BOARD WE CAN BELIEVE IN

How To Restore Transparency

STOP
Treasury Shares
Giveaway

FLASHLIGHT CAPITAL

Flashlight Capital Partners (“FCP”)

- A long-term investor that owned KT&G shares since 2021
- Singapore-based investment management firm with a private-equity approach and principles:
  - ✓ Help ESG laggards to enhance governance and create shareholder value
- Sanghyun Lee, FCP’s Managing Partner, is a Korean native with over 20 years of active investment management experience
  - ✓ Head of Korea at The Carlyle Group, a management consultant at McKinsey & Company in Seoul
  - ✓ BA from the Seoul National University, MBA from Harvard Business School

Our activities so far

2022 (Apr 22 to Mar 23)

Apr 22	Meeting w/ CEO	Value Enhancement
May	Presentation to KT&G Executives	Value Enhancement
Jun	Meeting w/ KT&G	Value Enhancement
Jun	Letter to KT&G	Value Enhancement
Oct	Campaign Announcement[1]	Value Enhancement
Oct	Letter to BOD / YouTube video	Value Enhancement
Dec	Webinar for Shareholders	Value Enhancement
Dec	Request of Live Debate w/ CEO[2]	Value Enhancement
Dec	Letter to BOD	Transparency
Feb	AGM agenda Announced	AGM 2023
Feb	YouTube video	AGM 2023
Mar	Webinar for Shareholders	AGM 2023

- Met over 20 shareholders
- 18 Press Releases (Korean / English)

2023 / 2024 (Apr 23 to Mar 24)

Apr 23	Letter to BOD	Transparency
Aug	Meeting w/ KT&G	Transparency
Sep	Request for Financial Data (rejected)	Transparency
Oct	Request of Court Injunction[3]	Transparency
Dec	Letter to BOD / YouTube video	CEO election
Jan 24	Letter to BOD	CEO election
Jan	Ombudsman Channel for KT&G[4]	Transparency
Jan	Court rules in favour of FCP	Transparency
Jan	Request of Lawsuit on T/S	Mgt Entrenchment
Feb	Letter to NPS & President of Korea	Mgt Entrenchment
Feb	Received Profitability Data	Transparency
Mar	Webinar for shareholders	AGM 2024

- Met over 30 shareholders
- 10 Press Releases (Korean / English)

1: After six months of waiting, since April 2022, for KT&G ‘s response

2: KT&G refused

3: After six months of waiting, since April 2023, for KT&G’s voluntary disclosure on overseas profitability. See page 26.

4: 1:1 anonymous chat room at Kakao Talk for KT&G employees

We were busy

Stock price

4%[1]

- Grow HNB
- Excess Cash
- Non-core Biz
- Split off Ginseng
- ESG

Oct 26, 2022
Announcement of FCP Campaign
"It's Governance"

5%[2]

- Increase dividend
- Enable quarterly dividend
- Increase buyback
- Cancel all treasury shares
- Two new directors

Jan 19, 2023
2023 AGM Proposal

10%[1]

- Korean government announced its intention of Value-Up program to eliminate 'Korea discount'
- We are proud our campaign contributed to awareness increase

Jan 17, 2024
Value Up Program

1: Stock price of two weeks post announcement; Source: KRX
2: Jan-18 to Jan 26, 2023, as KT&G announced Investor Day on Jan 26, which led to stock price crash (see next page)

KT&G was also busy

Jan 26, 2023 (Investor Day)
'Will invest 3.9 Trn ($3 Bn)'

- Not one of 25 pages mentions ROI
- Most investments failed in the past[1]
- Claims it needs 27% of total revenue as working capital cash[2]

-9%[3]

Mar 28, 2023 (AGM)
'We won. FCP lost.'

- No T/S cancellation
- No increase in share buyback
- No increase in dividend
- No director w/ shareholder perspective

-2%[3]

Nov 13, 2024 (Value Day)
'Cancel only half treasury shares.'

- Of the existing 15% T/S, cancel only 7.5%
- Raise KRW1.4 tn of debt despite 7 tn of fin. Asset (see page 17)

-4%[3]

Stock price

1: Renzoluc (2011-2021, invested KRW276 Bn,) accumulated loss of 53Bn until 2022; Cosmocos (2011-2017, KRW143 Bn), accumulated loss of 87Bn; Sang Sang Stay (Marriott Namdaemun, 2015, KRW112 Bn), accumulated loss of 36Bn until 2022; US Export (2010-2021), ceased due to DOJ investigation. Total accumulated revenue is 1.9tn and accumulated loss of 43Bn. If MSA escrow of 1.5Trn is forfeited, the loss would be as large as the accumulated revenue.

2: KT&G said it couldn't significantly increase dividend, as "there is no enough cash". They need 27% of revenue as "W/C cash"; didn't mention KRW7 Tn of fin asset. KT&G raised corporate bond in Sep 2023.

3: Stock price of two weeks post announcement; Source: KRX

Stock price is still below the 2022 level

1: Source: KRX (Sep 1, 2022 – Feb 29, 2024)
2: Oct 26, 2022
3: Jan 19, 2023
4: Jan 26, 2023
5. Mar 28, 2023
6: Nov 13, 2024
7: Jan 17, 2024

You see the pattern

	FCP asked	KT&G initially said…	Then later…
2023	Cancel treasury shares (15% of total)[1]	No	Announced only half (7.5%) cancellation
	Increase dividend by 100% using Excess Cash[1]	No	Increased by 4%
	Increase buyback to KRW1.2 trn a year using Excess Cash[1]	No	Only KRW300 bn
	Quarterly dividend[1]	Yes	Semi-annual
2024	Disclosure of financial info[2] (profit of cigarettes and HNB export)	No	Court decided in FCP's favor
	Improve CEO selection process: stop insider only & give outsiders a fair chance[3]	Yes	BOD picked insider after eliminating a proven outsider
	Sue mgt & ex-BOD members behind illegal donation of T/S to related parties	No	To continue…

1: https://dart.fss.or.kr/dsaf001/main.do?rcpNo=20230310001084

2: https://www.yna.co.kr/view/AKR20230419093100002

3: https://news.tf.co.kr/read/economy/2060277.htm

We refuse to stop

1. KT&G made announcements in response to our campaign, hoping you would perceive them as genuine effort to change.

2. Market was not fooled. Stock price is below the level post FCP announcement in 2022. It underperformed peers and KOSPI. Severe discount remains.

3. The root cause runs deep. Without normalizing governance, KT&G stock price will continue to slide.

Table of contents

Stock price discount: 41%

KT&G stock price vs Peers

A Underlying Value	20,435	
Cash/Monetizable Assets	6,958	
Value of Tobacco Biz[1]	11,301	→ Applied 9.6x to 2023 EBITDA See page 14 for peer valuation
Value of Ginseng Biz[2]	1,981	
Value of Non-core Biz[3]	195	
B Mkt Cap[4]	11,989	
B / A - 1 = Discount	**41%[5]**	1.7x upside; see page 53

1: Applied 9.6x (peer avg) to 2023 tobacco biz EBITDA.

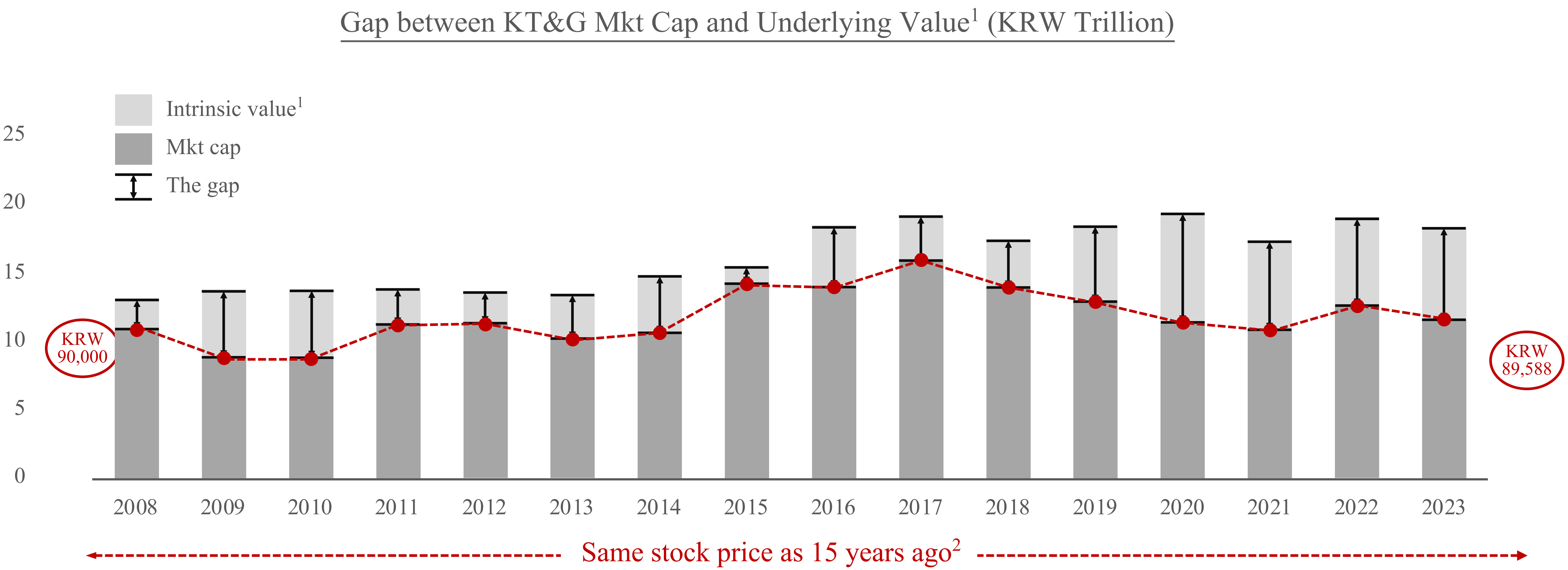
2: Applied 12.0x (peer avg) to 2023 KGC EBITDA. Peers are: Simply Good Food, Natl Beverage, A.G.BARR, Lotte Chilsung, Britvic PLC, Itoen, Arca Continental

3: Includes market value of one Korea-listed company, Yungjin Pharma (stock price of Feb 29, 2024). We conservatively assumed zero value for all others.

4: Avg. stock price for Jan and Feb 2024

5: Less than last year (47% as in FCP's Mar 2023 report); not because KT&G stock price went up, but because its profit deteriorated, lowering the underlying value

Steep discount has a long history



1: Same method as in page 9

2: KRW90,000 as of June 18, 2008, KRW90,900 as of Avg. stock price for Jan and Feb 2024

Underperformed Peers…

TSR comparison (%)

Period[1]	KT&G	ISS' Peer Group[2]	Underperform / Outperform
1 yr	-2.0	5.2	UNDER
3 yrs	22.9	41.3	UNDER
5 yrs	9.5	41.8	UNDER
10 yrs	78.5	62.4	OUT
CEO Baek's tenure[3]	17.1	21.5	UNDER

Period	KT&G	Glass Lewis's Peer Group[4]	Underperform / Outperform
1 yr	-2.0	12.0	UNDER
3 yrs	22.9	58.5	UNDER
5 yrs	9.5	50.6	UNDER
10 yrs	78.5	83.7	UNDER
CEO Baek's tenure	17.1	44.9	UNDER

1: Base date as of Jan 17, 2024, Government's 'Valuation Program' announcement was notified previously.
2: PMI, Altria, BAT, JTI, and Imperial Brands (ISS's definition of peers in its Mar 16, 2023 report), source: Capital IQ
3: Current CEO appointment; Oct 7, 2015
4: PMI, Altria, BAT, JTI, Imperial Brands, and ITC (Glass Lewis's definition of peers in its Mar 16, 2023 report), source: Capital IQ

Underperformed KOSPI…

TSR (%)

Period[1]	KT&G	KOSPI	Underperform / Outperform
1 yr	-2.0	2.4	UNDER
3 yrs	22.9	-21.1	OUT
5 yrs	9.5	15.6	UNDER
10 yrs	78.5	25.3	OUT
CEO Baek tenure[2]	17.1	21.4	UNDER

1: Base date as of Jan 17, 2024, Government's 'Valuation Program' announcement was notified previously.

2: Current CEO appointment; Oct 7, 2015

Another way to look at it: SOTP

What we had on page 9

A	Underlying Value	20,435
	Cash/Monetizable Assets	6,958
	Value of Tobacco Biz	11,301
	Value of Ginseng Biz	1,981
	Value of Non-core Biz	195
B	Mkt Cap	11,989
B / A - 1 = Discount		**41%**

SOTP, using the same numbers

	Mkt Cap[1]	11,989
	Cash/Monetizable Assets	6,958
	Value of Ginseng Biz[2]	1,981
	Value of Non-core Biz[3]	195
C	Remaining: Implied value of Tobacco biz	2,855
D	EBITDA from Tobacco business	1,180
C / D = EV / EBITDA		**2.4x**

1: Avg. stock price for Jan and Feb 2024

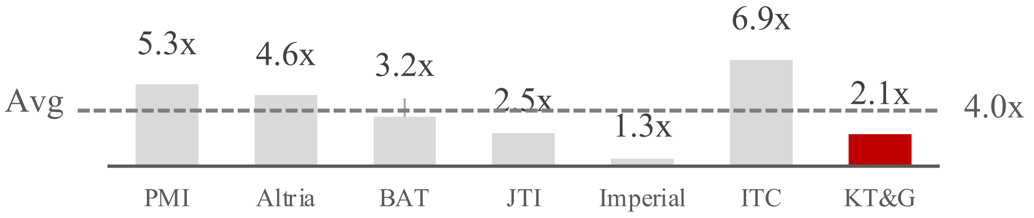
2: Applied 12.0x (peer avg) to 2023 KGC EBITDA. Peers are: Simply Good Food, Natl Beverage, A.G.BARR, Lotte Chilsung, Britvic PLC, Itoen, Arca Continental

3: Includes market value of one Korea-listed company, Yungjin Pharma (stock price of Feb 29, 2024). We conservatively assumed zero value for all others.

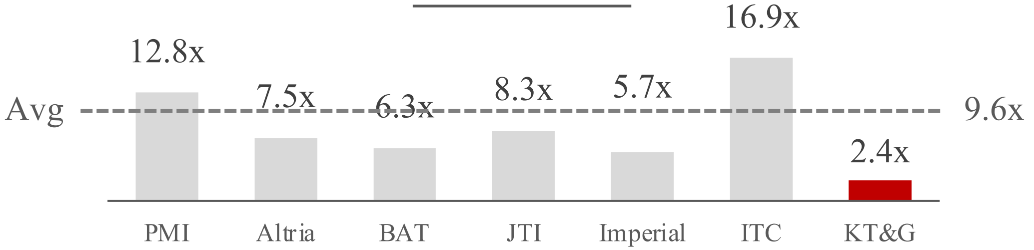
4: 5: Less than last year (47% as in FCP's Mar 2023 report); not because KT&G stock price went up, but because its profit deteriorated, lowering the underlying value

KT&G trades at 2.4x EBITDA vs. 10x EBITDA of Peers

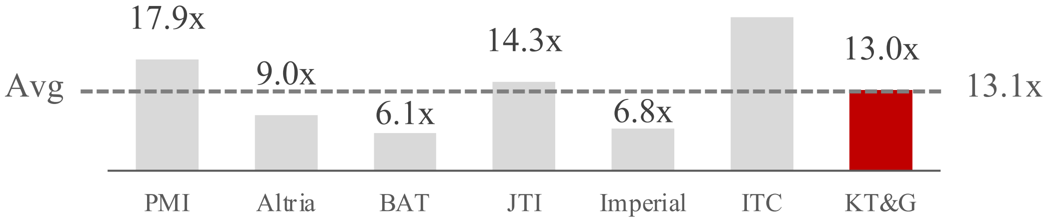
EV/Sales[1]



EV/EBITDA[1]



PER[1]



Why does PER look OK?

58% of "P" (mkt cap) is cash, accumulated over 13 years of poor shareholder distribution (2008 - 2020). Traditional metrics such as PER do not work for KT&G's extreme net cash status.

In fact, KT&G is the only one w/ net cash among global top 5.

Net Debt (x EBITDA[2])

- PMI = 3.1x
- BAT = 2.8x
- Imperial = 2.4x
- Altria = 1.8x
- JTI = 0.1x
- KT&G = (5.9x)

Such misleading optics continued for many years: cash accumulated, PER inflated, and KT&G can present it to shareholders as high PER, hoping you wouldn't catch their capital allocation issue.

1: As of Feb 29, 2024. KT&G stock price as of Avg. stock price for Jan and Feb 2024, 2024, source: Capital IQ

2: Net Debt as of Sep 30, 2024, but Altria as of Dec 31, 2024, BAT as of Jun 30, 2024, EBITDA as of FY2023, source: Capital IQ

Steep discount stems from two major missteps

WHAT drives down KT&G stock price?

I Very poor financial and operating decision making

II Inadequate, risk-exposed governance

Part I: Poor Decision Making

Very poor financial and operating decision making

1. Capital Allocation
2. Plummeting profit
3. Cig. export: profit killer
4. HNB export: lost in translation
5. Ginseng: smoked under

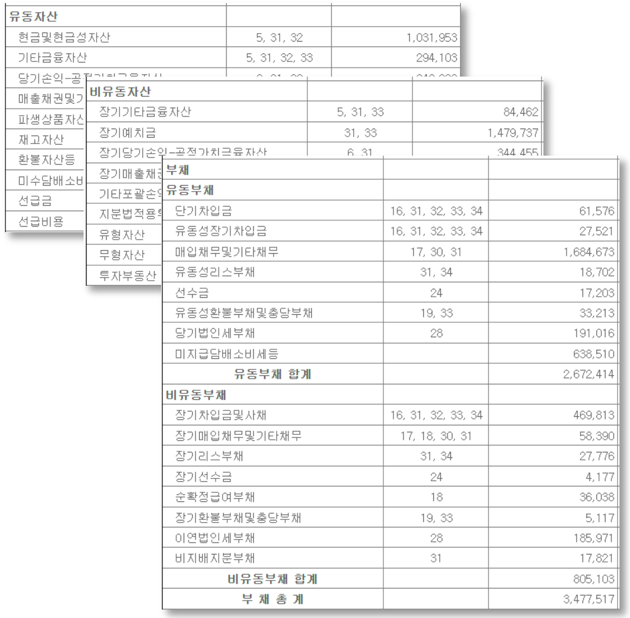
① Capital allocation: excess cash is 58% of mkt cap

Bloomberg shows
only KRW1.664 Tn

033780 KS Equit | 96) Actions | 97) Exp
39) ADJ | KT&G Corp | IFRS 16 | Acct | Cons
1) Key Stats | 2) I/S | 3) B/S | 4) C/F | 5)
11) BBG Adj Highlights | 12) BBG GAAP Highlights

In Billions of KRW	2023 Y
12 Months Ending	12/31/2023
Market Capitalization	9,803.2
- Cash & Equivalents	1,664.2
+ Preferred & Other	115.8
+ Total Debt	605.4
Enterprise Value	8,860.1

Annual Report[1] has much more



유동자산		
현금및현금성자산	5, 31, 32	1,031,953
기타금융자산	5, 31, 32, 33	294,103
당기손익-공		
매출채권및기		
파생상품자산		
재고자산		
환불자산등		
미수담배소비		
선급금		
선급비용		

비유동자산		
장기기타금융자산	5, 31, 33	84,462
장기예치금	31, 33	1,479,737
장기당기손익-공정가치금융자산	6, 31	344,455
장기매출채		
기타포괄손익		
지분법적용		
유형자산		
무형자산		
투자부동산		

부채		
유동부채		
단기차입금	16, 31, 32, 33, 34	61,576
유동성장기차입금	16, 31, 32, 33, 34	27,521
매입채무및기타채무	17, 30, 31	1,684,673
유동성리스부채	31, 34	18,702
선수금	24	17,203
유동성환불부채및충당부채	19, 33	33,213
당기법인세부채	28	191,016
미지급담배소비세등		638,510
유동부채 합계		2,672,414
비유동부채		
장기차입금및사채	16, 31, 32, 33, 34	469,813
장기매입채무및기타채무	17, 18, 30, 31	58,390
장기리스부채	31, 34	27,776
장기선수금	24	4,177
순확정급여부채	18	36,038
장기환불부채및충당부채	19, 33	5,117
이연법인세부채	28	185,971
비지배지분부채	31	17,821
비유동부채 합계		805,103
부 채 총 계		3,477,517

Total Net Fin Asset = **58% of Mkt Cap**

Mkt Cap	11,989
1. T/S (15% of TSO)[2]	1,882
2. Consolidated Gross Cash[3]	2,331
3. MSA Escrow[4]	1,480
4. Real Estate Inv[5]	1,906
5. Fin Debt	(605)
6. Net Pension Asset/Liabilities	(36)
Total Net Cash / Monetizable Asset (1-6)	6,958

Accumulated over "13 years of Famine" during which only 50% of net income was distributed to shareholders[6]

1: https://dart.fss.or.kr/dsaf001/main.do?rcpNo=20231114002901&dcmNo=9500357
2: Avg. stock price for Jan and Feb 2024
3: Includes Cash and Cash Equivalents, Other Current Financial Assets, Current financial assets at fair value through profit or loss, Current Financial Assets Measured At Fair Value Through Other Comprehensive Income, Other Non-Current Financial Assets, Non-current financial assets at fair value through profit or loss, Long-term Deposits
4: Locked over 25 years in US. Currently under the risk of forfeiture. See page 36.
5: FMV of Real Estate Investment. Source: footnote of annual report
6: Between 2008 and 2020

① Capital allocation: how KT&G becomes asset mgt company

Capital Allocation

Flashlight Capital		KT&G
Oct 2022	"58% of mkt cap is cash/cashable asset…"	*'We don't have much cash. First, we need 27% of revenue as Working Capital. Then KRW1+ trn is Escrow. The rest are inv assets and funds, not cash exactly.'*[1]
Dec 2022	… which is the result of 15 years of shareholder famine.	*'We did well during past 3 years, since 2021.'*[2] (silent about what to do with the accumulated cash before then)
Jan 2023	Should cancel all the treasury shares (15% of TSO)	*'T/S cancellation would not help stock price'… 'we will cancel half then.'*[3]
Mar 2023	KT&G is the only one with "net cash" among global Top 5 tobacco companies	• Then we will raise debt (issued KRW300 Bn of bond)[4] • .. and continue asset management business (invested KRW452 billion to 39 Private Equity and Real Estate funds between 2007 and 2022)[5]

1: Investor Day (Jan 26, 2023)

2: https://www.fntimes.com/html/view.php?ud=202211041355548792237391cf86_18

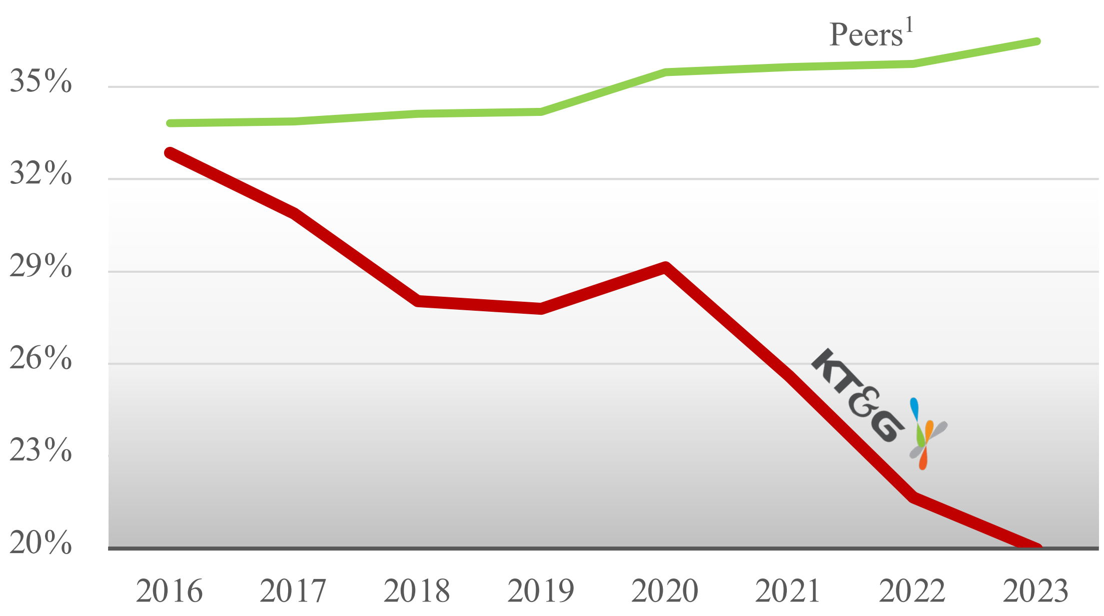
3: Investor Day (Jan 26, 2023), Value day (Nov 13, 2024)

4: September 2023; https://dart.fss.or.kr/dsaf001/main.do?rcpNo=20230901000378

5: KT&G quarterly report (3Q 2023)

② Profit goes down, down… and down

KT&G is rapidly destroying is EBIT margin…



Shrank in absolute $: KRW1.5 Trn (2016) vs. 1.2 Trn (2023)[1]

… pursuing topline growth at the expense of profit

'Record-high revenue in 2023'	Newswire PR; Feb 7, 2024 (EBIT was down 9% YoY[2])
'Record-high revenue in 3Q 23'	Newswire PR; Nov 9, 2024 (EBIT was down 8% YoY)
'7.7% more sticks sold overseas'	Company IR, Feb 7, 2024 (No profitability mentioned)

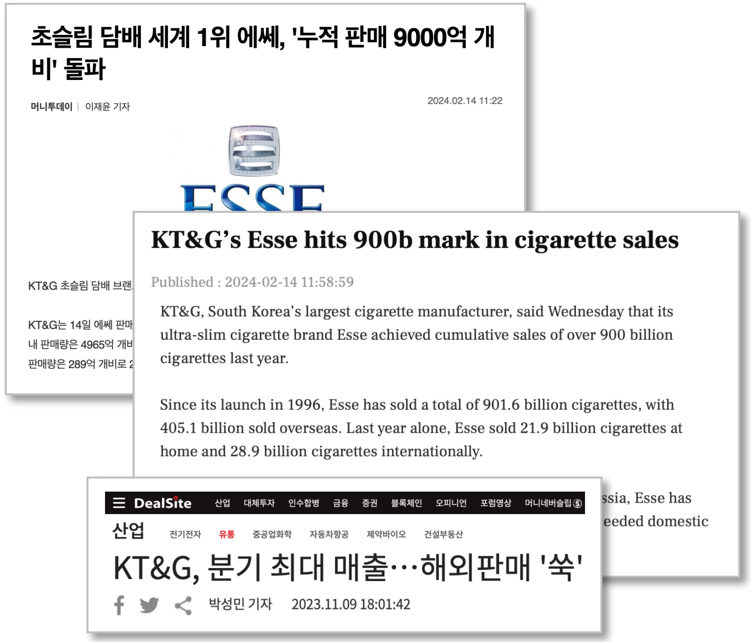
Despite multiple requests, KT&G refused to disclose regional/business profit breakdown. We had to go great length and efforts to get this basic information. (see page 26).

1: Peers are: PMI, BAT, Altria, JT, Imperial, and ITC; Source: Capital IQ

2: Between nine months 2022 and nine months 2023

③ Cigarettes export: profit killer

KT&G has emphasized its export volume



초슬림 담배 세계 1위 에쎄, '누적 판매 9000억 개비' 돌파

머니투데이 | 이재윤 기자 2024.02.14 11:22

ESSE

KT&G 초슬림 담배 브랜

KT&G는 14일 에쎄 판매
내 판매량은 4965억 개비
판매량은 289억 개비로 2

KT&G's Esse hits 900b mark in cigarette sales

Published : 2024-02-14 11:58:59

KT&G, South Korea's largest cigarette manufacturer, said Wednesday that its ultra-slim cigarette brand Esse achieved cumulative sales of over 900 billion cigarettes last year.

Since its launch in 1996, Esse has sold a total of 901.6 billion cigarettes, with 405.1 billion sold overseas. Last year alone, Esse sold 21.9 billion cigarettes at home and 28.9 billion cigarettes internationally.

ssia, Esse has
eeded domestic

DealSite 산업 대체투자 인수합병 금융 증권 블록체인 오피니언 포럼영상 머니네버슬립

산업 전기전자 유통 중공업화학 자동차항공 제약바이오 건설부동산

KT&G, 분기 최대 매출…해외판매 '쑥'

박성민 기자 2023.11.09 18:01:42

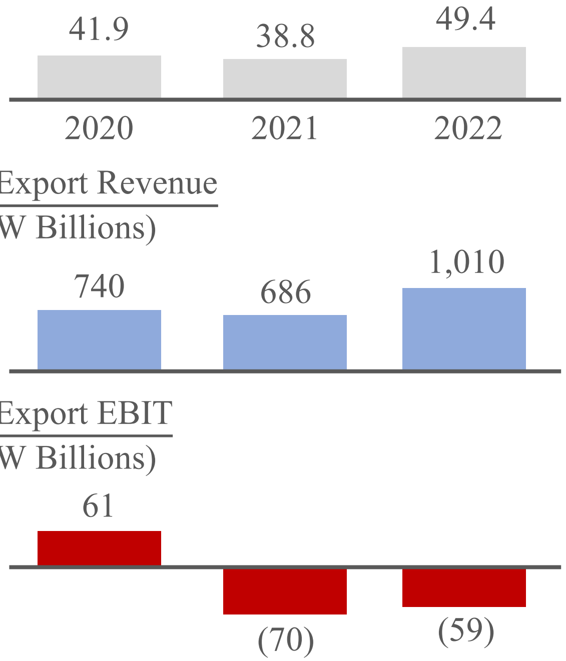
… without disclosing profit

It's making loss[1]

Cig Export Vol.
(Billion Sticks)

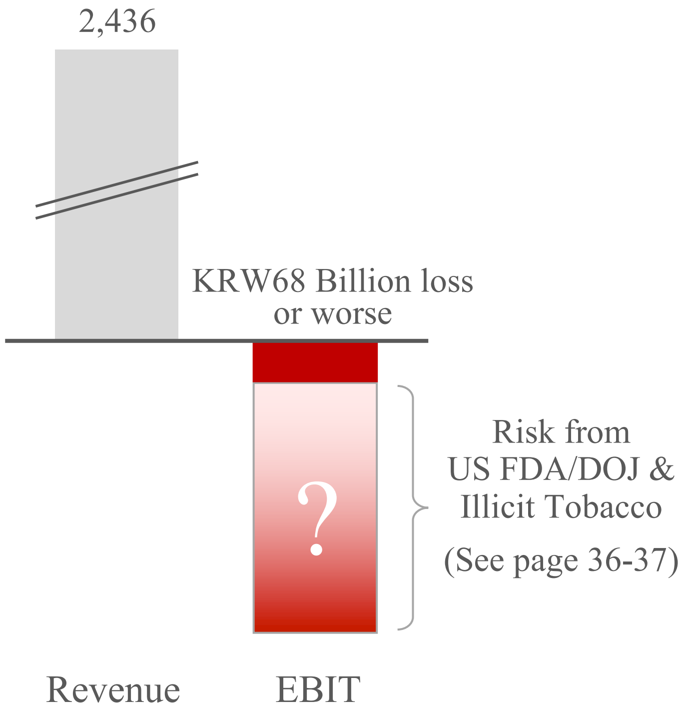
Cig Export Revenue
(KRW Billions)

Cig Export EBIT
(KRW Billions)



Cig Export, Acc. Rev & EBIT

(KRW Billions; 2020 - 2022)



1: The figures provided by FCP are analyzed based on Preliminary Injunction on Inspection of Accounting Books and Records (Decision of Daejeon District Court on January 25, 2024, Case No. 2023KAHA50428), Q&A from KT&G, KT&G annual reports, and IR materials. Actual figures may differ from those estimated by FCP. KT&G claims that the data FCP received in response to Preliminary Injunction on Inspection of Accounting Books and Records is considered "trade secrets (Article 2, Paragraph 2 of the Unfair Competition Prevention and Trade Secret Protection Act)" and therefore FCP is not disclosing the actual figures received from KT&G. Sales revenue and sales volume information are replaced with publicly disclosed figures from KT&G's IR materials. FCP assumes no responsibility for any errors, omissions, or consequences arising from the use of this information. FCP shall not be liable for any direct, indirect, incidental, punitive, or consequential damages related to or arising from this information. Furthermore, FCP is not obligated to update any changes resulting from subsequent events.

④ HNB export (PMI): questions from common sense

KT&G/PMI 15-yr contract on global distribution[1]

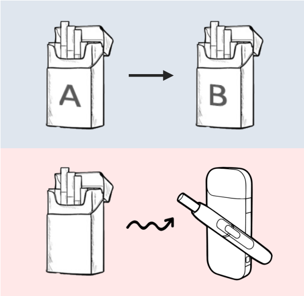
KT&G disclosed no sales, profit, capex requirement for HNB export. On Feb 28, we received data after the Court Decision; the result is very disappointing (page 31)

Question 1: Will PMI put the interest of KT&G, its competitor, at heart and promote its products in earnest?

KT&G HNB (lil) is sold as PMI's sub-brand overseas. We understand[2] PMI can take lil brand's ownership if 15-yr contract is terminated.

Question 2: PMI controls lil brand overseas during the contract period. Is KT&G's lil being properly promoted & established overseas?

Let's also think from consumer's perspective



Switch between cigarettes brands
- Easy; matter of preference

Conversion from cigarettes to HNB
- Needs experience to be convinced
- Needs to spend \$50-\$100 on device
- Device leads to continued HNB purchase

HNB segment is rapidly growing and now 20% of Korean smokers have switched to HNB.[3] In Japan, it's near 40%.[4] As HNB penetration goes up fast, it is important for KT&G to :

a) Promote its brand/technology to increase awareness
b) Give consumers a lot of trial opportunities
c) Make HNB device purchase as easy as possible

1: Jan 2023, https://dart.fss.or.kr/dsaf001/main.do?rcpNo=20230130800096

2: This intelligence is from KT&G's current employee, but needs verification.

3: https://www.infostockdaily.co.kr/news/articleView.html?idxno=193801#google_vignette

④ HNB export (PMI): KT&G not seen in Japan

Background: ***Japan is the world's largest HNB market where 4 of 10 smokers have already switched to HNB***[1]

IQOS widely promoted competing with JTI and BAT[2]

- In Japan, PMI has 7 IQOS showrooms in highly visible locations and provide free trial in a relaxed environment.
- Japan Tobacco also operate multiple showrooms

KT&G: zero showroom

ZERO

- KT&G runs zero showroom in Japan
- KT&G products are NOT found at PMI IQOS showrooms
- With no effort to increase awareness of KT&G HNB, most converters will select PMI, BAT, or JT
- Diminishing M/S leads to smaller revenue; a vicious circle

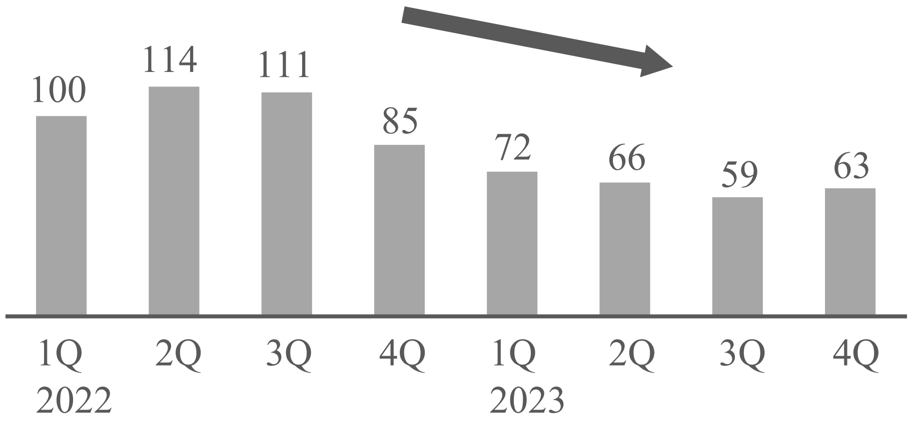
1: Source: Hana Securities (Aug 2023); https://www.hanaw.com/download/research/FileServer/WEB/global/company/2023/08/03/edit-JT_2Q23_Re.pdf

2: Photo taken by FCP, and from PMI Japan IQOs website

④ HNB export (PMI): can't buy KT&G in Japan

Revenue is coming down, and KT&G says it's natural

Export HNB Revenue[1]
(KRW Billion)



"Revenue is coming down, but it's because we shipped HNB device in advance; it's high base effect (KT&G, Feb 2024)"[1]

We checked: it's not being sold

- Of 41 stores we visited in Feb 2024[2], 37 did not sell KT&G HNB device; many didn't even have a display space for KT&G.
- We suspect if KT&G HNB is being de-marketed in Japan

1: 4Q 2023 Earning Release (Feb 7, 2024)
2: 港区芝 5-31-7, 港区芝 5-14-12, 港区芝 5-10-10, 港区芝 5-34-7, 港区芝 5-32-14, 港区芝 5-31-19, 港区芝浦 3-5-25, 渋谷区神宮前 1-19-11, 渋谷区神宮前 1-8-8, 渋谷区神宮前 3-25-5, 渋谷区神宮前 4-29-3, 渋谷区神宮前 5-2-14, 渋谷区神宮前 5-1-9, 渋谷区神宮前 5-46-3, 渋谷区神宮前 4-2-12, 渋谷区神宮前 6-9-1, 渋谷区神宮前 6-28-3, 港区北青山 3-8-9, 港区北青山 3-5-25, 千代田区丸の内 1-8-2, 港区芝浦 3-9-14, 港区麻布台 1-9-8, 渋谷区宇多川町 28-7, 渋谷区道玄坂 2-11-4, 渋谷区道玄坂 2-6-11, 渋谷区松濤 1-29-1, 渋谷区恵比寿南1-5, 渋谷区恵比寿西 1-3-7, 渋谷区恵比寿西 1-33-13, 渋谷区恵比寿西 2-20-9; 千代田区神田佐久間町 1-13, 港区三田 3-4-15, 千代田神田相生町 1 秋葉原センタープレイスビル, 千代田区内幸町 2-2-2, 中央区銀座 2-4-18, 渋谷区代官山町 19-7, 渋谷区代官山町 19-3, 渋谷区猿楽町 30-9, 渋谷区恵比寿南 3-2-17, 千葉県成田市三里塚 1-1, 大田区羽田空港 3-3-2

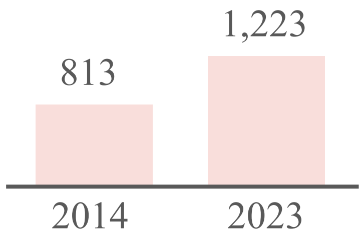
⑤ Ginseng, run by tobacco executives

Ginseng is the largest segment of Korean health supplementary industry. Within ginseng sector, Korea Ginseng Company ("KGC") is No. 1 player with 70% M/S.

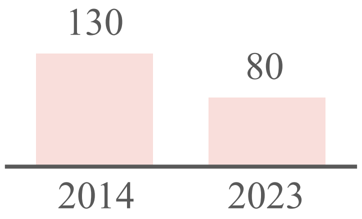
Korean Ginseng has been regarded of the highest quality in Asia. We believe Korean ginseng can become a global brand, similar to manuka honey from NZ (one company was sold at 30x EBITDA[1]) or Moutai from China.

KGC is 100% owned by KT&G. Although it needs a proven marketing expert to grow into global brand, KT&G sent its near-retirement tobacco executives to KGC; KGC had 4 CEOs in the past 10 years, all from KT&G (tobacco).

KGC Revenue[2]
(KRW Billions)



KGC Net Income[2]
(KRW Billions)



Profile of KGC CEOs in the past

Mar 22	–	Now	KT&G, Sales head, South Seoul
Mar 18	–	Mar 22	KT&G, Head of Ethics
Oct 15	–	Mar 18	KT&G, Head of Marketing
Feb 14	–	Oct 15	KT&G, Head of Sales

"We are frustrated… new CEO's have always been tobacco men who knew nothing about our business"

\- KGC employee

1: In 2018, Manuka Health New Zealand Limited was sold to Hong Leong Financial Group Bhd, Malaysia at $265 million, at 30x EBITDA. Source: Mergermarket
2: 2014 KGC Audit report (Mar 9, 2015), 4Q 2023 Earning Release (Feb 7, 2024)

Part II: Poor Governance

Inadequate, risk-exposed governance

- A ‘Just Say No” to Transparency
- B CEO pay not linked to stock price
- C Mgt entrenchment (T/S giveaway)
- D BOD oversight on ESG
- E Various governance incidents reported in media

Ⓐ Rejection of transparency

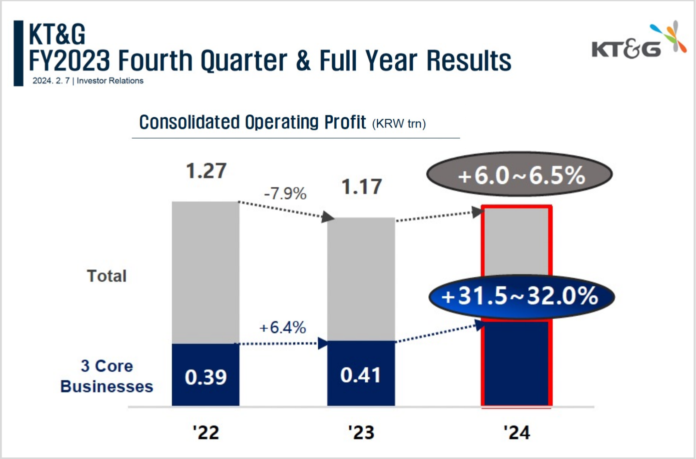
Transparency

	Flashlight Capital	KT&G
Dec 2022	Why not disclose HNB profit when you say PMI contract is so great?”[1]	*‘Can’t disclose HNB financial performance; PMI would not allow it.’*[2] *Instead, we will tell you how many sticks we sold: it grew by 64.3%.’*[3]
Apr 2023	“Disclose profit for cigarettes/HNB and domestic/export; PMI and BAT show even more detail.”[4]	*‘Our disclosure is at par with other global companies’*[4] *Cannot disclose cigarettes export profit, in order to protect shareholders’*[5]
Oct 2023	“We waited long enough. We will request Court Injunction.”	*‘FCP’s information request is unjust, as it is* ***for the purpose of starting a fight against the management team and making a short-term gain*** *from stock price increase’*[6]
Jan 2024	The Daejeon District Court decided that KT&G should disclose export profitability of cigarettes & HNB	• (the Court ruling on Jan 25, 2024) “It is necessary (for FCP) to have an opportunity to access the data as it did not have sufficient information on the company’s business… the Court does not accept (KT&G’s) assertion that it does not have such data… it maintains ERP and should have relevant accounting book” • On Feb 7, 2024, during 4Q 2023 IR, KT&G suddenly disclosed export/HNB profit; not in breakdown, but in one “lumpsum” figure (see page 27) • On Feb 28, KT&G gave FCP information on cigarettes/HNB export • It took us 409 days and the Court Decision to receive export profitability.

1: Dec 12, 2022; FCP’s letter to KT&G BOD
2: https://biz.chosun.com/distribution/food/2023/02/01/553D3NGWIVDY3C4F6NW52IT4UY/
3: KT&G 1Q 2023 IR (May 2023)
4: April 19, 2023; FCP’s letter to KT&G CEO; https://marketinsight.hankyung.com/article/202304199091r
5: We do not agree; PMI and BAT disclose even regional breakdown
5: KT&G quarterly report (3Q 2023)
6: KT&G’s response during the court hearing (Oct 24, 2023)

Ⓐ Rejection of transparency: shareholder obfuscation

At last KT&G disclosed.. or it didn't?[1]



In Feb 2024, KT&G disclosed a lumpsum # that includes export profitability. "3 Core Biz" is: cig. export, HNB domestic, HNB export, and KGC

It's still a puzzle

- One can't understand the profitability of export cigarettes, or export HNB, as all the numbers are combined in one.
- Besides, there is no explanation how they assumed COGS difference between domestic and export cigarettes, and SG&A overhead has been allocated.
- Neither helpful nor reliable, this is another KT&G's typical shareholders obfuscation.

Instead of Hope, we choose Facts

- In short, the chart on the left says that "don't ask, it will get better."
- We do not subscribe to KT&G's approach on IR and would not give any benefit of doubt.
- We demanded facts and numbers, and KT&G kept resisting the disclosure. Fortunately, we got the data through Court Injunction (see next page).

1: 4Q 2023 Earning Release (Feb 7, 2024)

Ⓐ Rejection of transparency: KT&G reveals, only after the Court Decision

On Jan 25, 2024, the Court Decided about KT&G's disclosure of Overseas Profitability.

A. Cigarettes Export[1]

	2020	2021	2022
Vol (billion Sticks)	41.9	38.8	49.4
Revenue (KRW Bn)	740	686	1,010
EBIT (KRW Bn)	61	(70)	(59)

- We received past 3-year data on Feb 28, 2024
- Our analysis is based on KT&G's answers to our questions on revenue, COGS and SG&A allocation
- EBIT does not include the potential litigation risk from DOJ investigation and illicit tobacco export (see page 20)

B. HNB Export (via PMI)[1]

	2020	2021	2022
Vol (billion Sticks)	N/A	37.2	57.0
Revenue (KRW Bn)	68	182	382
EBIT (KRW Bn)	(3)	(30)	(24)

- Revenue includes both sticks and devices (we did not receive the breakdown from KT&G)
- Our analysis is based on KT&G's answers to our questions on revenue, COGS and SG&A allocation
- This number should be seen in the light of HNB capex of KRW1.2 trillion[3]
- For more on HNB export, see page 21-23

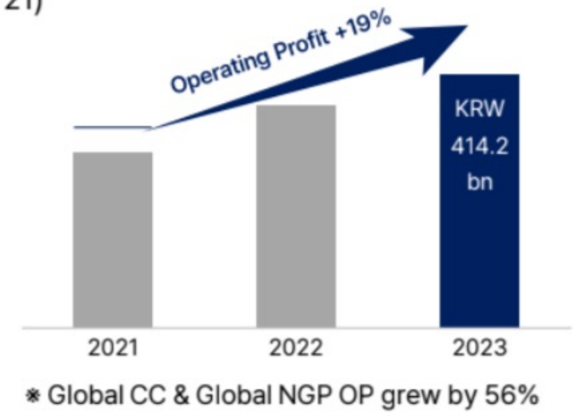
1: See page 20
2: The figures provided by FCP are analyzed based on Preliminary Injunction on Inspection of Accounting Books and Records (Decision of Daejeon District Court on January 25, 2024, Case No. 2023KAHA50428), Q&A from KT&G, KT&G annual reports, and IR materials. Actual figures may differ from those estimated by FCP. KT&G claims that the data FCP received in response to Preliminary Injunction on Inspection of Accounting Books and Records is considered "trade secrets (Article 2, Paragraph 2 of the Unfair Competition Prevention and Trade Secret Protection Act)" and therefore FCP is not disclosing the actual figures received from KT&G. Sales revenue and sales volume information are replaced with publicly disclosed figures from KT&G's IR materials. FCP assumes no responsibility for any errors, omissions, or consequences arising from the use of this information. FCP shall not be liable for any direct, indirect, incidental, punitive, or consequential damages related to or arising from this information. Furthermore, FCP is not obligated to update any changes resulting from subsequent events.

Ⓐ Rejection of transparency: Old habits die hard

From KT&G's March 2024 AGM Material[1]

Improved Profitability in 3 Core Growth Businesses

- Revenue growth and profit improvement via establishment and execution of growth strategy focusing on NGP, global CC and HFF (profits grew 19% since appointment as CBO in March '21)



It's another shareholder obfuscation

KT&G defends their choice of Mr. Bang as CEO, showing the chart on the left as a rationale. We believe this is a typical example of KT&G's shareholder obfuscation:

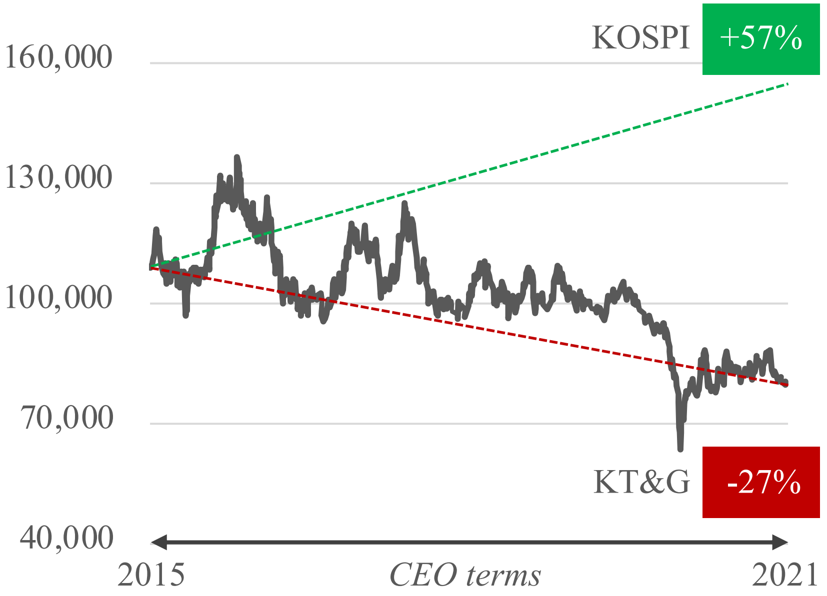
1) It's a lumpsum number of multiple businesses with no breakdown
2) They don't explain why Mr. Bang is responsible for the only good subset he selects, not the entire business performance
3) There is no explanation how they go to these numbers in terms of cost allocation and etc.
4) There is no number to the bar graph

If KT&G disagrees with our analysis on page 28 (export business making loss), we welcome the opportunity to give shareholders the maximum transparency, through 1-on-1 live discussion.

1: "Reference Material for the 37th AGM"; https://en.ktng.com/noticeView?cmsCd=CM0066&ntNo=21&rnum=18

Ⓑ CEO pay inversely correlated to stock price

KT&G stock crashes



CEO gets "record bonus"

- In 2021, BOD awarded the CEO "long-term performance bonus"[1].
- CEO Baek received KRW2.6 Bn, the most since CEO appointment and became "the highest paid CEO" in F&B industry[2].
- Annual report lists 12 evaluation criteria, including TSR and ROE.[3]
- Mr. Baek's compensation has always been 100% cash.

BOD refuses to explain

- FCP sent a letter to BOD asking for the rationales behind the decision, and BOD declined to provide any.[4]
- Specifically, FCP requested the board minutes that weight given to each evaluation criteria. BOD refused and said it is "CEO's privacy".[5]

1: Given every three years; 2021 is the latest.

2: http://www.4th.kr/news/articleView.html?idxno=2004060

3. Other criteria include: "New Growth Momentum Business Value Creation", "Group Infrastructure Innovation", ESG Management Advancement", and "Transparent Ethics Management Foundation Advancement". No definition of these terms were provided.

4: FCP sent 'Request to view and copy board meeting minutes(이사회의사록열람등사청구) to KT&G (Dec 12, 2022)

5: KT&G's response to FCP (Jan 12, 2023)

Ⓒ Mgt entrenchment: treasury shares giveaway

BOD helped entrenchment over the past 18 years (2002 – 2019)[1]

1 Announced share buyback saying "in order to stabilise stock price" → 2 After buyback, did NOT cancel the treasury shares. → 3 BOD approved T/S giveaway to foundations run by current/former CEO → 4 Mgt became the largest shareholders and get 12% support on AGMs

- None of 11 buybacks so far mentioned "donation to charities/foundations" as the purpose

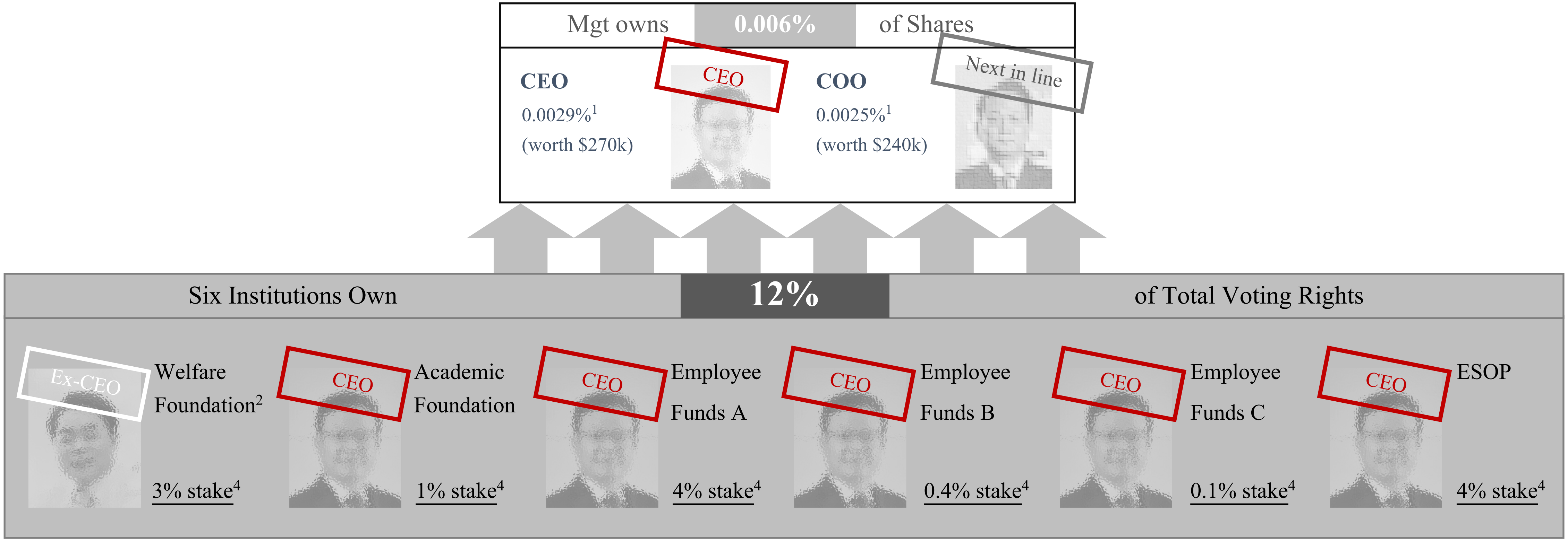
- Total worth KRW1 trn of shares disappeared
- These foundations are controlled by ex-CEO and current CEO (see page 32)

"Isn't this a scam?"

- A major US shareholder of KT&G

1: Source: KT&G "Treasury Stock Disposal Results Report (2001-2019)" (자기주식 처분결과 보고서); see page 55

Ⓒ Mgt entrenchment: they are now the largest shareholder



They cast 12% vote for themselves every AGM, including this Mar 2024

1: Source: 3Q 2023 quarterly report

2: Mr. Min was CEO of KT&G until 2015 when he resigned amidst prosecutor's investigation embezzlement charges. He was subsequently imprisoned in 2015. https://www.seoul.co.kr/news/newsView.php?id=20160106010014

3: Voting rights as of Dec 2023; source: shareholder registry

Ⓒ Mgt entrenchment: we took action

We asked KT&G to sue individuals behind giveaways[1]

- Under the Korean law, a shareholder can ask the company to sue its directors and officers for their illegal activities
- We sent "Request to File a Lawsuit Against Directors" ("Request") to KT&G
- The Request mentions 21 executives and ex/current directors
- Key message: Through 22 incidents of T/S giveaway, the individuals breached their fiduciary duties and caused KRW1 trillion of loss to KT&G.[2]

KT&G rejected

- *"It was an act of social responsibility."*[3]
- We (FCP) do not agree:
  - a) If it's social responsibility, why donate shares, not cash?
  - b) If it's for society, why donate to related parties, not 3rd parties (e.g. Bill & Melinda Gates Foundation)?
  - c) We believe this is clearly illegal; there are multiple precedents. (see page 56)
- We are worried the Board can give away the remaining treasury shares any minute

Now, FCP can sue the individuals

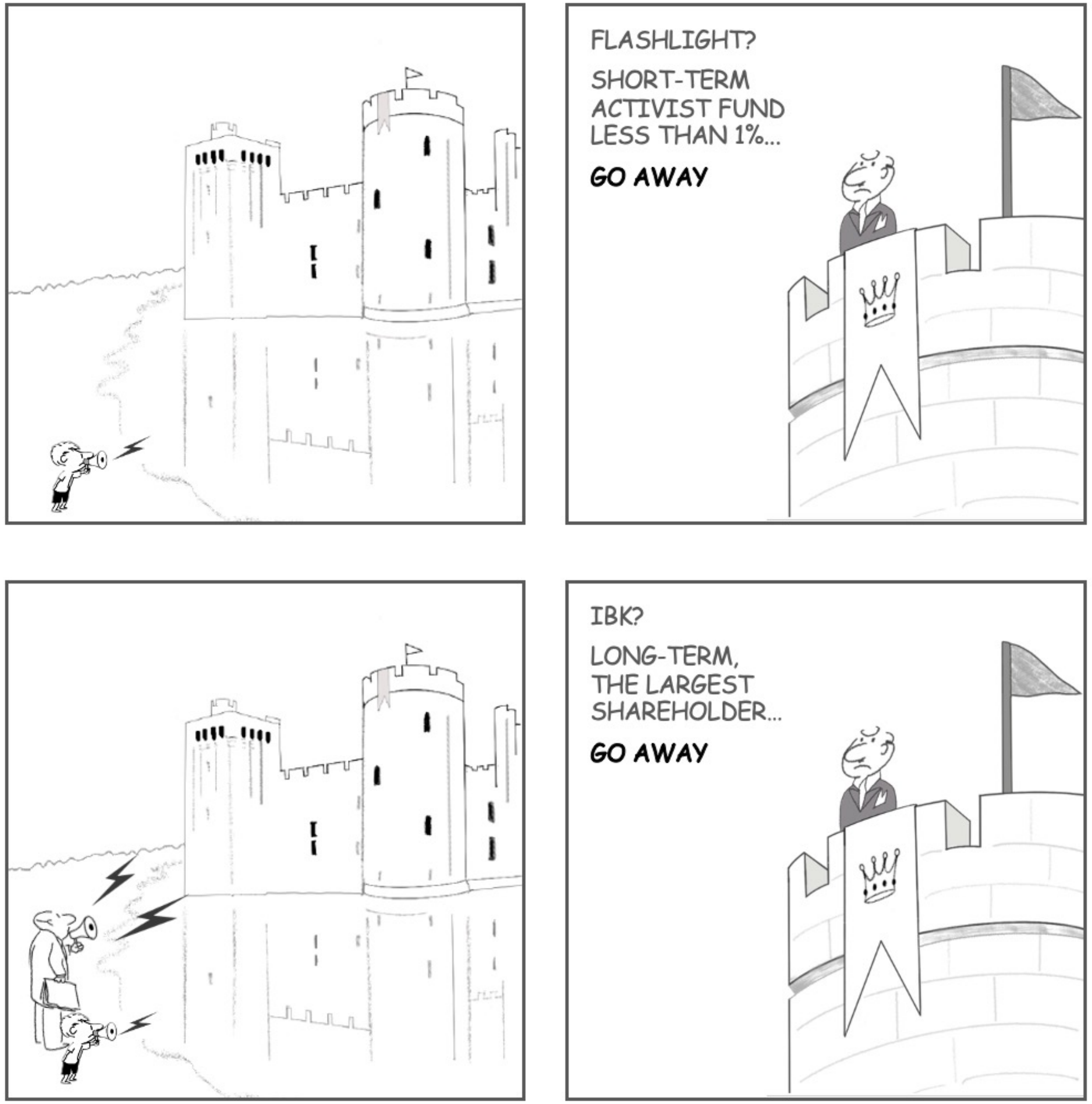
- Under the Korean law, a shareholder should always give the company first chance to sue its directors.
- If the company does not take action for 30 days, shareholders can sue the directors and executives
- We are carefully reviewing the situation and may consider legal action to enable responsibility for all shareholders

1: Jan 10, 2024, See page 56 for more details

2: Number of T/S times stock price, See page 56

3: Feb 7, 2024; https://www.yna.co.kr/view/AKR20240207154400030?input=1195m

Ⓒ Management entrenchment: No to ALL shareholders



Ⓓ ESG oversight: underage smoking in Indonesia

KT&G glossy sustainability report [1]

"KT&G has incorporated sustainability into its mid-to-long-term growth blueprint, charting a revitalized strategic direction."

The report includes 532 "environment", 168 "sustainable", and 914 "ESG".

Investing in Indonesian cigarettes

'We will invest KRW0.9 trn to expand combustible cigarettes capacity overseas (including Indonesia)'[2]

- KT&G, Investor Day (Jan 2023)

"An estimated 68.1 percent of adult Indonesian men smoke, the highest rate in the world. Indonesian youth are starting to smoke younger and younger. 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.

Indonesia's five leading causes of death are all tobacco-related. Morbidity from smoking-related diseases accounts for more than 21% of all cases of chronic disease in the country."

- World Bank[3]

KT&G speaks: Its stance on ESG[4]

On your new investment in Indonesian cigarettes factory… how do you tackle that from ESG perspective… what was negatives/positives from sustainability & health perspective?

…?

I mean, what consideration did you take into account? Not just financial perspective, but about expanding the cigarettes capacity anywhere in the world?

Well…

Local demand is HIGH! We have no choice but to invest in additional capacity.

1: https://en.ktng.com/ktngReport?cmsCd=CM0046

2: Source: KT&G Investor Day (Jan 2023); https://en.ktng.com/IrEvent?cmsCd=CM0068

3: World Bank, https://blogs.worldbank.org/health/world-no-tobacco-day-highlighting-indonesias-ominous-tobacco-use-and-disease-burden#

4: Reconstructed Feb 2023 dialogue over the phone (Mr. Bang was speaking from KT&G)

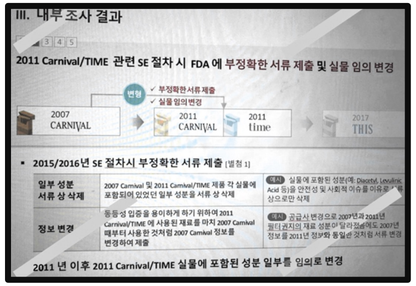
Ⓓ ESG oversight: US FDA/DOJ investigation

Cheating FDA document[1]


A10 조선일보 104 사회

KT&G, 담배 성분 누락 자료 제출… 美법무부 조사 받아

본지 내부 문건 입수… 美서 예치금 1조5400억원 못받을 수도



KT&G is under investigation by US Department of Justice ("DOJ"), for its inaccurate document submission to FDA. In a highly confidential report to its BOD (2021), KT&G admits it deleted harmful ingredients[2] from the FDA documents "for safety and social issues", but not from actual products.

The article mentions significant risk of over $1 billion of penalty from US government.

KT&G response

'It is true we are under DOJ investigation… but DOJ has not yet sent us a definite notification that we broke the law.'[3]

FCP's view

- In. 2021, KT&G announced it is shutting down US business due to 'heightened regulatory measures and increased competition.'[4] We are deeply worried KT&G attempted to make DOJ investigation-led shutdown sound like a voluntary strategic decision.
- It may not seem too alarming but deleting harmful ingredients from FDA document can bring significant consequences. In 2012, GlaxoSmithKline paid $3 billion on failure to report safety to FDA[5]
- Together with the illicit tobacco (next page), this incident represents BOD's serious oversight on ethics and risk control.

1: https://www.chosun.com/economy/economy_general/2024/01/17/ZN32H5EF4NDB7HOMYUDC4HYIGY/
2: Two ingredients are raised as examples (may not be exhaustive): Diacetyl and Levulinic acid. Diacetyl causes bronchiolitis obliterans - more commonly referred to as "popcorn lung" - a scarring of the tiny air sacs in the lungs resulting in the thickening and narrowing of the airways; Levulinic acid increase nicotine delivery in smoke and binding of nicotine to neural receptors
3: https://www.yna.co.kr/view/AKR20240117047900030
4: https://dart.fss.or.kr/dsaf001/main.do?rcpNo=20211214000395
5: https://www.justice.gov/opa/pr/glaxosmithkline-plead-guilty-and-pay-3-billion-resolve-fraud-allegations-and-failure-report

Ⓓ ESG oversight: illicit cigarettes export

The largest illicit cigarette in India[1]

“Esse” is No. 1 illicit cigarette found in India.

KT&G exported at a very low price to agents in middle east, who are suspected of having shipped illicit tobacco to India and Australia. There is risk of Indian government suing KT&G for the role it played in the smuggling.

KT&G response

‘We have no idea where our products go after we ship them to our agents.’[1]

FCP’s view

- This is irresponsible and highly naïve statement.
- It is KT&G’s responsibility to conduct proper due diligence on agents to ensure its products do not get used in illicit tobacco trade.
- “I didn’t know” is not effective as a defense; in April 2023, BAT paid $629 mil. fine for illicit tobacco found in North Korea.[2]
- This represents a serious oversight of BOD and reminds of a similar incident in US that led to DOJ investigation (page 36).
- Mr. Bang, the new CEO candidate, is known as “Mr. Esse”. As Head of Global Biz (2015–2021), Mr. Bang significantly increased # of countries that sell Esse from 40 to 100.[3]

1: Korean Economic Daily (Feb 4, 2024); https://www.hankyung.com/article/202402017542i
2: https://www.bbc.com/news/world-us-canada-65393223
3. https://www.fntimes.com/html/view.php?ud=2024022310411664256febc6baa6_18

Ⓔ KT&G governance incidents on Korean media

Ⓔ KT&G governance incidents on media (I & II)

1. Police investigation on BOD embezzlement (Fake Biz Trip)

Media article on Jan 25, 2024[1]	KT&G said	Aftermath
KT&G sponsored sightseeing tours for the current board members (& spouses) disguised as "biz trips". Favourite destination was Turkey, where directors enjoyed balloon tour.	'The incidents involve previous BOD members.'[2]	On Feb 19, Police commenced the investigation on ALL current directors and executives (CEO, COO, etc) on embezzlement charges.[3]

2. Illegal donation to politicians

Media article on Jan 21, 2024[4]	KT&G said	Aftermath
213 employees remitted under-the threshold amount to politicians and are suspected to be driven by KT&G's need to lobby regulators.	'We did not know.'[4]	On Feb 6, a civil society filed criminal complaint at Seoul Central District Prosecutor's Office.[5]

1: https://www.chosun.com/national/national_general/2024/01/24/RDX6FSO63FDTLF2L7FVBQYKXQY/

2: https://biz.chosun.com/distribution/food/2024/01/25/IUG46WPRANHSXKS5AGWFBYKGWY/

3: https://www.yna.co.kr/view/AKR20240219073751004?input=1195m

4: https://www.chosun.com/national/incident/2024/01/22/5E5I3F7JGVBJVFRUQK6XAVEH6U/

5: http://www.ikbc.co.kr/article/view/kbc202402070027

Ⓔ KT&G governance incidents on media (III & IV)

3. US DOJ investigation ("Risk of 1.5 Trillion")

Media article on Jan 17, 2024[1]	KT&G said	FCP's opinion
• In 2021, KT&G internally reported its potentially illegal act in US to BOD. Under DOJ investigation. • KT&G deleted harmful ingredients from FDA docs for fear of "safety/social issues". • KRW1.5 trillion of escrow is at risk.	KT&G's annual report says US biz shutdown was due to "heightened regulatory measures and increased competition."[2]	Omitting harmful ingredients on purpose is a serious breach of ESG and ethics. Equally serious is KT&G's attempt to make DOJ investigation-led biz shutdown sound like a voluntary strategic shift. Legal consequences can be significant, as shown by GSK-FDA case ($3 billion)[3].

4. Where did all the middle east export go?

Media article on Feb 4, 2024[4]	KT&G said	FCP's opinion
• KT&G is No. 1 smuggled brand in India. • Mostly shipped from middle east, to which KT&G exports at half the normal price. • The Indian government can sue KT&G.	'We do not know where our products will eventually go, once they are shipped out to our sales agency.'[4]	KT&G's stance of "I don't know" is irresponsible and unethical (see page 37).

1: https://www.chosun.com/economy/economy_general/2024/01/17/ZN32H5EF4NDB7HOMYUDC4HYIGY/

2: https://dart.fss.or.kr/dsaf001/main.do?rcpNo=20211214000395

3: https://www.justice.gov/opa/pr/glaxosmithkline-plead-guilty-and-pay-3-billion-resolve-fraud-allegations-and-failure-report

4: https://www.hankyung.com/article/202402017542i

Table of contents

2024 CEO selection process

(Dec 7, 2023)

FCP requests
Fair & Transparent process

Launching 2023 campaign in video[1] and PR, FCP demanded the process be open to external candidates, and shareholder be allowed to recommend candidates.[1]

(Dec 28, 2023)

KT&G announces to
allow outsider candidates

"Our decision has nothing to do with FCP's request... we have been planned to do this"

(Feb 8, 2024)

Strong outsider candidate eliminated

A newspaper said the BOD eliminated Mr. Cha[2] from "Preliminary List" without telling shareholders.

(Feb 22, 2024)

Mr. Bang announced as
the final candidate

On Feb 16, 4 shortlisted candidates were announced. Two internal candidates and two outside.

On Feb 22, BOD announced Mr. Bang as the final candidate.

1: https://youtu.be/21Uk4bg3tgM?si=ftr9_ht4EHKuNKar
2: Mr. Cha is the former CEO of LG H&H, where he grew revenue by 6.5x, EBIT 10.0x, and stock price 22.4x.

Meet Mr. Bang, the final CEO candidate chosen by BOD

Mr. Bang's profile (according to KT&G's PR)

- (2021 - 2023) Board Director
- (2015 - 2021) Head of overseas
- (2022 - 2023) COO

BOD's rationale behind selecting Mr. Bang as the new CEO

- *"Successful launch of the ESSE Change brand"*
- *"Expanding overseas market presence to over 100 countries"*
- *"The committee view him as a potential leader … KT&G to become a 'Global Top-tier' company."*

We share a bit more info for your consideration:

- (2020 - 2023) KT&G EBIT came down by 30%[1]
- Due to low-ASP volume drive, export cigarette had operating loss of at least KRW68 Bn.[2]
- US biz shut down, under DOJ investigation for inaccuracy in FDA documents, which can lead to substantial penalty.[3]
- PMI HNB export: revenue down, and making loss[4]
- Under investigation for BOD embezzlement charges
- (2011 - 2013) Secretary of ex-CEO Min (imprisoned in 2015, currently Welfare Foundation)

Quotes

- *"T/S cancellation will have limited effect on stock price"*[5]
- *"(Despite underage smoking issue) Will sell more cigarettes in Indonesia, because there is demand."*[6]

1: Between 2020 and 2022; See page 19
2: See page 20
3: See page 36
4: See page 22, 23, 28
5: During Investor Day (Jan 2023)
6: See page 35

Now, consider one external candidate, eliminated by BOD

Mr. Cha's profile

- CEO/Chairman of LGHH (KRX: 051900) (04-22)
- Grew LGHH rev by 6.5x, EBIT 10.0x, stock price 2,237%[4]
- President of P&G (NYSE: PG) Korea
- President/CEO of P&G Ssangyong Paper
- CEO of Haitai Confectionery & Foods (KRX:101530)
- Cornell University (MBA), Indiana Univ School of Law, NY State Univ; Acquired AICPA[1]

– Recommended by KT&G's executive search firm
– Eliminated from "Preliminary List" (Jan 2024)

We are highly skeptical about the independence/rigor of CEO selection process led by BOD

1: Acquired AICPA in 1984

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Why change is needed

- Lack of Transparency
- Capital allocation
- Biz strategy that kills profit and grows legal risk
- Misaligned Interest
- Lack of profit motive
- Ginseng run by tobacco salesmen
- Mgt Entrenchment with T/S giveaway
- BOD oversight on risks
- Forms-over-Substance ESG

The first and foremost question on KT&G's BOD

QUESTION #1

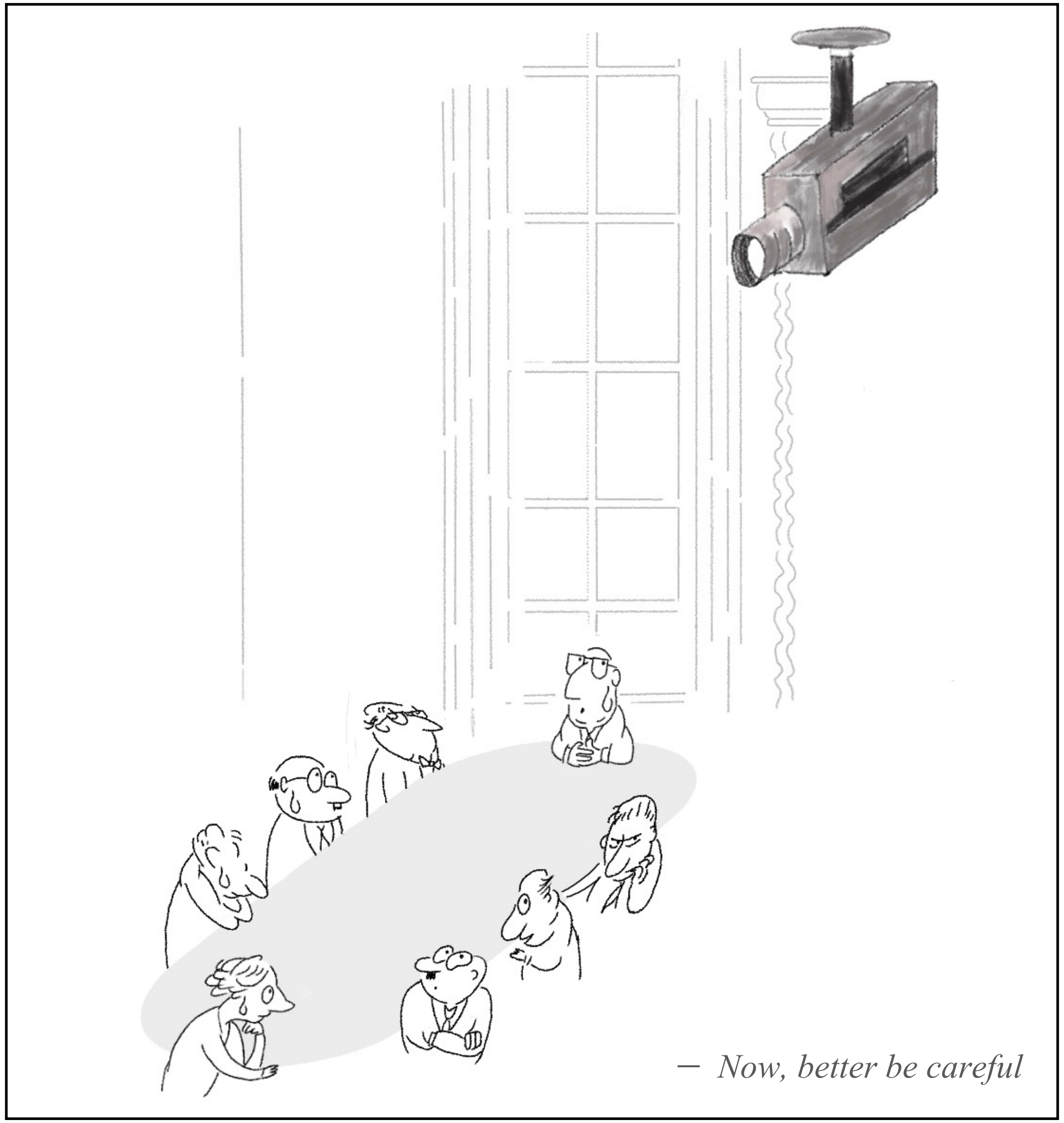
Are they independent?

Consider the following cases on KT&G's BOD

• CEO pay	Page 30
• Refusal to punish individuals behind illegal T/S giveaways	Page 33
• Police investigation on BOD Fake Biz Trip	Page 39
• CEO selection process	Page 42 - 44

<u>We are highly skeptical about the independence of the current Board of Directors</u>

Shareholder's point of view is needed in the boardroom



– *Now, better be careful*

Biography of Dong-Hwan Shon

Mr. Dong-Hwan Shon is a veteran legal expert with over 25 years of experience. He served as the Presiding Judge in Seoul Central District Court until 2021 and rendered several highly-publicized verdicts on various legal cases including the Samsung Electronics case (2019).

Mr. Shon is a candidate proposed by Industrial Bank of Korea (the largest shareholder of KT&G).

Mr. Shon is well-known in Korea for delivering 'strict and conscientious verdicts', exemplified by his sentencing of a Samsung Electronics executive to a 1 year and 4 months imprisonment on illegal union-busting charges. FCP endorses Mr. Sohn as the ideal candidate to bring true independence to KT&G's Board of Directors, along with sharp, impartial judgment on various governance issues such as CEO pay and illegal donation of treasury shares.

Experience[1]

- Presiding Judge in District Court (2014 - Feb 2021) / Research Judge in Supreme Court (2012 – 2014) / Seoul Court of Appeals (2010 – 2011) / District court Judge (2002-2010) / Judge Advocate General (Air Forces of Korea) (1999-2002)
- Currently Professor of Sungkyunkwan University Law School (Competition Law, since 2021)

Education

Seoul National University (Law, B.A.) / Seoul National University (Competition Law, MA) / University of Cambridge

FCP endorses Mr. Shon and withdrew its own candidate from Mar 2024 AGM.[2]

1: https://professor.skku.edu/researcher/professorList.do?mode=view&perId=LZStrPICQFgRg0g7gNgJwBoCYCcwogPYBEQB2AHgHLACCAvJUA%20&categoryId=G&jojikCode1=3115
2: https://news.einfomax.co.kr/news/articleView.html?idxno=4300630

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Mar 2024 AGM: Summary

Vote Against

- (#3-1) CEO candidate, Kyung-Man Bang
- (#3-2) Director candidate, Min-Kyu Lim

Vote For

(#3-3) Director candidate, Mr. Dong-Hwan Shon

Stock Price Decline

Profit Down

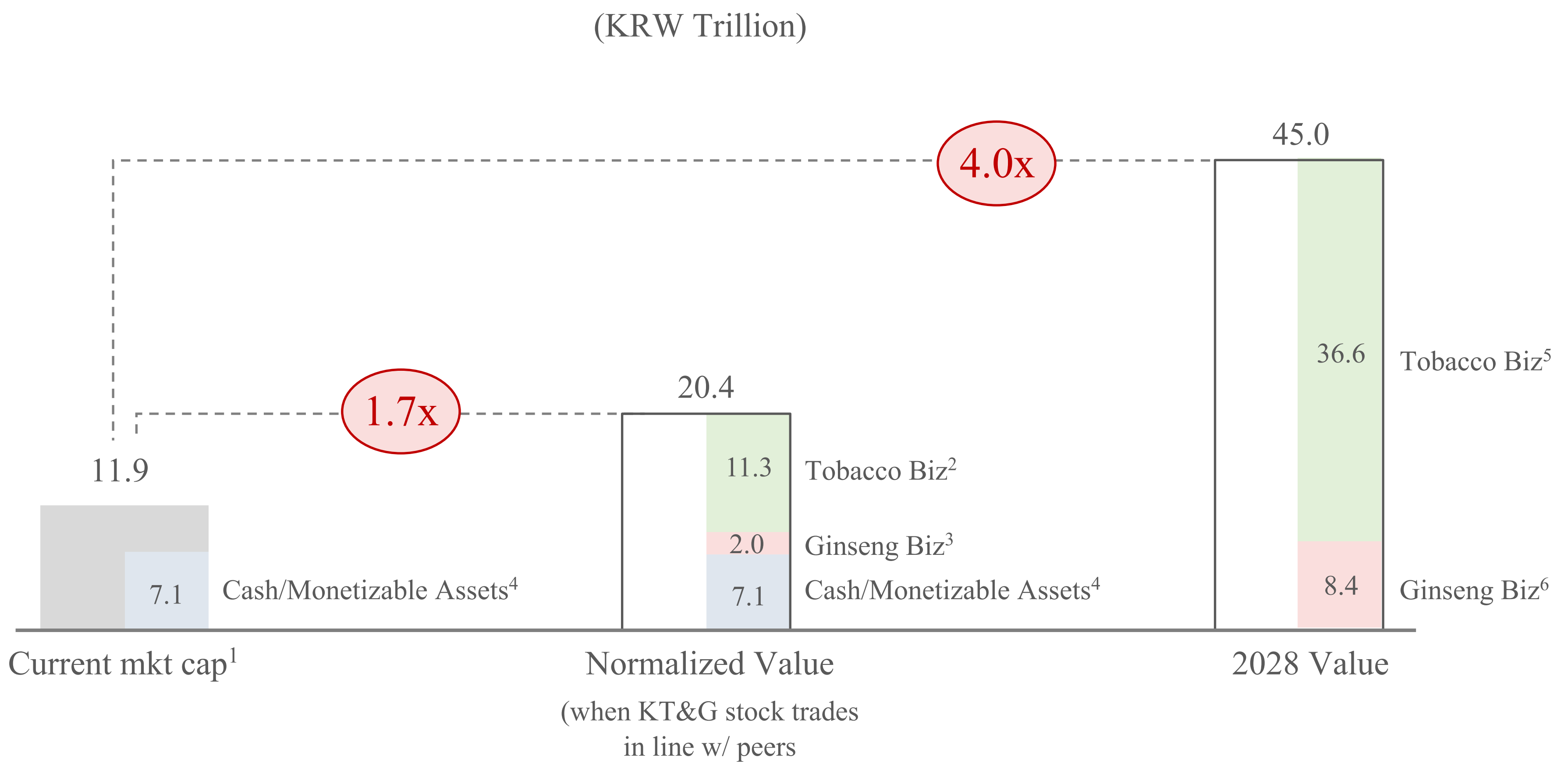
More T/S Donation

Increase Stock Price

Increase Profit

STOP T/S giveaway

With the right governance, KT&G can grow a lot



1: Avg. stock price for Jan and Feb 2024
2: 9.6x 2023 tobacco EBITDA; see page 9
3: 12.0x 2023 ginseng EBITDA; see page 9
4: See page 17; Includes market value of one Korea-listed company, Yungjin Pharma (stock price of Feb 29, 2024). We conservatively assumed zero value for all others.
5: 9.6x 2028 tobacco EBITDA; see page 58
6: 12.0x 2028 ginseng EBITDA; see page 58

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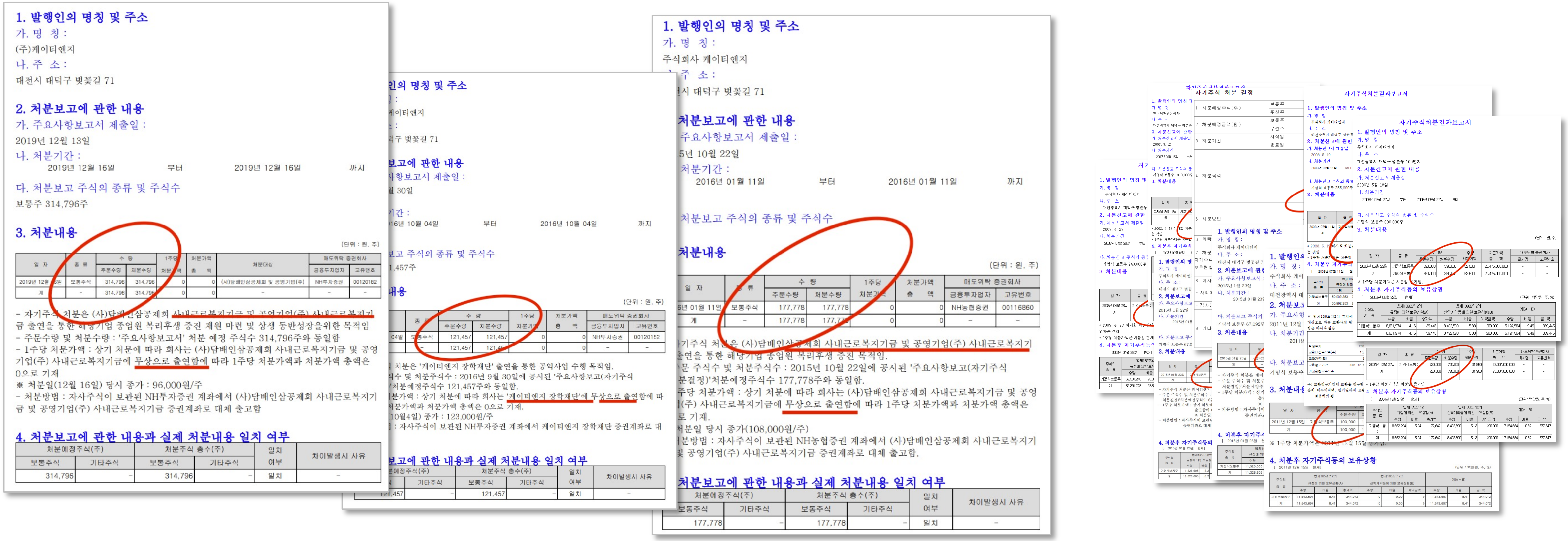
Evidence of illegal treasury shares giveaway is publicly available[1]



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	수량 주문수량	수량 처분수량	1주당 처분가액	처분가액 총 액	처분대상	매도위탁 증권회사 금융투자업자	매도위탁 증권회사 고유번호
2019년 12월 16일	보통주식	314,796	314,796	0	0	(사)담배인삼공제회 및 공영기업(주)	NH투자증권	00120182
계	-	314,796	314,796	-	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) 보통주식	처분예정주식(주) 기타주식	처분주식 총수(주) 보통주식	처분주식 총수(주) 기타주식	일치 여부	차이발생시 사유
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	수량 주문수량	수량 처분수량	1주당 처분가액	처분가액 총 액	매도위탁 증권회사 금융투자업자	매도위탁 증권회사 고유번호
2016년 01월 11일	보통주식	177,778	177,778	0	0	NH농협증권	00116860
계	-	177,778	177,778	-	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) 보통주식	처분예정주식(주) 기타주식	처분주식 총수(주) 보통주식	처분주식 총수(주) 기타주식	일치 여부	차이발생시 사유
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

NONE approved by shareholders

1: Source: KT&G "Treasury Stock Disposal Results Report (2002-2019)" (자기주식 처분결과 보고서)

More on “Request to File a Lawsuit Against Directors”

Basic facts

- Date sent to KT&G: Jan 10, 2024
- Main logic: 21 individuals disposed of treasury shares (company’s asset) illegally, for the benefit of management, and caused damage to shareholders
- Individuals mentioned
  - Management team: Min (ex-CEO, 2010-2015), Baek (the current CEO), 2015-now), Kim (ex-Executive Director, 2016-2021), Kim (CSO, 2016-2021), Kang (CFO, 2012-2019), Kim (CFO, 2019-now)
  - Ext. BOD directors: Kim (2009-2015), Kim (2010-2016), Cho (2010-2016), Kim (2012-2015), Son (2012-2015), Song (2014-2020) Park (2014-2015), Lee (2014-2020), Choi)2015-2018), Sohn (2015-2016), Yoon (2016-2022), Koh (2016), Lee (2016-2022) Noh (2017-2020), Baek (2018-2024)
- Total damage: KRW1 trillion (# of T/S times stock price, Jan 2024)
- Incidents: 22 disposals between 2002 and 2019
  - 910,000 (2002) / 2,535,396 (2003) / 3,276,899)2004) / 610,750 (2005) / 1,272,055 (2006) / 864,277 (2007) / 450,000 (2010) / 100,000 (2011) / 150,000 (2012) / 67,092 (2015) / 299,235 (2016) / 314,796 (2019)

Basis law

- Commercial Act Article 399 (Fiduciary Duty of Directors)
- In consideration of the counterparty, time, and method of disposal, etc), the treasury shares giveaway was:
  - A) Mainly to strengthen mgt control; and
  - B) Not for shareholder’s benefit

Legal precedents

- Supreme Court (2019. 5. 16. 2016다260455 판결) Breach of Fiduciary Duty; Large cash donation to xxx despite no benefit to company
- Supreme Court (2005.6.10. 선고 2005도946) Breach of Fiduciary Duty; Donation of company cash to foundation run by CEO and his family
- Seoul West District Court (2005.6.29 선고 2006가합 8262) Annulled; disposal of treasury shares to large shareholder for his mgt control
- Supreme Court (1999.6.25. 99도1141) Breach of Fiduciary Duty; monetary subsidy to ESOP controlled by mgt to acquire treasury shares

History of KT&G's 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 (2011-2023): (KRW53 Bn)**
- (Trisakti) Accumulated profit (2011-2023): KRW77 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 (2011-2023): (KRW87 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 (2015-2023): (KRW36 Bn)**
- Additional investment KRW30bn in 2023

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 (2010-2023): KRW1.9 Tn
- **Accumulated loss (2010-2023): (KRW43 Bn)**
- KRW1.5 Tn of MSA escrow (2023): locked for 25 years
- Shut down due to US DOJ investigation FDA document issues[2]

1: Renzoluc is a holding company in Singapore that owns 100% of Trisakti

2: See page 36

5-Year projection

(KRW Billions)	2018	2019	2020	2021	2022	2023	2024E	2025E	2026E	2027E	2028E	CAGR 18-23	CAGR 23-28
Revenue	4,472	4,963	5,302	5,457	5,823	5,857	5,569	6,465	7,843	9,692	12,339	6%	16%
Tobacco	2,641	2,782	2,970	3,103	3,546	3,597	3,966	4,589	5,595	6,921	8,793	6%	20%
Cigarettes	2,522	2,575	2,675	2,599	2,669	2,817	2,577	2,419	2,259	2,103	1,990	2%	-7%
HNB	120	207	295	504	876	779	1,388	2,170	3,336	4,817	6,803	45%	54%
Ginseng	1,382	1,469	1,415	1,378	1,396	1,394	1,603	1,876	2,248	2,772	3,546	0%	21%
Others	448	712	917	976	881	866						14%	
EBIT	1,253	1,380	1,481	1,294	1,268	1,167	1,440	1,878	2,480	3,235	4,346	-1%	30%
DA	152	185	203	217	217	241	207	233	259	275	281	10%	3%
EBITDA	1,405	1,565	1,684	1,511	1,485	1,408	1,647	2,111	2,738	3,510	4,628	0%	27%
HNB % of Tobaccc	5%	7%	10%	16%	25%	22%	35%	47%	60%	70%	77%		
EBITDA Margin	31%	32%	32%	28%	25%	24%	30%	33%	35%	36%	38%		

Key assumptions

- Transformation from cigarettes to HNB; HNB provides a less harmful alternative to smokers; KT&G becomes a leader of this global trend.
- No increase in domestic cigarettes ASP assumed
- Export cigarettes has zero growth in the future
- Ginseng business grows into a global health food brand under the right CEO
- No cost reduction assumed (COGS and SG&A grow by 13% p.a. and 9% p.a., respectively)
- Non-core business (including Real Estate): conservatively assumed zero revenue (no revenue at all)

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