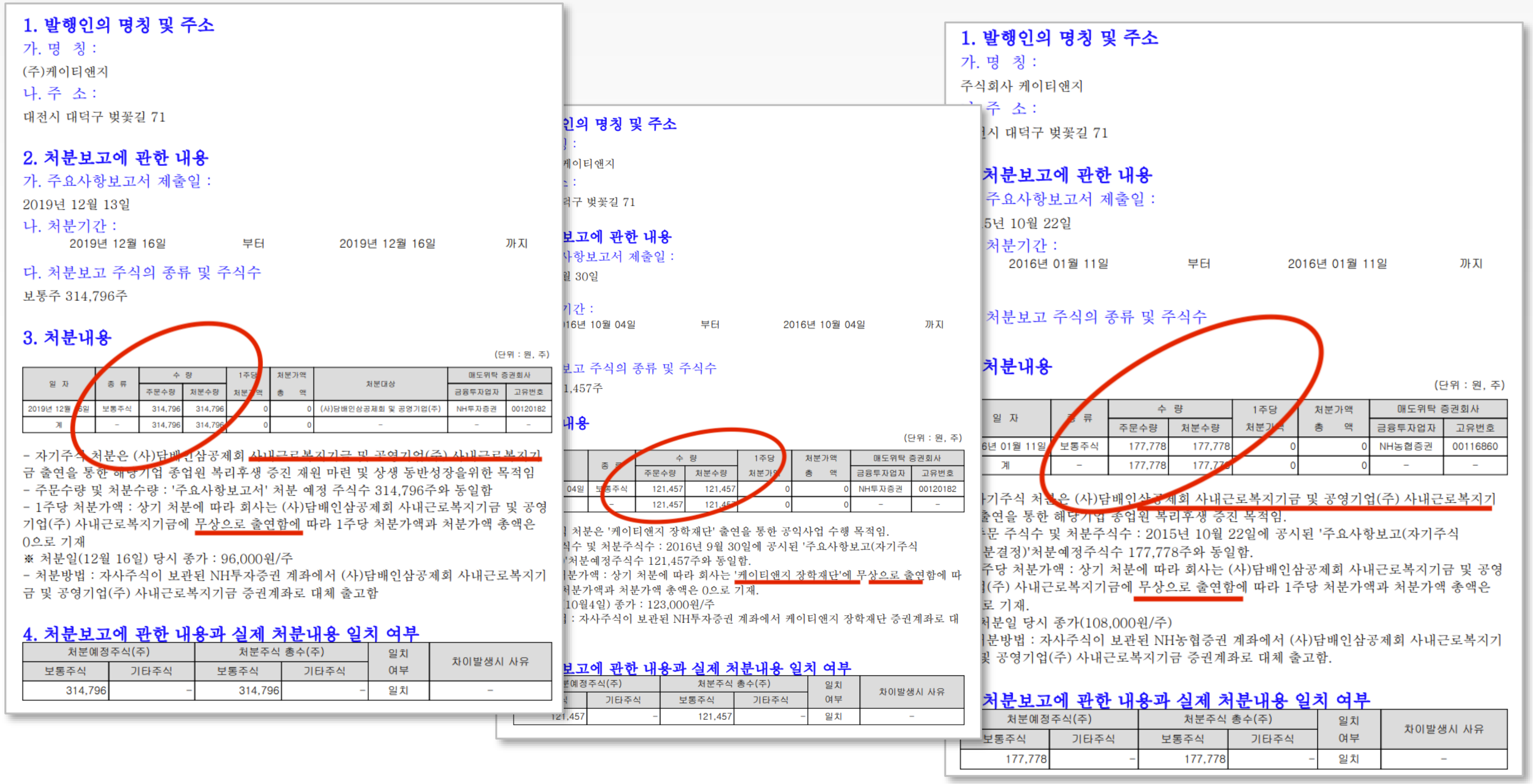
APPENDIX

FCP Interaction with KT&G So Far

April 22, 2022	**Meeting w/ CEO**	Initial discussion on our 5 suggestions and request for a presentation to mgt team
May 4, 2022	Meeting w/ COO, CSO	Pre-presentation meetings on the details of 5 suggestions
May 10, 2022	Presentation to CEO, COO, CSO	A 2-hour presentation (the presentation used is available on our web site)
June 6, 2022	Meeting in w/ COO, CSO	Follow-up discussion on 5 suggestions
June 15, 2022	Letter to Company	Asked Company for a meeting with **BOD (1st Request**)
June 29, 2022	Response from Company	"It is not appropriate time for you to make suggestions to BOD."
Oct 26, 2022	Letter to **BOD (2nd Request)**	FCP announced Five Proposals[1]
Nov 4, 2022	Response from Mgt Team	"We reported to BOD on Nov 3… we will faithfully review… we listen to shareholders."
Nov 9, 2022	Announcement through media	"HNB to be 50% of total revenue by 2025. Will consider direct overseas expansion."
Dec 9, 2022	Letter to **BOD (3rd Request)**	FCP held a Webinar for Shareholders
Jan 19, 2023	1st Submission of AGM Proposals	FCP send a letter to **BOD** saying "**We are willing to discuss Spin-off Plan with you**"
Jan 26, 2023	**KT&G Investor Day** (Mgt Team)	**KT&G rejects all FCP suggestions**; announces KRW3.9 Tn capex including combustible cigarettes factory in Indonesia and Turkey. Stock price plummets 5% during Jan 27[2].
Feb 14, 2023	2nd Submission of AGM Proposals	**FCP received no response from BOD; submitted final version Spin-off plan**
Feb 17, 2023	FCP Requests for Court Injunction	On all Proposals including Ginseng Spin-off
Feb 28, 2023	Court Hearing; KT&G said:	**"Spin-off plan must be prepared by BOD, but FCP's plan was made without BOD."**[3]
Mar 6, 2023	Withdrawal of ginseng spin-off	FCP will pursue again after it places two "truly independent" directors on KT&G BOD

Note 1: See www.flashlightcap.com or https://www.youtube.com/watch?v=X3gwrAAq5Rg&t=29s
Note 2: Stock went down to KRW91,900, which is 4.7% down vs. during Jan 26 price of KRW96,400.
Note 2: Source: KT&G's presentation during the court on Feb 28, 2023

Evidence of KT&G's Treasury Shares Giveaways



1. 발행인의 명칭 및 주소
가. 명 칭 :
(주)케이티앤지
나. 주 소 :
대전시 대덕구 벚꽃길 71

2. 처분보고에 관한 내용
가. 주요사항보고서 제출일 :
2019년 12월 13일
나. 처분기간 :
2019년 12월 16일 부터 2019년 12월 16일 까지
다. 처분보고 주식의 종류 및 주식수
보통주 314,796주

3. 처분내용

(단위 : 원, 주)

일 자	종 류	수 량		1주당 처분가액	처분가액	처분대상	매도위탁 증권회사	
		주문수량	처분수량		총 액		금융투자업자	고유번호
2019년 12월 16일	보통주식	314,796	314,796	0	0	(사)담배인삼공제회 및 공영기업(주)	NH투자증권	00120182
계	-	314,796	314,796	0	0			

- 자기주식 처분은 (사)담배인삼공제회 사내근로복지기금 및 공영기업(주) 사내근로복지기금 출연을 통한 해당기업 종업원 복리후생 증진 재원 마련 및 상생 동반성장을위한 목적임
- 주문수량 및 처분수량 : '주요사항보고서' 처분 예정 주식수 314,796주와 동일함
- 1주당 처분가액 : 상기 처분에 따라 회사는 (사)담배인삼공제회 사내근로복지기금 및 공영기업(주) 사내근로복지기금에 무상으로 출연함에 따라 1주당 처분가액과 처분가액 총액은 0으로 기재
※ 처분일(12월 16일) 당시 종가 : 96,000원/주
- 처분방법 : 자사주식이 보관된 NH투자증권 계좌에서 (사)담배인삼공제회 사내근로복지기금 및 공영기업(주) 사내근로복지기금 증권계좌로 대체 출고함

4. 처분보고에 관한 내용과 실제 처분내용 일치 여부

처분예정주식(주)		처분주식 총수(주)		일치 여부	차이발생시 사유
보통주식	기타주식	보통주식	기타주식		
314,796	-	314,796	-	일치	-

1. 발행인의 명칭 및 주소
가. 명 칭 :
주식회사 케이티앤지
나. 주 소 :
대전시 대덕구 벚꽃길 71

2. 처분보고에 관한 내용
가. 주요사항보고서 제출일 :
2015년 10월 22일
나. 처분기간 :
2016년 01월 11일 부터 2016년 01월 11일 까지
다. 처분보고 주식의 종류 및 주식수

3. 처분내용

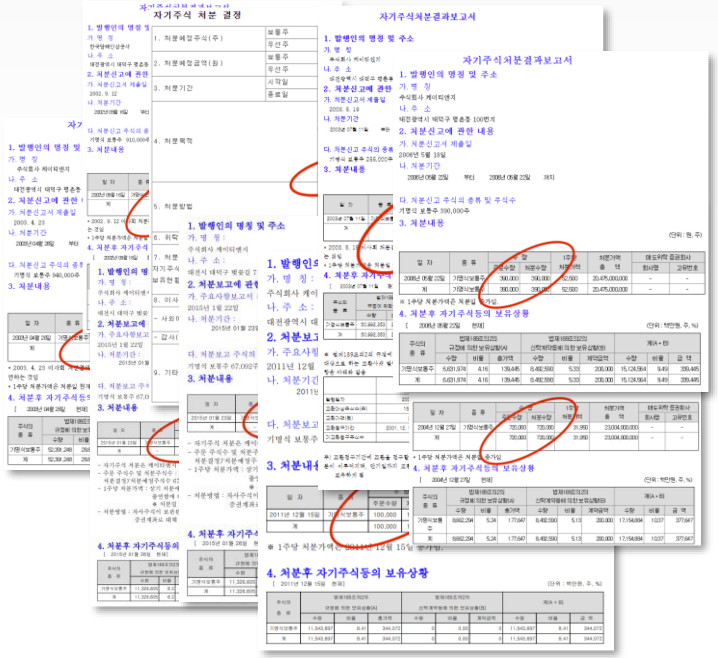
(단위 : 원, 주)

일 자	종 류	수 량		1주당 처분가액	처분가액	매도위탁 증권회사	
		주문수량	처분수량		총 액	금융투자업자	고유번호
2016년 01월 11일	보통주식	177,778	177,778	0	0	NH농협증권	00116860
계	-	177,778	177,778	0	0	-	-

- 자기주식 처분은 (사)담배인삼공제회 사내근로복지기금 및 공영기업(주) 사내근로복지기금 출연을 통한 해당기업 종업원 복리후생 증진 목적임.
- 주문 주식수 및 처분주식수 : 2015년 10월 22일에 공시된 '주요사항보고(자기주식 처분결정)'처분예정주식수 177,778주와 동일함.
- 1주당 처분가액 : 상기 처분에 따라 회사는 (사)담배인삼공제회 사내근로복지기금 및 공영기업(주) 사내근로복지기금에 무상으로 출연함에 따라 1주당 처분가액과 처분가액 총액은 0으로 기재.
- 처분일 당시 종가(108,000원/주)
- 처분방법 : 자사주식이 보관된 NH농협증권 계좌에서 (사)담배인삼공제회 사내근로복지기금 및 공영기업(주) 사내근로복지기금 증권계좌로 대체 출고함.

4. 처분보고에 관한 내용과 실제 처분내용 일치 여부

처분예정주식(주)		처분주식 총수(주)		일치 여부	차이발생시 사유
보통주식	기타주식	보통주식	기타주식		
177,778	-	177,778	-	일치	-



Dec 13, 2019

314,796 shares given to two Welfare Funds for FREE

Oct 4, 2016

121,457 shares given to Academic Foundation for FREE

Jan 11, 2016:

177,778 shares given to Academic Foundation for FREE

... Too many to fit here, but NONE approved by shareholders

Note 1: KT&G filings

KT&G Demonstrates Poor Shareholder Engagement

1 ***KT&G makes it difficult to attend quarterly conference all***: Shareholders receive no e-mail notification;, there is no recording available post event.

2 ***KT&G omits as much as possible***

Volume	Revenue	Profit	Bad news	Valuation
"Over State"	*"Hide"*	*"Hide"*	*"Omit"*	*"Avoid subject"*
"Our HNB penetrated 31 countries."	No HNB export revenue (disclosed from Feb 2023 only after FCP's protest)	No HNB export profit (hidden until now)	• KRW26 Bn Consulting Fee[1]	No mention of valuation during "Investor Day" 2023

3 ***Evade answering questions***

"Divert Attention"

1. (When asked what to do with Excess Cash from low distribution over 15 years): "*Our shareholder distribution was good last year.*"
2. (When asked if the Board is truly independent): "*75% of our Board members are external directors.*"

"Jam Tomorrow"

1. "*We will consider (FCP's) proposals very positively*"[2] → Rejected all proposals
2. "*We will consider overseas expansion on our own*"[3] → Announced 15-year contract w/ PMI
3. "HNB to become 50% of revenue by 2025"[3] → Cigarettes grow 1.4x and HNB is 35% in 2027.[4]

"Ambiguous / Misleading"

1. "Our HNB Capex has almost no risk"[5]
   - No ROI on its HNB capex was provided
2. "We have minimum quota w/ PMI"[6]
   - Planned volume in 2023/24 is lower than 2022

Note 1: We believe this is mostly paid to Goldman Sachs, Kim & Chang, BCG, etc.
Note 2: Mr. Bang (COO and BOD director) said to FCP in June 2022
Note 3: https://mbnmoney.mbn.co.kr/news/view?news_no=MM1004776148
Note 4: https://www.ktng.com/IrEvent?cmsCd=CM0067 "Investor Day" (Jan 26, 2023)
Note 5: During a conference call in Feb 2023
Note 6: COO said during Investor Day (Jan 26, 2023)

15-Year PMI Contract with Financials Hidden from Shareholders

KT&G/PMI Contract
(Jan 2020)

- KT&G entered into a three-year contract with PMI on HNB export.
- **Revenue or EBIT was not disclosed**, and KT&G "due to confidentiality clause with PMI".

FCP Raises Questions
(Oct 2022)

- FCP pointed out that the lack of revenue/profit info makes it **impossible for shareholders to know if the current contract is worth continuing**."

FCP Demands Inspection
(Dec 2022)

- FCP sent a letter requesting inspection of Board minutes when Board approved three-year contract with PMI.
- On Jan 19, 2023, KT&G rejected to disclose **any parts of PMI contract** to FCP.

New Contract: "15 Years"
(Jan 2023)

- In a joint press conference, KT&G announced 15-year contract, **still not disclosing any data on profitability**.
- A reporter asked PMI why it had stopped KT&G from disclosing financial KPI. "**PMI was speechless for 10 seconds and KT&G hastily called off the meeting**."[1]

Note 1: https://biz.chosun.com/distribution/food/2023/02/01/553D3NGWIVDY3C4F6NW52IT4UY/?utm_source=naver&utm_medium=original&utm_campaign=biz

Poor Investor Communication: 4Q 2022

What KT&G said…

"Strong Fourth Quarter"

But the truth is…

EBIT down by **-29% y-o-y**

What KT&G DIDN'T say…

No profit or ROI guidance on KRW3.9 Tn Capex plan

KRW26 Bn Consulting Fees[1]

What Analysts said…

"KT&G reported **below consensus OP** in 4Q22, while its **2023 guidance was also disappointing**. After lowering our FY22-24 NP estimates by 5-16%, **we lower our 12-m TP** to W101,000 (W107,000 previously)." *Citigroup*

"Despite HNB momentum remaining strong, KT&G's 4Q22 **OP was disappointing**, dragged by weak domestic cigarette sales, new product costs, and **widening ginseng losses**" *Morgan Stanley*

"We think **investors will react negatively** due to 1) weaker than expected Q422 results / 2023E OP guidance, 2) **no meaningful change in shareholder return policy**." *UBS*

"We expect slower recovery of the health supplement business (including red ginseng), given the **lukewarm product momentum and lack of new products**." *Nomura*

"In our view, KT&G management is considering increasing Capex / R&D for future growth rather than improvement of shareholder return policy which could be a **disappointment for market**." *JPMorgan*

"KT&G's Capex guidance of KRW800bn for FY23F is c.**8x higher than the historical average annual Capex** for excluding land purchase for the property business. We think a KRW3.9tn heavy Capex over the next few years **should cut cash balance and leave little room for enhanced shareholder return** programs." *Nomura*

"We are Neutral-rated on KT&G, as we think the shares look fairly valued at current levels, given the **lack of major earnings drivers** ahead." *Goldman Sachs*

Note 1: KT&G did not mention this during 4Q 2022 IR call, but later UBS found it and included it in its Feb 9, 2023 report.

ESG in "Form over Substance"

KT&G
SUSTAINABLE SEED FOR TOMORROW
2021 KT&G Integrated Report
CONTENTS

Pillar	Key Agenda		KPI	Scope	2020	2021	Progress: Compared to the Previous Year	Progress: Target Progress	2025 Mid-to-Long Term Targets (Baseline: 2020)
Perform Environmental Responsibility across the Value Chain	Advance Response to Climate Change	Updated Target	GHG Emissions (Scope 1+2)	Domestic + Overseas	123,908 tons	120,516 tons	2.7%		• Reduce 42% by 2030 • Transition to 100% zero-emission vehicle for business use by 2030
		Updated Target	GHG Emissions (Scope3)	Domestic + Overseas	212,288 tons	204,962 tons	3.5%		• Reduce 25% by 2030
			Total			325,478 tons	3.2%		• Reduce 31% by 2030 • Carbon neutral by 2050 (Scope1,2,3)
									20% by 2030

(KT&G ESG Report, 2021)

In Jan 2023, KT&G announced a **KRW0.9 Tn** plan to invest in combustible cigarettes factories in Indonesia/Turkey.

In Feb 2023, during a conference call, on the question about investing in new capacity for combustibles in Indonesia;

KT&G COO responded:[1]
"Demand is there… we have no choice."
"Our sales in Indonesia are up 70%."

KT&G said its capex plan was advised by Boston Consulting Group, Goldman Sachs, and Deloitte.

Indonesia's five leading causes of death are all tobacco-related; it has the highest smoking rate in the world, and Indonesian youth are starting to smoke younger and younger. A pack of cigarettes can be bought at <$1.[2]

KT&G is only player among the Global Top 5 tobacco companies that is heavily investing in combustible cigarettes. This is regressive and against the global trend of a "smokeless future."

KT&G is projecting 44% increase in export combustible cigarette between 2022 and 2027.[3]

Note 1: During conference call with KT&G; Feb 7, 2023
Note 2: https://blogs.worldbank.org/health/world-no-tobacco-day-highlighting-indonesias-ominous-tobacco-use-and-disease-burden#:~:text=Indonesia's%20five%20leading%20causes%20of,chronic%20disease%20in%20the%20country
Note 3: Investor Day, See page 10 and page 18 of "KT&G Investor Day 2023"; https://www.ktng.com/IrEvent?cmsCd=CM0067

Current Board's Skill Sets: KT&G's Self Evaluation

	KT&G's Self-Evaluation[1]	Mr. Kim	Mr. Koh	Mr. Baek	Mr. Lim	Mr. Shon	Ms. Lee
a	Leadership	O	O	O	O	O	O
	CEO Experience	O			O	O	O
	CFO Experience	O					
	Business Operation	O			O	O	O
	Manufacturing				O		
	Supply Chain					O	
	Finance/Accounting	O	O		O		
a	Risk Management	O	O	O	O	O	O
	Global Business	O			O	O	
b	ESG Strategy FAIL				O	O	
	M&A	O				O	
	Marketing/PR/Consumer						O
	Legal/Regulatory		O				
c	Independence FAIL	O	O	O	O	O	O

FCP'S View

- **A** Too abstract/catch-all
- **B** None posses ESG expertise
- **C** All **FAIL** on independence (in substance over form)

KT&G's current metrics lacks TWO critical criteria that its global peers have:

1. **Large Corporation CEO Experience** MISSING
2. **Consumer Business Experience** MISSING

Four Areas of Deficiency

A	Independence	*(FAILED)*
B	Large Co CEO	*(MISSING)*
C	B2C Exp	*(MISSING)*
D	ESG Judgment	*(FAILED)*

Note 1: Source: KT&G ESG report 2021; page 101

The Tobacco Master Settlement Agreement ("MSA")

Background on the MSA[1] (related to KT&G's Long-Term Deposits for MSA Escrow Fund)

On November 23, 1998, Philip Morris, R.J. Reynolds, Brown & Williamson, and Lorillard (collectively the "Original Participating Manufacturers"), along with forty-six states, four U.S. territories, the Commonwealth of Puerto Rico, and the District of Columbia (the "Settling States"), entered into the Master Settlement Agreement (MSA), the largest civil litigation settlement in U.S. history. Later, additional tobacco manufacturers, known as Subsequent Participating Manufacturers, settled with the states under the MSA. (Original and Subsequent Participating Manufacturers are referred to collectively as Participating Manufacturers.) As outlined in the MSA, the Settling States released the Participating Manufacturers from past and future legal claims for costs incurred by the states for smoking-related illnesses and death and for equitable relief. The release did not include the individual claims of their residents. In exchange, the Participating Manufacturers agreed to make annual payments in perpetuity to the Settling States and to substantially restrict their advertising, promotion, and marketing of cigarettes.

Importantly, calculations of annual payments are complex and are subject to a variety of potential adjustments and offsets, including an inflation adjustment and a volume adjustment. Most significantly, percentage reductions in cigarette shipment volumes have been greater than inflation adjustments since 1997, so actual annual payments have been lower than those set forth as base amounts in the MSA and can be expected to continue to be. Participating Manufacturers are required to make annual payments based on their shares of national cigarette sales and shipments.

From KT&G's Q3 2022 Report:

> Each year, the Group deposits a certain proportion of the United States bound tobacco sales proceeds into the US state government in accordance with the Tobacco Master Settlement Agreement ("MSA") legislated under the Escrow Statute of the US. According to the Escrow Statute, if the Group inflicts damage on tobacco consumers due to any illegal activities committed by the Company and leads the US state government to spend medical expenditure accordingly, the deposits in the MSA Escrow Fund may be classified to the state government's medical expenditures. Otherwise, the fund shall be refunded to the Group, in whole, after 25 years from each date of deposit. The Group recognized ₩1,627,911 million in long-term deposits for MSA Escrow Fund as of September 30, 2022 (as of December 31, 2021: ₩1,250,468 million), and they consist of T-Notes, T-bills, and demand deposits.

On its KRW1,437 Bn (as of 2022), KT&G said:

"It's very safe.." (During call w/ FCP)

"It is NOT cash! *(hence FCP shouldn't demand too much shareholder distribution)* (During Court Hearing, Feb 28, 2023)[2]

Note 1: https://publichealthlawcenter.org/sites/default/files/resources/MSA-Overview-2019.pdf
Note 2: Source: Kim & Chang Presentation (Page 6, Feb 28, 2023)

KT&G's Financial Assets Make No Financial Sense

Fair value through other comprehensive income or loss		Value (KRW Bn) 2022[1]	Acquired	Appreciation since acquisition[2]
Shinhan Financial Group	055550 KS	141	2007	**-34%**
Total Listed Financial Assets		197		
Stocks of private companies		9.5		
Total		206		

KT&G acquired shares in Shinhan Financial Group in 2007, as a part of a cross-shareholding agreement to "help each other in times of proxy battles"[3].

It has been held for **16 Years and stock price declined by Minus 34%**.

The current Director, Mr. Kim, Myung Chul, **the Chairman of the Board, Chairman of Evaluation Committee, and Member of the Audit Committee** is from Shinhan Bank, a subsidiary of Shinhan Financial Group.

Note 1: Source: KT&G consolidated audit report (2022)
Note 2: Price change between the date of acquisition (June 22, 2007) and Feb 28, 2023; Source: KRX
Note 3: https://www.wsj.com/articles/SB118349431784757001

Nine Non-Core Businesses: Sub-Scale and Underperforming

KT&G's 3 Main Areas of Business[1]

Tobacco

Rev: KRW3.6 Tn

EBITDA = KRW1.2 Tn

#1 M/S (65%) in Korea

Ginseng

Rev: KRW1.4 Tn

EBITDA = KRW139 Bn

#1 M/S (70%) in Korea

Nine Non-Core Businesses

Actively managed by KT&G

Mostly unprofitable

1. Real Estate business
2. Yungjin Pharma: KT&G owns 52%. Mkt cap of KRW593 Bn (Feb 28, 2023)
3. Comocos (cosmetics): 2022 net loss of KRW1.1 Bn
4. Sang Sang Stay (hotel): 2022 net loss of KRW2.7 Bn
5. LSK Global Pharmaceutical: KT&G owns 23%
6. Lite Pharm Tech (Bio pharmaceutical): 2022 net loss of KRW0.7 Bn[2]
7. Innodis (online game, advertisement): 2022 net profit of KRW0.1 Bn[2]
8. SJ Biomed (pharmaceutical): KT&G owns 14%
9. Starfield Suwon (shopping mall): 2022 net loss of KRW1.4 Bn[2]

Note 1: Source: KT&G consolidated audit report (2022)
Note 2: Total comprehensive income