

How to Make KT&G a Global Player

October 2022

DISCLAIMER

This presentation is for discussion and general informational purposes only. The views expressed herein represent the opinions of Flashlight Capital Partners Pte Ltd ("Flashlight") as of the date hereof. It does not have regard to the specific investment objective, financial situation, suitability or the particular need of any specific person who may receive this presentation, and is not to be taken as (or construed to be) legal, tax, investment, financial or other advice. Each recipient should consult their own legal counsel and tax and financial advisers as to legal and other matters concerning the information contained herein. This presentation does not purport to be all-inclusive or to contain all of the information that may be relevant to an evaluation of KT&G Corporation ("KTNG" or the "Company"), Company securities or the matters described herein.

The views expressed herein represent the opinions of Flashlight and are based on publicly available information with respect to the Company. Certain financial information and data used herein have been derived or obtained from public filings, including filings made by the Company with regulators, and other sources, as well as Flashlight's analysis of such publicly available information.

This presentation does not constitute, and should not be construed as, asking or soliciting shareholders of the Company to authorize Flashlight or any third party to exercise their voting rights on their behalf with respect to the proposals to be presented to shareholders of the Company at the general meeting of shareholders and Flashlight is by no means soliciting or requesting other shareholders to grant or deliver their proxies to Flashlight for the meeting. This presentation does not constitute an offer by Flashlight or any of its director, officers, employees, representatives or agents to buy or sell any Company securities or securities of any other person or an offer to sell an interest in funds managed by Flashlight. This presentation does not constitute financial promotion, investment advice or an inducement or encouragement to participate in any product, offering or investment or to enter into any agreement with the recipient. No agreement, arrangement, commitment or understanding exists or shall be deemed to exist between or among Flashlight and any third party or parties by virtue of furnishing this presentation.

Funds managed by Flashlight currently beneficially own and/or have an economic interest in and may in the future beneficially own and/or have an economic interest in, Company securities. Flashlight intends to review its investments in the Company on a continuing basis and depending upon various factors, including without limitation, the Company's financial position and strategic direction, the outcome of any discussions with the Company, overall market conditions, other investment opportunities available to Flashlight, and the availability of Company securities at prices that would make the purchase or sale of Company securities desirable, Flashlight may from time to time (in the open market or in private transactions, including since the inception of Flashlight's position) buy, sell, cover, hedge or otherwise change the form or substance of any of its investments (including Company securities) to any degree in any manner permitted by law and expressly disclaims any obligation to notify others of any such changes. Flashlight also reserves the right to take any actions with respect to its investments in the Company as it may deem appropriate.

Flashlight has not sought or obtained consent from any third party to use any statements or information indicated herein as having been obtained or derived from statements made or published by third parties. Any such statements or information should not be viewed as indicating the support of such third party for the views expressed herein. No warranty is made that data or information, whether derived or obtained from public filings or from any third party, are accurate.

Except for the historical information contained herein, the matters addressed in this presentation are forward-looking statements, including estimates and projections prepared with respect to, among other things, the Company's anticipated operating performance, the value of the Company's securities, the debt or any related financial instruments that are based upon or relate to the value of securities of the Company, general economic and market conditions and other future events. You should be aware that all forward-looking statements, estimates and projections are inherently uncertain and subject to significant economics, competitive, and other uncertainties and contingencies and have been included solely for illustrative purposes. You should be aware that actual results may differ materially from those contained in the forward-looking statements and there can be no assurance that any opinion or assumption herein is, or will be proven, correct.

Flashlight has relied upon and assumed, without independent verification, the accuracy and completeness of all data and information from public sources, and no representation or warrant is made that any such data or information is accurate. Flashlight recognizes that the Company may possess confidential or otherwise non-public information that could lead it to disagree with Flashlight's views and/or conclusions that could alter the opinions of Flashlight were such information known. No representation, warranty or undertaking, express or implied, is given as to the reliability, accuracy, fairness or completeness of the information or opinions contained herein, and Flashlight and each of its directors, officers, employees, representatives and agents expressly disclaim any liability which may arise from this presentation and any errors contained herein and/or omissions herefrom or from any use of the contents of this presentation. There is no assurance or guarantee with respect to the prices at which any securities of the Company will trade, and such securities may not trade at prices that may be implied herein. The estimates, projections and pro forma information set forth herein are based on assumptions which Flashlight believes to be reasonable, but there can be no assurance or guarantee that actual results or performance of the Company will not differ, and such differences may be material. This presentation does not recommend the purchase or sale of any security.

Flashlight reserves the right to change any of its opinions expressed herein at any time as it deems appropriate. Flashlight disclaims any obligation to correct, update or revise the information contained herein.

All registered or unregistered service marks, trademarks and trade names referred to in this presentation are the property of their respective owners, and Flashlight's use herein does not imply an affiliation with, or endorsement by, the owners of these service marks, trademarks and trade names.

TABLE OF CONTENTS

Summary: Why We Are Here & What We Propose	3
Where KT&G Is Today	7
The Path Forward	20
Appendix	48

SUMMARY

KT&G (the “Company”) is one of KOSPI’s top 50 companies with a 140-year history. Its products command unrivalled brand loyalty in Korea, as seen by its 65% market share for tobacco and 70+% market share for ginseng. It is the world’s 5th largest tobacco producer and No. 1 ginseng brand. Given its exceptional brand power, market position, and track record, we believe the Company should trade at a premium to its peers.

Unfortunately, KT&G is trading at a severe discount, and at the same price as 15 years ago, despite its huge cash accumulation in recent years. The combined value of its cash, real estate, and subsidiaries is more than its current market cap, and its core business, tobacco, is not even factored in the stock price. If KT&G’s tobacco business is valued in-line with global peers, the stock price would at least double.

We believe KT&G’s 50% trading price discount is due to the Company’s poor governance. Often called an “ownerless company,” KT&G is run like a state-owned enterprise with no aligned incentives between management and shareholders. KT&G gets little coverage from research analysts, and its stock price continued to decline. We believe the main culprit is the current incentive system. KT&G management gets compensated regardless of stock price. They have no incentive to take care of stock price, or even grow the Company.

Flashlight Capital Partners (“Flashlight” or “we”) plans to bring real governance to the Company. We plan to nominate director candidates who will help the Company implement a set of value-enhancing initiatives, including the business strategy review, realignment of executive compensation to shareholder value creation, spin-off of a subsidiary for maximum potential, and environmental, social and governance (“ESG”) improvements.

We believe our suggestions, if executed well, will lead to at least 2x returns for the KT&G shareholders. More importantly, we are confident we can help the Company become a global player that will make all shareholders, management, employees, and Koreans proud.

ABOUT FLASHLIGHT CAPITAL PARTNERS

Flashlight is a value investment firm with significant experience in Korea.

Firm Overview

- Founded in 2020, based in Singapore
- Focused on improving the governance of public companies
- Currently holds significant minority stake in KT&G

Relevant Experience

- Managing Partner Sanghyun Lee possesses 20 years of active investment management experience in Korea
 - Former Head of Korea at The Carlyle Group
 - Former management consultant at McKinsey & Company in Seoul
 - BA, Seoul National University and MBA, Harvard Business School
- Mr. Lee has significant board advisory experience in Korea, including the recruitment of CEOs and directors and designing stock incentive programs for management teams

FLASHLIGHT'S CORE PRINCIPLES

Flashlight's investment activities are driven by three core principles.

ESG Starts with G

We believe the current ESG discussion is too light on "G."

We believe G is a cornerstone of ESG; only with proper governance can there can be real progress made on environmental or social issues.

Change Through Inclusion

The biggest improvement in ESG lies in the most neglected industries and companies.

We aim to achieve outstanding returns through bold "engagement" rather than "exclusion" strategies that avoid investing in certain industries and companies.

Management Friendly

We always look to engage and collaborate with management to improve companies' governance, strategy and performance, by aligning interest.

TABLE OF CONTENTS

Summary 3

Where KT&G Is Today 7
How KT&G's "Ownerless" Status Caused "The Lost 15 Years"

The Path Forward 20

Appendix 48

ABOUT KT&G

Business Overview

- KT&G is the 33rd largest KOSPI-listed conglomerate whose two major businesses are tobacco and ginseng products (as of 31/08/2022)
- Tobacco business is #1 cigarette manufacturer in Korea, #5 in the world
- Ginseng business (KGC) is #1 producer in the world
- Formerly a state-run monopoly until privatization in 2002
- Limited insider ownership (<0.01%) and foreign ownership of more than 40%

Industry Tailwinds

- Global tobacco market worth \$818 billion growing at 1.4%⁴ p.a.
- Emergence of popular cigarette alternatives such as heat-not-burn (“HNB”)
- Global HNB market will quadruple between 2021 and 2025⁴
- In line with the growing health food industry in Korea, ginseng consumption will continue growth

Financial Summary

- Share Price / Market Cap¹: KRW81,709 / KRW9.8 trillion
- 2021 Revenue / Net Income: KRW5.5 / 1.0 trillion
- EV/EBITDA: negative 0.3x² (vs. 12.2x industry avg)
- Dividend Yield: 5.7% (dividend in 2022)
- Consolidated Net Cash: KRW4 trillion
- Top Shareholders³: NPS (9%) and First Eagle (8%)



¹ Share price and mkt cap as of avg August, 2022. Shares outstanding excludes Treasury Shares, which have no voting rights.

² Reflecting value of cash, RE investment, and ginseng business. Assumptions on page 15

³ % based on total shares excluding treasury shares

Investment Opportunity

- Ideal candidate for a break-up with two sizeable, disparate businesses, together trading at a large discount to intrinsic value
- Negative shareholder returns over various long-term horizons despite excellent asset quality and industry prospects
- Attractive dividend yield (6%), with potential for improvement
- ESG Opportunity: shift focus of tobacco business to HNB, globalize ginseng business, improve corporate governance

⁴ Bloomberg, Research and Markets

UNIQUE ALIAS: "OWNERLESS"

KT&G is widely known as "Ownerless" for its lack of oversight and accountability.

Ownerless Companies

In Korea, where effectively all companies are controlled by founder families and their descendants, only less than 10 are called "ownerless companies," a term which indicates a lack of controlling shareholders.

Despite its position as one of the top 50 KOSPI companies, KT&G has been publicly criticized for its lack of governance.

KT&G shareholder base is fragmented and there is no specific "control shareholder"; this is extremely rare in Korea, although common elsewhere.

Keyword Search Results: Korea Websites



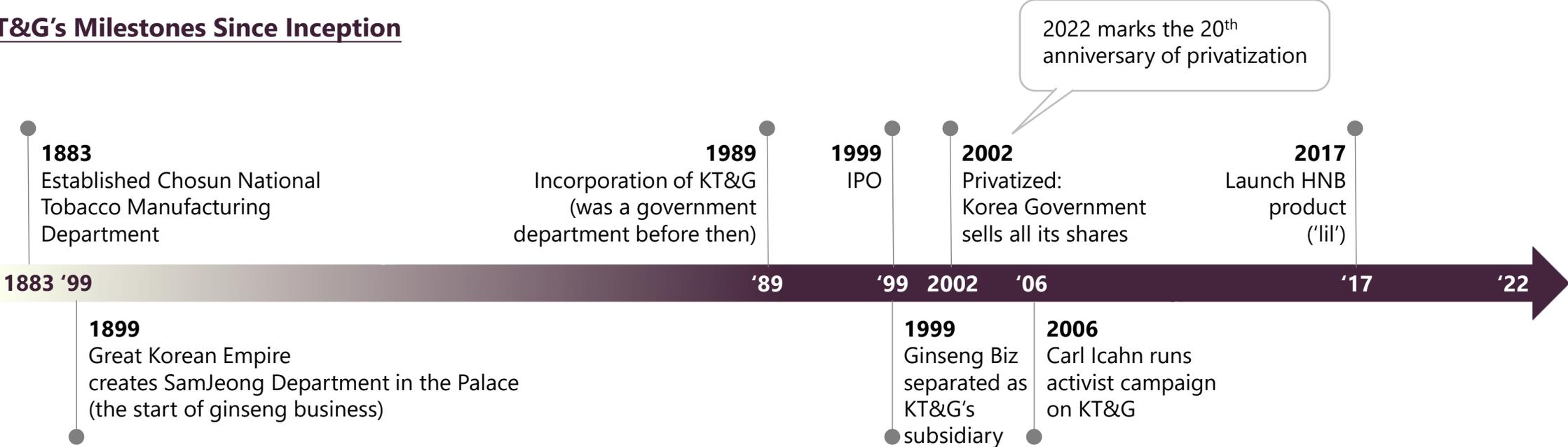
- A Google "주인 없는 회사" (ownerless company): 11 million results including KT&G
- B Maeil Biz Daily: "KT&G with No Supervision – Moral Hazard for Both CEO and Employees (2016)"
- C Naver "케이티앤지 비리" (KT&G wrongdoing): Mostly on the lack of management oversight post privatization, including articles with headlines "the curse of incomplete privatization", "KT&G corruption scandal", etc.

→ Please see more related articles at our website (www.flashlightcap.com), "Resources" section.

KT&G: A HISTORIC COMPANY

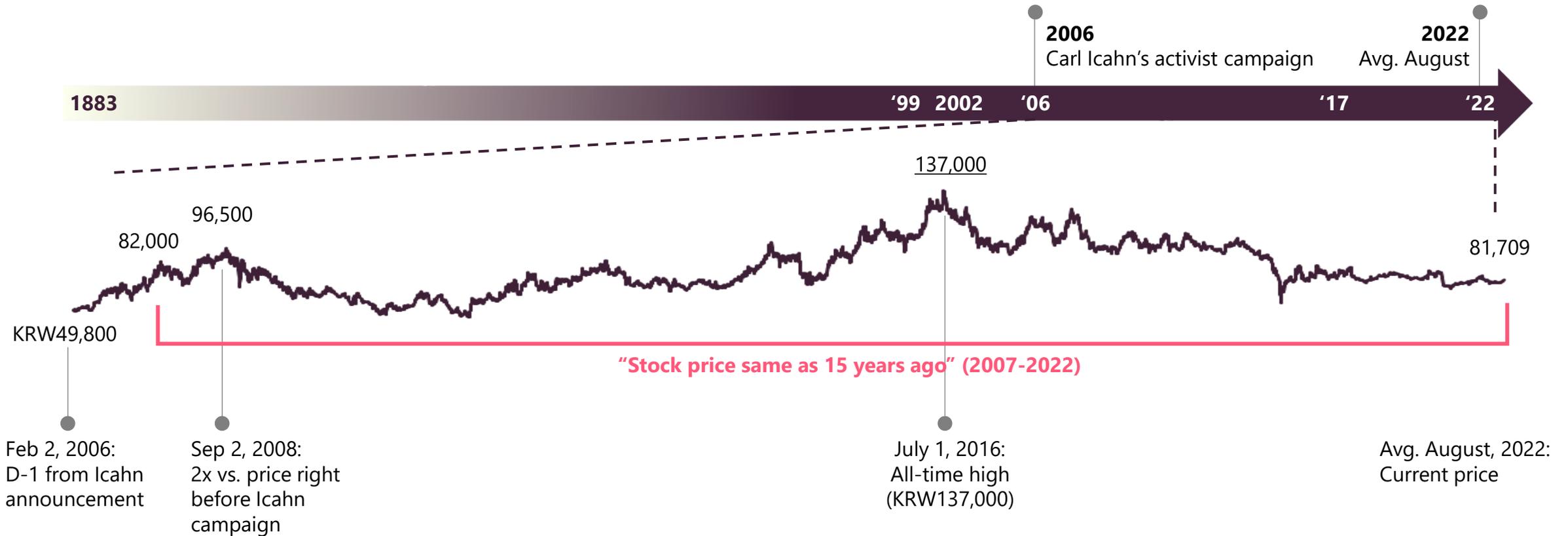
KT&G has a 140-year history in Korea; 120 years as a state-owned enterprise and 20 years as a private company.

KT&G's Milestones Since Inception



LOST 15 YEARS

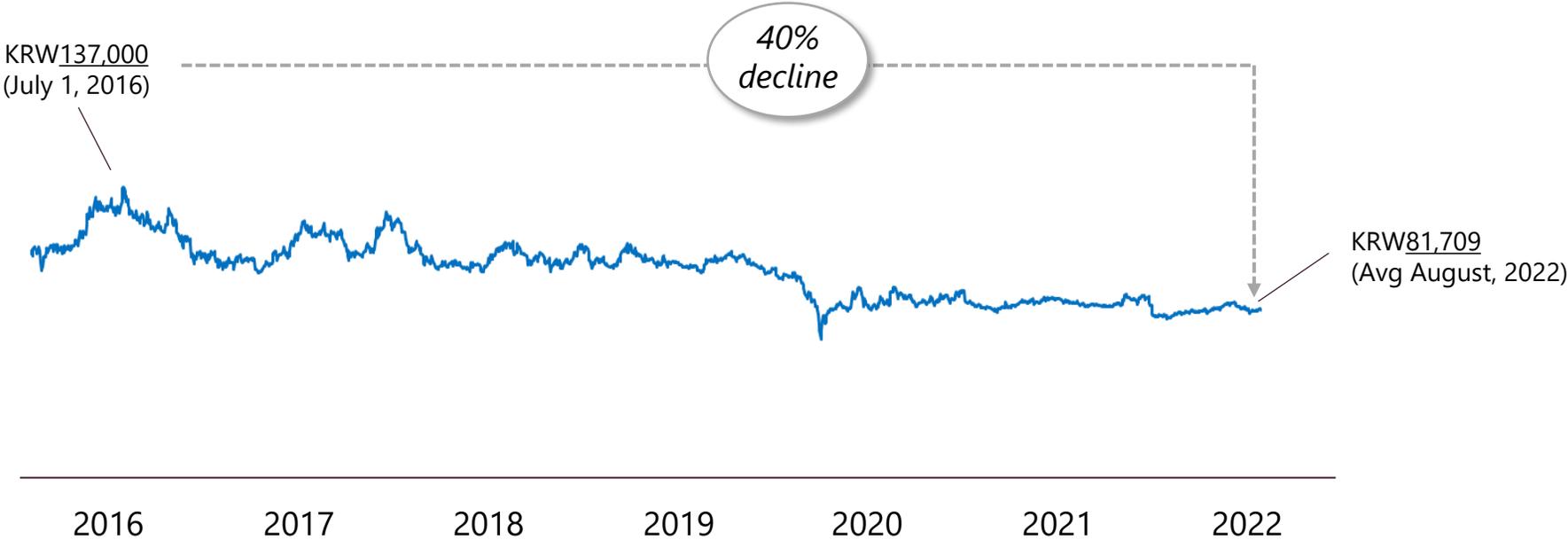
Current stock price is at the level of 2007.



KT&G'S STOCK PRICE DECLINED SINCE 2016

Since 2016, the stock price has been on a declining trend.¹

KT&G Stock Price



¹ The current CEO, Mr. Baek, took office in October, 2015
Source: Annual Report, KRX

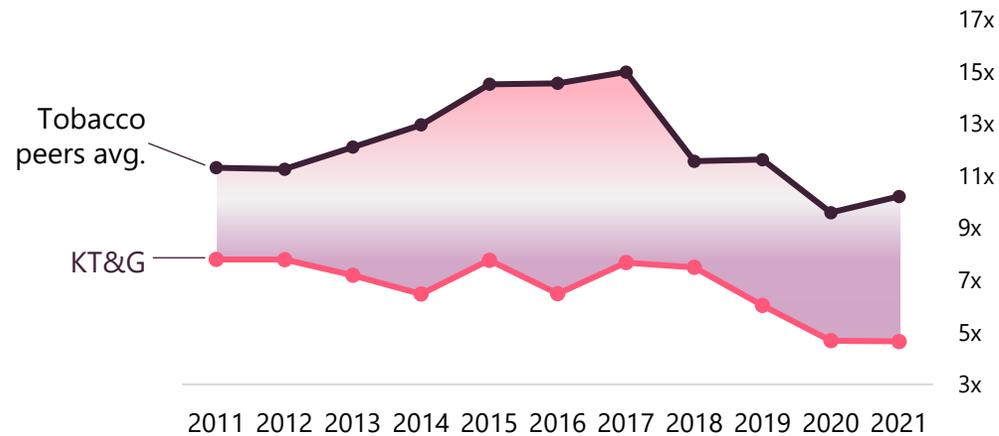
A SEVERE DISCOUNT VS PEERS

The Bloomberg data shows KT&G valuation declining, at its 10-year low.

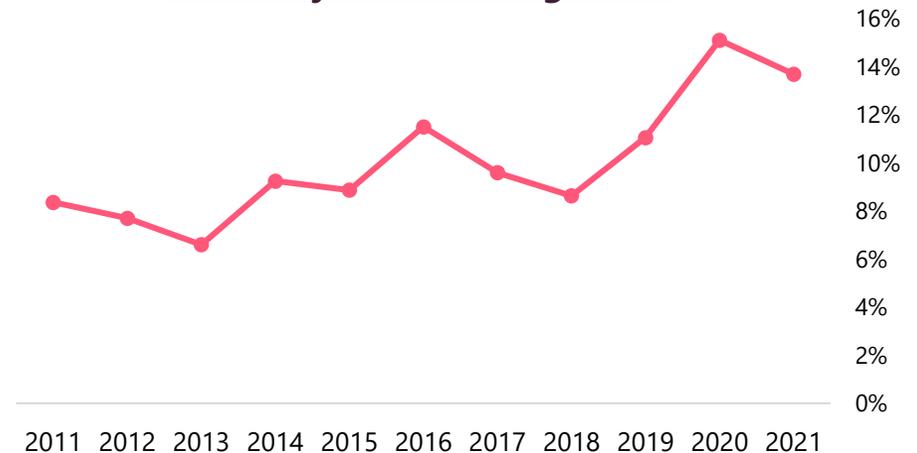
Total Shareholder Return

1-Yr TSR	3-Yr-TSR	5-Yr TSR	10-Yr KOSPI
-2.3%	-13.1%	-4.8%	63.1%

EV/EBITDA (Bloomberg)



Cash-Adjusted Earnings Yield



¹ TSR runs through Dec. 2021, $TSR = (\text{Accumulated dividends} + \text{grown stock price}) / \text{purchase stock price}$, Cash-Adjusted Earnings Yield = NI / EV

² Tobacco peers are: PMI, Altria, BAT, JT, Imperial Brands, ITC, and Swedish Match

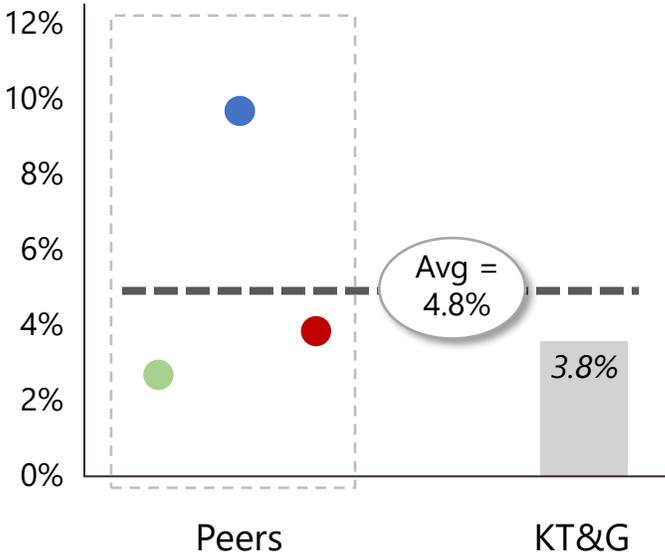
Source: Bloomberg

UNDERPERFORMANCE VS PEERS

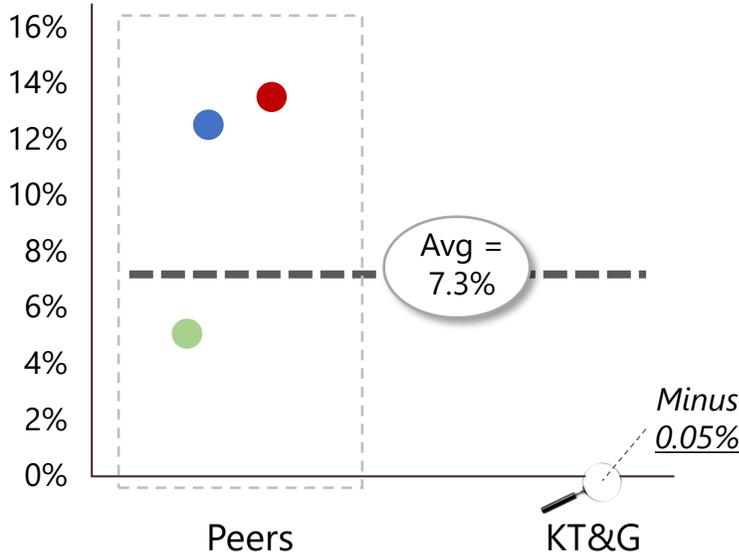
KT&G significantly underperformed its peers, especially in shareholder distribution.

Altria PMI BAT

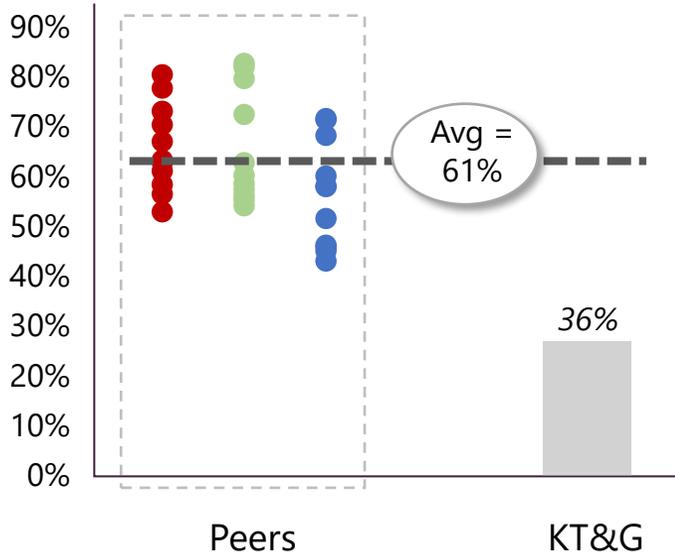
Revenue Growth (2015-2021 CAGR)



EBITDA Growth (2015-2021 CAGR)



Shareholder Distribution¹ (2011-2021)



¹ (Dividend + Share Buyback) / EBITDA; between 2011 and 2021
Source: Bloomberg, Annual Report

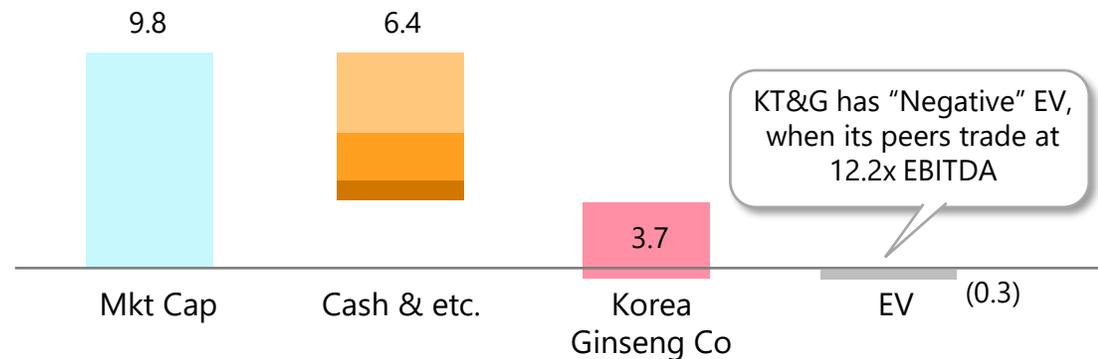
“NEGATIVE EV”

KT&G’s assets and the value of subsidiaries are worth more than the current market cap.

Sum of the Parts Valuation (KRW trillion)¹

Mkt Cap (exc T/S)			9.8	●
Net Cash			3.8	●
Real Estate			2.2	●
Non-core Subs			0.3	●
Cash & etc.			6.4	
	<i>Revenue</i>	<i>EBITDA</i>	<i>Value</i>	
Ginseng Biz	1.4	0.2	3.7	●
KT&G EV			(0.3)	●

KT&G’s Negative EV (KRW trillion)



¹ Consolidated net cash of KT&G minus net cash of KGC / Yungjin Pharmaceuticals / Cosmococ, to reflect the plan of KGC spin-off. Appraisal value used for Real Estate value. Non-Core subsidiaries include market value of only one company, Yungjin Pharmaceuticals. Assumed zero value for all other non-core subsidiaries. Korea Ginseng Company valued on 20x EBITDA, a 30% discount to a comparable premium brand food transaction precedent. Tobacco Business valued on 12.2x 2021 EBITDA, median of global peers. Mkt Cap based on stock price as of Avg August, 2022 (excl. T/S). Source: Annual Report, Bloomberg

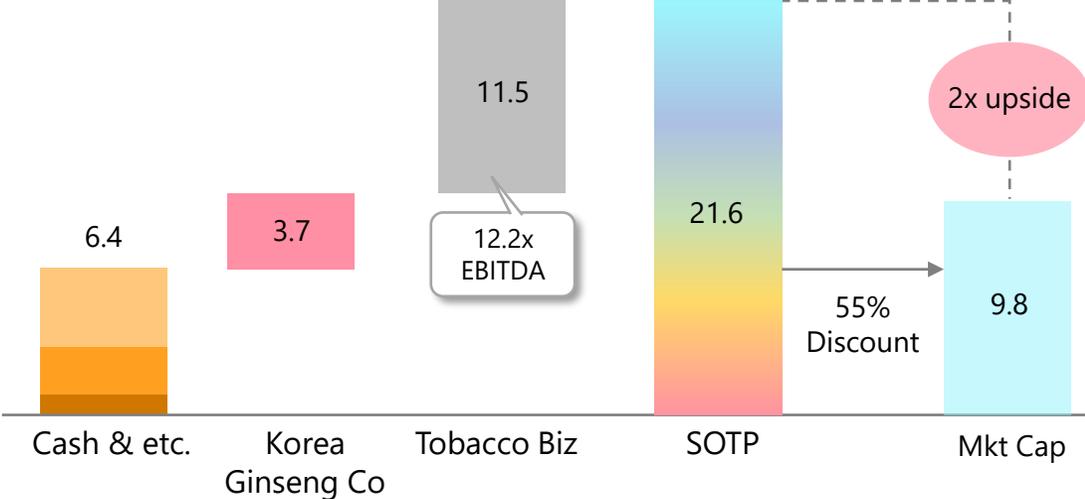
MKT CAP VS INHERENT VALUE

The sum of the parts valuation is 2x the current market cap.

Sum of the Parts Valuation (KRW trillion)¹

Net Cash			3.8	●
Real Estate			2.2	●
Non-core Subs			0.3	●
<hr/>				
Cash & etc.			6.4	
	<i>Revenue</i>	<i>EBITDA</i>	<i>Value</i>	
Ginseng Biz	1.4	0.2	3.7	●
Tobacco Biz	3.1	0.9	11.5	●
<hr/>				
Total			15.2	
SOTP			21.6	

SOTP vs. Mkt Cap (KRW trillion)

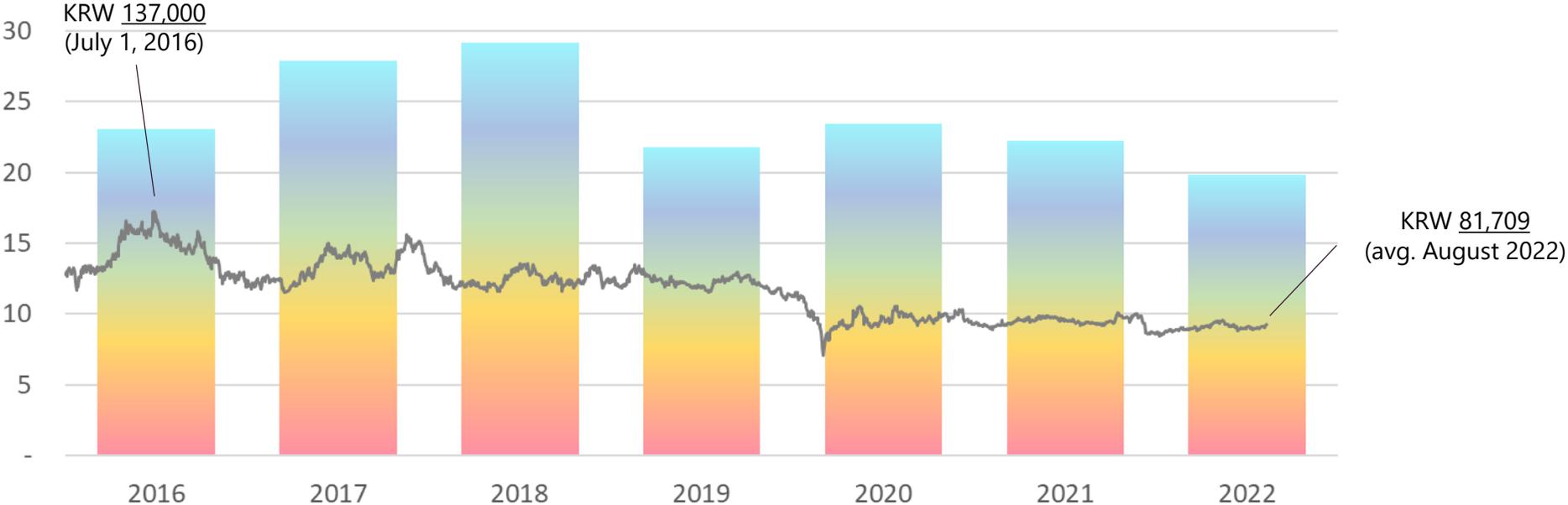


¹ Consolidated net cash of KT&G minus net cash of KGC / Yungjin Pharmaceuticals / Cosmocos, to reflect the plan of KGC spin-off. Appraisal value used for Real Estate value. Non-Core subsidiaries include market value of only one company, Yungjin Pharmaceuticals. Assumed zero value for all other non-core subsidiaries. Korea Ginseng Company valued on 20x EBITDA, a 30% discount to a comparable premium brand food transaction precedent. Tobacco Business valued on 12.2x 2021 EBITDA, median of global peers. Mkt Cap based on stock price as of Avg August, 2022 (excl. T/S). Source: Annual Report, Bloomberg

KT&G'S VALUATION GAP HAS ONLY WIDENED SINCE 2016

The gap has widened ever since 2016.

SOTP and Mkt Cap (KRW trillion)¹



¹ Consolidated net cash of KT&G minus net cash of KGC / Yungjin Pharmaceuticals / Cosmococ, to reflect the plan of KGC spin-off. Appraisal value used for Real Estate value. Non-Core subsidiaries include market value of only one company, Yungjin Pharmaceuticals. Assumed zero value for all other non-core subsidiaries. Korea Ginseng Company valued on 20x EBITDA, a 30% discount to a comparable premium brand food transaction precedent. Tobacco Business valued on 12.2x 2021 EBITDA, median of global peers. Mkt Cap based on stock price as of Avg August, 2022 (excl. T/S). Source: Annual Report, Bloomberg

SOLID INDUSTRY & COMPANY FUNDAMENTALS

KT&G has excellent industry prospects and market position. Its low valuation is due to the lack of governance.

Industry Prospects



Both tobacco and ginseng industries are expected to grow steadily in \$ terms; tobacco is going through dynamic global consumption shift towards Heat-Not-Burn (“HNB”), and ginseng is poised for continuing growth from aging demographics.

KT&G’s Competitiveness



KT&G commands near-monopolistic market share in both its tobacco and ginseng businesses, as shown in the past 10-year track record.

Valuation



KT&G is trading at an all-time low valuation (negative EV) despite growing EBITDA and strong cash flow.

It’s poor governance that is bringing down KT&G’s valuation.

DISCONNECT BETWEEN SHAREHOLDERS AND MANAGEMENT

None of the current board members own a meaningful number of KT&G shares.

Int/External	Name	Shares owned
Internal	Mr. Baek (CEO)	293
Internal	Mr. Bang (COO)	NONE
External	Mr. Kim	NONE
External	Mr. Koh	NONE
External	Mr. Baek	NONE
External	Mr. Lim	250
External	Mr. Son	NONE
External	Ms. Lee	NONE

- CEO's total compensation was about \$2 million¹ in 2021.
- As of Dec 2021, CEO owned 293 shares of KT&G, worth less than \$20,000.
- No executive or director has stock option/grants.

- The current compensation system – completely decoupled from the stock performance – is nudging mgt team to ignore the interests of shareholders. This is the root cause of KT&G's poor performance and needs an urgent fix.

¹ \$1 = KRW1,311.70 as of August 16, 2022; CEO's 293 shares represents 0.00021% stake.
Source: Annual Report

TABLE OF CONTENTS

Summary 3

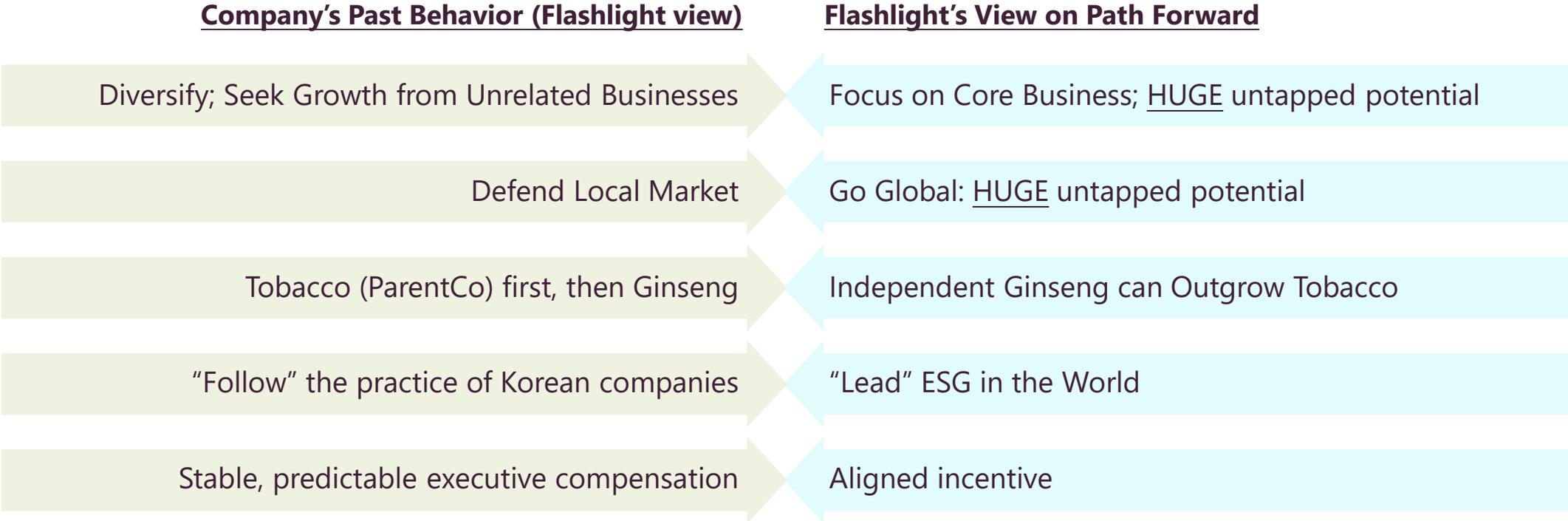
Where KT&G Is Today 7

The Path Forward 20
Our Suggestions to Make KT&G a Global Player

Appendix 48

OUR APPROACH

Flashlight has a different path forward in mind, compared to the Company's approach so far.



VALUE CREATION INITIATIVES

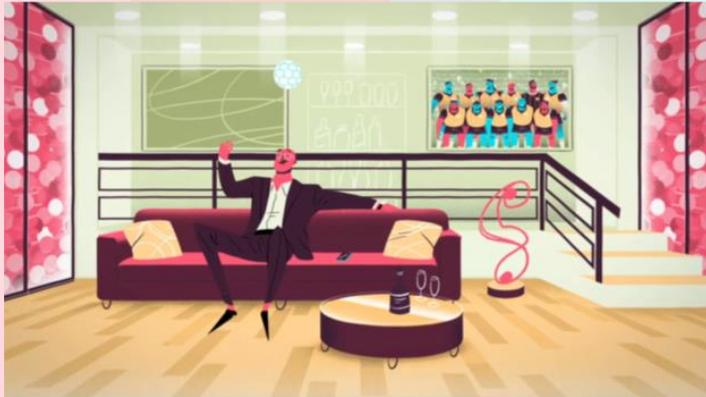
We propose a multi-pronged change that comprises 5 initiatives.

5 SUGGESTIONS FROM FLASHLIGHT

- 1 Roadmap to Grow lil (HNB) into a global brand
- 2 Spin off ginseng business
- 3 Exit 9 non-core biz including Real Estate
- 4 Triple share buyback
- 5 ESG with action, not check-the-box

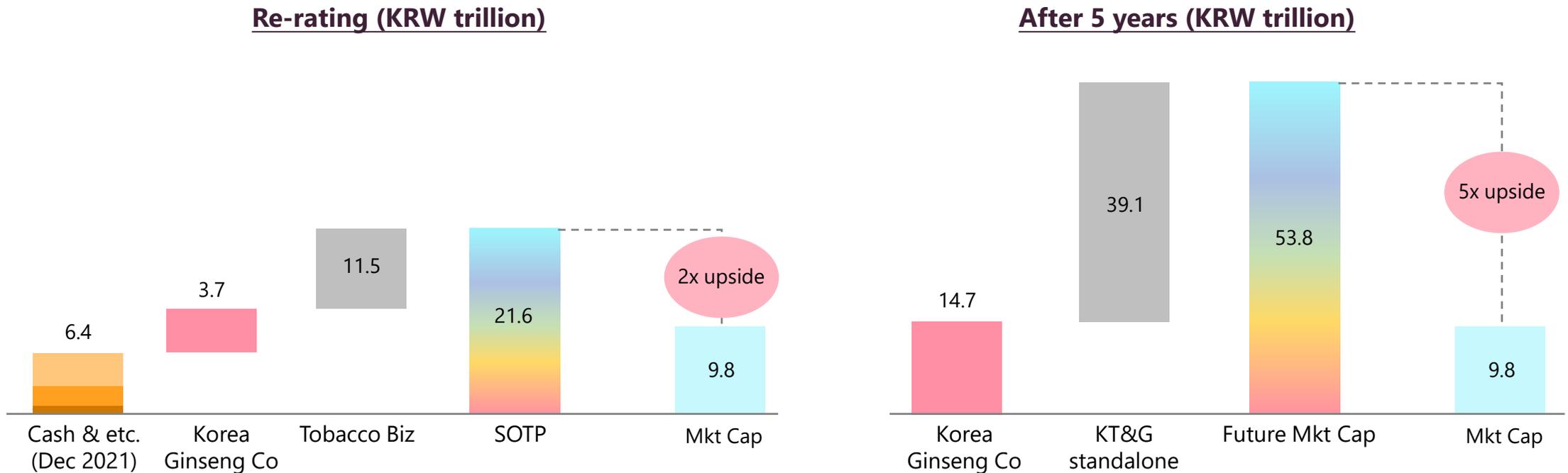
OUR MESSAGES EXPLAINED

Each of our initiatives will be explained in our videos on our website (www.flashlightcap.com)



OUR PLAN CAN CREATE LONG-TERM VALUE AT KT&G

We believe our initiatives could bring 2x returns in the near term, and over 5x in the next 5 years.



¹ Assumptions on Case B sum of the parts are the same as on page 16. Future valuation on Case C is based on 5-yr projection developed by Flashlight; applied 12.2x EBITDA and 20.0x EBITDA for tobacco and ginseng business, respectively. Source: Annual Report, Flashlight Analysis



KT&G should prioritize on HNB in line with the global rise of Reduced Risk Products.

5 SUGGESTIONS FROM FLASHLIGHT

- 1 Roadmap to Grow lil (HNB) into a global brand
- 2 Spin off ginseng business
- 3 Exit 9 non-core biz including Real Estate
- 4 Triple share buyback
- 5 ESG with action, not check-the-box

- The emergence of HNB is a new major catalyst of growth for KT&G and global tobacco industry.
- KT&G's lil has great potential overseas to threaten PMI's IQOS, but KT&G is currently relying on its competitor (PMI) for global distribution.
- KT&G needs a solid plan to grow lil into a global brand, through building its own in-house distribution and marketing capabilities.

Estimated Financial Impact

3x	Tobacco EBITDA growth (2021-26)
-----------	---------------------------------

INITIATIVE #1: DEVELOP HNB INTO A GLOBAL BRAND (2/5)



HNB is a fast-growing “Game Changer” in tobacco industry.

Selling Points to Consumers

- Less toxins vs. cigarettes
- Less smoke and smell
- Absence of fire risk

Benefit to Manufacturers

- Less criticism on health risk from public
- Higher ASP than cigarettes

HNB Penetration % (2021)

- 15% in Korea, 30% in Japan
- In Mar 2022, the penetration in Korea increased by additional 3%, to 18%.

Global HNB Growth %

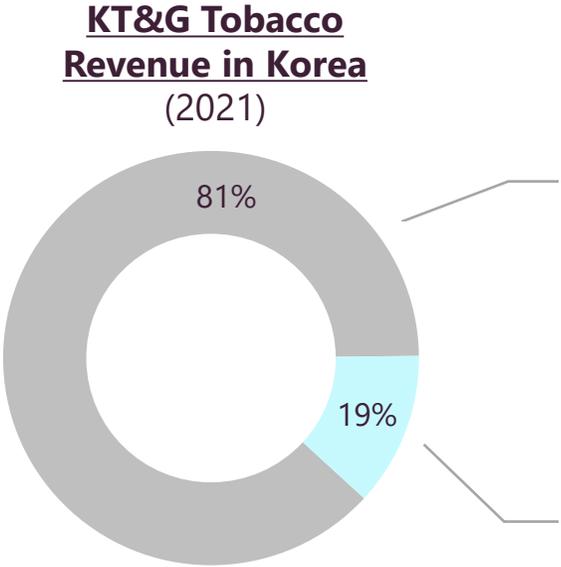
- Global HNB industry is expected to **GROW BY 4x** between 2021 and 2025.



INITIATIVE #1: DEVELOP HNB INTO A GLOBAL BRAND (3/5)



KT&G is going through a successful shift from combustible to HNB.



Combustible Cigarettes

KT&G M/S in combustible cigarette

2017	2018	2019	2020	2021
60.6%	62.0%	63.5%	64.0%	64.6%

HNB

HNB penetration

2017	2018	2019	2020	2021
2.6%	12.4%	12.9%	12.7%	14.8%

KT&G M/S in HNB

2017	2018	2019	2020	2021
2.0%	16.1%	31.7%	34.3%	40.4%

- Despite combustible cigarette’s slight volume decline, the industry will continue positive growth in \$ terms due to ASP increase.
- KT&G consistently increased its M/S in Korea.
- HNB will continue to take away the share from combustible cigarette.
- We believe KT&G’s HNB M/S will grow to be at least 65% (combustible cigarettes M/S).

KT&G has a great HNB product. It can expand to international market and become a global brand.

Source: Annual Report

INITIATIVE #1: DEVELOP HNB INTO A GLOBAL BRAND (4/5)



KT&G needs in-house global marketing capabilities instead of relying on its competitor for lil's global distribution.

KT&G's Global Partnership w/ PMI



- On Jan 2020, KT&G and PMI announced 3-year partnership on global sale of lil, from which **KT&G will rely on its competitor and be paid a modest royalty.**
- As of Dec 2021, lil is being sold in 22 countries outside Korea.

Flashlight's View

- KT&G's lil poses a threat to PMI's IQOS, as lil has competitive product quality/technology when there is relatively little brand equity difference between IQOS and lil, both starting out in new markets.
- By relying on PMI, lil risks becoming a lower-priced, sub brand of IQOS, hurting its brand in the long term despite its superior product quality.
- KT&G must develop its own global distribution and marketing capabilities, to capture the fast-rising HNB market worldwide.

INITIATIVE #1: DEVELOP HNB INTO A GLOBAL BRAND (5/5)



With success on HNB, KT&G can triple its EBITDA from tobacco business in the next five years.

KT&G's Tobacco Business, Past & Next 5 Years

(KRW Billions)	2016	2017	2018	2019	2020	2021	2022	2023	2024	2025	2026	CAGR 16-21	CAGR 21-26
Revenue	2,740	2,842	2,641	2,782	2,970	3,132	3,296	3,897	5,006	5,988	7,314	3%	18%
Domestic	1,839	1,794	1,838	1,910	1,882	1,965	1,980	2,035	2,133	2,270	2,453	1.3%	5%
Cigarettes	1,839	1,789	1,723	1,675	1,627	1,612	1,467	1,308	1,143	969	795	-3%	-13%
HNB	-	5	115	235	255	352	513	727	990	1,300	1,658		36%
Export	901	1,048	803	873	1,088	1,168	1,316	1,863	2,873	3,718	4,861	5%	33%
Cigarettes	901	1,048	771	843	986	944	686	686	686	686	686	1%	-6%
HNB	-	-	32	29	102	224	630	1,177	2,188	3,032	4,175		80%
EBIT	1,215	1,193	954	971	1,051	805	1,221	1,417	1,866	2,308	2,987	-8%	30%
EBITDA	1,319	1,299	1,051	1,082	1,173	939	1,351	1,544	2,009	2,475	3,168	-7%	28%
Net Income	1,029	1,023	738	753	865	646	1,076	1,213	1,524	1,631	2,124	-9%	27%
HNB % of Domestic Revenue	0%	0%	6%	12%	14%	18%	26%	36%	46%	57%	68%		
HNB % of Total Revenue	0%	0%	6%	9%	12%	18%	35%	49%	63%	72%	80%		
EBIT margin %	44%	42%	36%	35%	35%	26%	37%	36%	37%	39%	41%		
EBITDA margin %	48%	46%	40%	39%	39%	30%	41%	40%	40%	41%	43%		
Net Income margin %	38%	36%	28%	27%	29%	21%	33%	31%	30%	27%	29%		

¹ This is financials we assume from tobacco business only. i.e. excludes RE investment businesses or other non-core subsidiaries.
Source: Annual Report, Flashlight Analysis



In order to maximize its potential, ginseng needs to be unshackled from the tobacco business.

5 SUGGESTIONS FROM FLASHLIGHT

- 1 Roadmap to Grow lil (HNB) into a global brand
- 2 Spin off ginseng business**
- 3 Exit nine non-core businesses
- 4 Triple share buyback program
- 5 ESG with action, not check-the-box

- It is a strange irony that ginseng company is owned by a tobacco company.
- Revenue of Korea Ginseng Co (KGC) grew steadily and KGC has over 70% M/S in Korea. While Korean ginseng is very popular in Asia, KGC brand is relatively unknown outside Korea, and huge export opportunity remains untapped.
- Separating ginseng from tobacco businesses will allow the market to fairly assess the true potential of KGC, allow more autonomy & accountability, and accelerate growth as a standalone entity.

Estimated Financial Impact



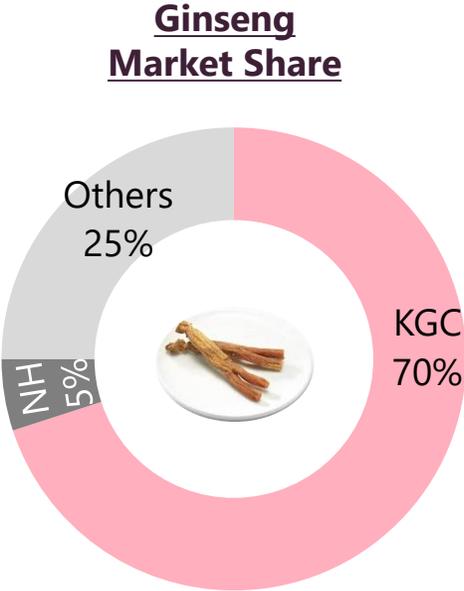
INITIATIVE #2: FREE GINSENG (2/5)



Despite its extremely strong position in Korea, KGC is not successful overseas.

- KGC (KT&G's 100% owned subsidiary) is a strong brand.
 - ✓ Ginseng is a premium health food that accounts for 1/3 of all health nutrients consumed in Korea
 - ✓ KGC enjoys unmatched brand loyalty in Korea due to its history as the authentic ginseng provider, its revenue growing at 12.3% CAGR from 2014 to 2019
- Ginseng has huge potential beyond Korea.
 - ✓ Ageing population is a world phenomenon, although Korea is No. 1 in the fastest ageing country.
 - ✓ The global health and wellness food market was \$96 billion in 2020 and is projected to grow at a CAGR of 9.2%, reaching \$162 billion by 2026
- Despite the potential, KGC is not successful overseas.
 - ✓ Despite huge export potential, **overseas sales accounted for less than 20% of revenue**, mostly in China where only recently escaped a loss.

- #1 *World's Fastest Ageing Population (Korea)*
- 8.8% *Korea Health Nutrient Industry CAGR (2016-2019)*
- 9.2% *Global health & wellness food industry (2020-2026)*
- 8.9% *Ginseng Food Volume CAGR in Korea (2009-2020)*
- 12.3% *KGC Revenue CAGR (2014-2019)*



KGC is the world's #1 ginseng brand and producer

INITIATIVE #2: FREE GINSENG (3/5)



Spin-off is a natural outcome and will help KGC gain autonomy.

Current



New



Why KGC should be independent

- Ginseng and tobacco are completely different, in consumer profile, sales channel, and marketing regulation
- Under KT&G, KGC cannot have a profit-oriented high caliber CEO; KT&G repeatedly dispatched its domestic tobacco executive as KGC's CEO.¹
- Status as a listed company will give KGC more attention on its valuation; currently KGC gets almost no research coverage.

Spin-off Process

- Spin-off is a shareholder approval agenda (not BOD); requires 2/3 vote of attending shareholders.
- Once approved, spin-off will be complete in a few months, and the new company will be listed in KOSPI.
- Spin-off is a non-taxable event; most KT&G shareholders will receive new ListCo shares for free.

¹ Mostly recently, on March 29, 2022, KGC announced KT&G's sales head of South Seoul district has become its new CEO.

INITIATIVE #2: FREE GINSENG (4/5)



Corporate Spin-off's have many successful precedents in Korea.

Precedents

- Since 2020, there have been a series of spin-off's by Korean conglomerates that separated different businesses into two listed entities.
- Well-known companies such as SK, LG and Daelim received from 77% to 99% support during shareholder meetings.
- After the board of directors' approval, the spin-off was completed in 4 to 6 months.



Why We Believe KGC Spin-off Will Be Approved

1. Two businesses significantly differ in nature;
2. Spin-off will not hurt either tobacco or ginseng business, as the two operated as separate entities for over 20 years;
3. Spin-off can lead to share price appreciation as KGC gets attention in the stock market as a standalone entity;
4. Spin-off is a non-taxable event for most shareholders; and
5. Multiple precedents with overwhelming shareholder approval and successful completion.

INITIATIVE #2: FREE GINSENG (5/5)



With successful globalization, ginseng business can more than quadruple its EBITDA in the next five years.

Ginseng Business, Past & Next 5 Years

(KRW Billions)	2016	2017	2018	2019	2020	2021	2022	2023	2024	2025	2026	CAGR 16-21	CAGR 21-26
Revenue	1,157	1,258	1,382	1,469	1,415	1,378	1,489	1,796	2,244	2,925	3,993	4%	24%
Domestic	1,051	1,112	1,215	1,270	1,186	1,115	1,226	1,349	1,484	1,632	1,795	1%	10%
Export	106	147	167	199	229	263	263	447	760	1,293	2,198	20%	53%
EBIT	165	182	196	205	163	123	152	210	300	440	665	-6%	40%
EBITDA	196	215	231	255	219	177	207	268	359	501	728	-2%	33%
Net Income	109	136	140	148	119	75	105	147	212	314	477	-7%	45%
Domestic %	91%	88%	88%	86%	84%	81%	82%	75%	66%	56%	45%		
Overseas %	9%	12%	12%	14%	16%	19%	18%	25%	34%	44%	55%		
EBIT margin %	14%	14%	14%	14%	12%	9%	10%	12%	13%	15%	17%		
EBITDA margin %	17%	17%	17%	17%	16%	13%	14%	15%	16%	17%	18%		
Net Income margin %	9%	11%	10%	10%	8%	5%	7%	8%	9%	11%	12%		

¹ This is financials we assume from tobacco business only. i.e. excludes RE investment businesses or other non-core subsidiaries.
Source: Annual Report, Flashlight Analysis



Management should focus on core business.

5 SUGGESTIONS FROM FLASHLIGHT

- 1 Roadmap to Grow lil (HNB) into a global brand
- 2 Spin off ginseng business
- 3 Exit nine non-core businesses**
- 4 Triple share buyback program
- 5 ESG with action, not check-the-box

- With its 9 non-core, sub-scale businesses running, KT&G cannot focus on tobacco and ginseng, which demand undivided management attention to become global brands.
- Selling off these non-performing and non-synergistic assets will streamline the company's financial performance and bring in additional cash of more than KRW2 trillion.

Estimated Financial Impact

Over KRW2 Tril.

Additional Cash

INITIATIVE #3: EXIT NON-CORE BUSINESSES (2/4)



KT&G's nine unrelated businesses are sub-scale, underperforming, and distracting management.

KT&G's 3 Main Areas of Business



Tobacco

Rev: KRW 3.1 trillion
 EBITDA = KRW 0.9 trillion
#1 M/S (65%) in Korea



Ginseng

Rev: KRW 1.4 trillion
 EBITDA = KRW 0.2 trillion
#1 M/S (70%) in Korea



Nine Non-Core Businesses

Actively managed by KT&G
 Mostly unprofitable

1. Real Estate business (see next page)
2. Yungjin Pharma: KT&G owns 52%. Mkt cap of KRW640 billion (Avg Aug, 2022)
3. Comocos (cosmetics): 2021 net profit of KRW0.5 billion
4. Sang Sang Stay (hotel): 2021 net loss of KRW7 billion
5. LSK Global Pharmaceutical: 2021 net profit of KRW2 billion
6. Lite Pharm Tech (Bio pharmaceutical): 2021 net profit of KRW0.1 billion¹
7. Innodis (online game, advertisement): 2021 net profit of KRW0.2 billion
8. SJ Biomed (pharmaceutical): KT&G owns 14%
9. Starfield Suwon (shopping mall): 2021 net loss of KRW0.7 billion

¹ Source of KT&G Annual Report, Lite Pharm Techs' Audit Reports' 2021 net loss is KRW 0.4 billion
 Source: Annual Report

INITIATIVE #3: EXIT NON-CORE BUSINESSES (3/4)



KT&G's Real Estate business – unprecedented among global consumer brands – is worth KRW 2 trillion.

HISTORY OF KT&G'S RE BUSINESS

- Since 2003, KT&G has been an active real estate developer in Korea, building residentials and shopping centers, and operating hotels.¹
 - The company owns prime location sites thanks to its 140-year history as a government agency.
 - Utilizing these legacy sites, KT&G owns/leases buildings near high-traffic downtown centers, including KT&G Tower, KT&G Daechi, KT&G Seodaemun, Marriott Namdaemun, and KT&G Suwon.



THE KOREA TIMES
KT&G becomes real estate developer

The company has seen consistent growth in its real estate business as its sales in the sector increased from 142.8 billion won (\$120 million) in 2015 to 184.8 billion won in 2016, and to 190 billion won in 2017.

Operating profit in the real estate segment during the first quarter of the year was tallied at 27.7 billion won, rising five-fold from the previous year.

The firm made inroads into the hotel business in 2013 in an effort to diversify its business portfolio, signing a consignment operating deal with global hotel chain Marriott.

The cigarette company opened Courtyard by Marriott Seoul Namdaemun in May 2016 and has attracted foreign travelers and visitors on business trips.

For the real estate leasing business, the firm is currently

KT&G CEO Park Suk-oo

VALUE OF KT&G'S RE BUSINESS

- As of 2021, the fair market value of Investment Real Estate Asset was noted as KRW2.2 trillion.²

¹ Peninsula Times article, March 3, 2020

² Source: Annual Report

INITIATIVE #3: EXIT NON-CORE BUSINESSES (4/4)



Two out of 9 can be immediately divested with ease.

Yungjin Pharmaceutical

- Yungjin Pharmaceutical: a listed biomedical company in Korea of which KT&G owns 52% stake (KRW336 billion as of August 2022).
- KT&G can appoint an investment bank who can arrange a sale process to sell the 52% stake to financial or strategic bidders, potentially at a control premium.
- We have not assumed any control premium to our analysis; any excess will be an upside to KT&G.

Real Estate Business

- Selling commercial Real Estates assets is significantly easier and more straightforward in Korea compared to corporate M&A.
- There have been innumerable sale & lease back in Korea, done by property developers often backed by large financial institutions.
- KT&G's many RE assets are at super prime location, e.g. core Gangnam area and in front of Namdaemum, Korea's iconic tourist spot.
- The sale will not bring any change to KT&G's operation or P&L as the rent expense has been reflected on an arm's-length basis.¹
- KT&G's annual report estimates its RE asset is worth KRW2.2 trillion, yet we believe it will be sold at a much higher price.

Others

- For the remaining 7 companies, we have conservatively assumed zero value.

¹ In 2021, revenue and EBITDA from RE business accounted for 13% and 22% of KT&G's total revenue and EBITDA, respectively, thanks to one development project that benefited from the recent surge in RE price.



With over KRW6 trillion of excess cash, KT&G can triple buyback/dividend.

5 SUGGESTIONS FROM FLASHLIGHT

- 1 Roadmap to Grow lil (HNB) into a global brand
- 2 Spin off ginseng business
- 3 Exit 9 non-core biz including Real Estate
- 4 Triple share buyback**
- 5 ESG with action, not check-the-box

- KT&G has KRW4.2 trillion of cash and cash-like asset.
- This excessive amount of cash withheld cannot be justified; core businesses have strong cash flow, and KT&G is the only one of the global top 5 tobacco players with net cash.
- Total of over KRW6 trillion, including the proceeds from the disposal of Real Estate, KT&G can be used to more than triple distribution to shareholders.

Estimated Financial Impact

TRIPLE	Distribution to shareholders over the next 3 years
---------------	--

INITIATIVE #4: RETURN EXCESS CASH TO SHAREHOLDERS (2/4)



KT&G has a total of KRW4.2 trillion cash on a consolidated basis.

Bloomberg

Report Generation Complete	
033780 KS Equit	90 Actions
KT&G Corp	IFRS 16 Acct Consolidated
12 Months Ending 12/31/2021	
Market Capitalization	9,478
- Cash & Equivalents	2,564
+ Preferred & Other	48
+ Total Debt	167
Enterprise Value	7,131

Total cash (Bloomberg) =
KRW 2,564 billion

Annual Report (Mar 2022)

		제 35 기
자산		
유동자산		6,255,861,536,474
현금및현금성자산		946,570,845,404
기타유동금융자산		457,056,795,720
유동당기손익-공정가치 의무 측정 금융자산		965,384,441,544
매출채권 및 기타유동채권		1,012,741,494,275
유동파산	미수담배소비세등	324,920,390,897
재고자산	재고자산	98,044,889,263
환불자산	단기선급비용	53,262,710,533
	매각예정자산	20,123,696,708
	비유동자산	5,381,409,657,726
	기타비유동금융자산	9,001,281,420
	장기예치금	1,250,467,510,043
	비유동당기손익-공정가치 의무 측정 금융자산	304,815,651,866
	장기매출채권 및 기타비유동채권	94,759,875,704
	비유동기타포괄손익-공정가치 측정 금융자산	228,398,434,797
	지분법적용 투자지분	242,991,736,041
	유형자산	1,741,041,767,892

	KRW billions
1) Cash and Cash Equivalents	947
2) Current Other Financial Assets	457
3) Current fair market value profit or loss	965
4) Assets held for sale	20
5) Long-term other financial assets	9
6) Long-term deposits in MSA Escrow Fund ¹	1,250
7) Long-term fair value through profit or loss	305
8) Fair value through other comprehensive income or loss	228
Total cash and cash-like in Annual Report	KRW 4,182 billion

¹ 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.



KT&G's shareholder distribution announcement in 2021 is still not addressing its excess cash.

Recent Announcement in November 2021

- In November 2021, KT&G announced Shareholder Return Plan of KRW0.9 trillion annual dividend/buyback over the next 3 years. This implies 9% of the mkt cap.
- KT&G's EBITDA in 2021 was KRW1.5 trillion; therefore, the recent announcement still assumes total KRW6 trillion of current cash and cash-like assets will be left untouched.

Triple Buyback

- Including the value of its subsidiaries and RE investment, KT&G has more than KRW6 trillion of net cashable asset.
- If KRW6 trillion is used in dividend/buyback, **it could be triple the planned annual distribution of KRW900 billion for the next 3 years.**

Case Study: 2006

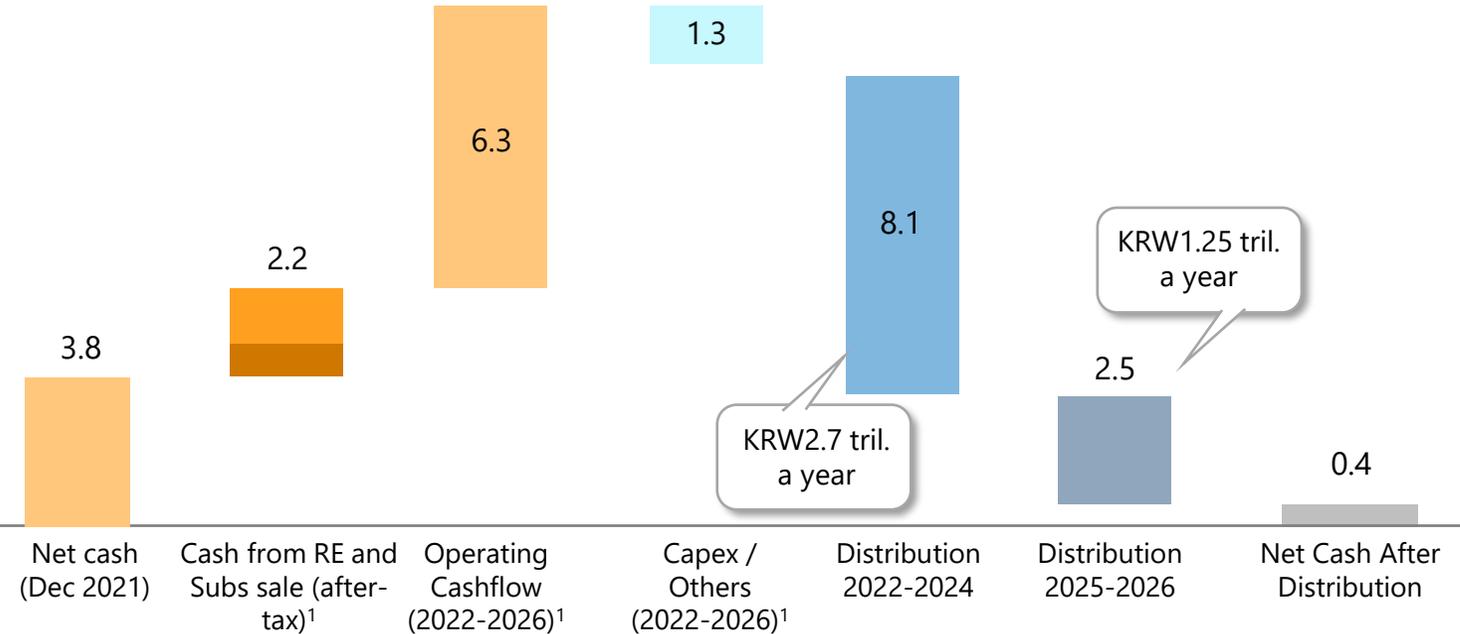
- In 2006, as a response to Icahn's demand, KT&G announced a total KRW2.8 trillion of shareholder distribution for the following 3 years (KRW0.9 trillion a year), a significant increase vs. total dividend in 2005 of KRW0.2 trillion.
- KT&G's Shareholder Return Plan in Nov 2021 (KRW0.9 trillion a year) is the same level as what the company did 16 years ago.

INITIATIVE #4: RETURN EXCESS CASH TO SHAREHOLDERS (4/4)



After KRW11 trillion of distribution to shareholders, KT&G will still have positive net cash.

Cash Flow for Next 5 Years (KRW Trillions)



- Distribution to shareholders will be funded by the excess cash today, as well as new cashflow strengthened by the growth in HNB.
- Sufficient capex is assumed in the next 5 years (over KRW200 billion a year, vs. KRW180 billion in the past 5 (2016-2021)).
- Even after tripling shareholder distribution, KT&G will remain in net cash.
- KT&G is the only company with net cash of global top 5 tobacco companies
 - PMI: net debt of 1.7x EBITDA
 - Altria: net debt of 2.0x EBITDA
 - BAT: net debt of 3.2x EBITDA
 - Imperial Brands: net debt of 2.2x EBITDA
 - JT: net debt of 0.4x EBITDA
 - KT&G NET CASH of KRW4.0 trillion

¹ We assumed corporate tax of 27.5% for asset sale beyond book value. No premium is assumed vs. the current FMV noted in the annual report and stock price. For cash flow 2022-2026, we used projection noted on page 29 and 34. excl. Capex related to investment real estate. Source: Annual Report, Flashlight Analysis



KT&G can make significant improvements in ESG to become a domestic leader.

5 SUGGESTIONS FROM FLASHLIGHT

- 1 Roadmap to Grow lil (HNB) into a global brand
- 2 Spin off ginseng business
- 3 Exit 9 non-core biz including Real Estate
- 4 Triple share buyback
- 5 ESG with action, not check-the-box**

- ESG is not a nice-to-have catchphrase to screen out certain sectors. KT&G can make a real contribution to better ESG, as a leader in Korea.
- Our initiatives will be possible only if KT&G brings back proper governance, which will ensure the profit-generating ideas are explored without bias.
- As for G, by having BOD directors who can represent the shareholder's view, KT&G can have more balanced view.
- HNB and ginseng will make big contribution on E and S.

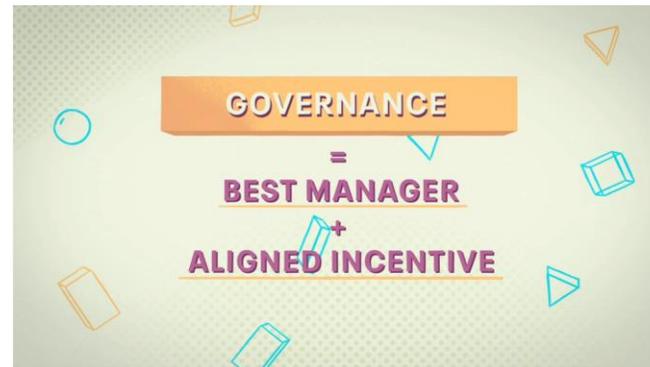
Estimated Impact

Set an example of real improvement in ESG



First of all, KT&G needs urgent fix on Governance.

- There are various definitions of governance, but our view is simple: we believe Governance comprises of a) Hire the Best Manager and b) Align Interest between Shareholders and Management.
- Of these two pillars, the more pressing issue for KT&G is the incentive system.



- KT&G's executive compensation is decoupled from stock price and hence encourages management team to maintain status quo instead of growing the business.
- Flashlight has an in-depth experience of designing & implementing stock option that suits the local culture and practices in Korea and maximizes the accountability.

INITIATIVE #5: BECOME AN ESG LEADER IN KOREA (3/4)



By adding members with shareholder perspectives, KT&G can start to strengthen its governance.

Int/External	Name	Terms Until	Background	Shares owned
Internal	Mr. Baek (CEO, since Oct 2015)	Mar 24		293
Internal	Mr. Bang (COO)	Mar 24		-
External	Mr. Koh	Mar 23	Professor	-
External	Mr. Kim	Mar 23	SME	-
External	Mr. Baek	Mar 24	Lawyer	-
External	Mr. Lim	Mar 24	Chaebol (SK)	250
External	Mr. Son	Mar 25	Chaebol (CJ)	-
External	Ms. Lee	Mar 25	Advertising	-

- KT&G’s Articles of Incorporation allows up to 10 directors, vs. current 8, so there is room for 2 additional seats.
- Stock ownership among BOD members is minimal, and none of the current board members are sufficiently incentivized to improve the stock price.
- We believe the company would benefit from a more aligned and diverse board, with someone who represents a shareholder’s perspective.

Source: Annual Report (Mar 2022)

INITIATIVE #5: BECOME AN ESG LEADER IN KOREA (4/4)



With improvement in Governance, KT&G can make tangible contribution to ESG.



Governance

- KT&G needs shareholder representation on the board of directors who will bring more balanced view in the boardroom.
- Management needs aligned incentive (e.g. stock options) to drive value for shareholders. The design of stock option should be done with careful consideration to maximize accountability.



Environmental

- Compared with combustible cigarettes, HNB is reported to reduce harmful toxicants (tar) by 61% and particulate matter by 90%¹.
- KT&G can commit with a hard deadline to achieving 50% of its sales from HNB; it will establish KT&G as the first tobacco company to demonstrate a real commitment to the environment and health



Social

- By spinning off ginseng business and laying the groundwork for globalization, KT&G can provide significant support to over 4,000 ginseng farmers and their rural community

¹ National Institute of Public Health, Japan, (Jul 2017), Federal Inst. for Risk Assessment, Germany (Oct 2017)
Source: Company filings, Flashlight Analysis

OUR INTERACTION WITH MANAGEMENT TEAM

We have continued dialogues with management team since April 2022.

Communication w/ Mgt 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
June 29, 2022	Response from Company	"It is not appropriate time to make suggestions to BOD."

Our View on Mgt Team

- The Company's performance over the past 7 years has been disappointing. That said, we do not want to point mgt team as the culprit behind the underperformance; the main reason – and the bigger problem – is the misaligned incentive.
- We believe the current mgt might be highly capable of guiding the Company in the right direction, if aligned through the right incentive.
- We are awaiting the Company's response on our suggestions.

TABLE OF CONTENTS

Summary 3

Where KT&G Is Today 7

The Path Forward 20

Appendix 48

RETURNS ANALYSIS BREAKDOWN

Net Cash (2021)		Status Quo			Right After Re-rating			In 2026			
		Total	Tobacco	KGC	Total	Tobacco	KGC	Total	Tobacco	KGC	
<u>KT&G (Consolidated)</u>											
Cash and etc. (8 items)	4,182	EBITDA (2021)	1,116	939	177	1,116	939	177	3,902	3,174	728
Debt (5 items)	167										
Net Cash (A)	4,014	(a) Mkt Cap	9,803	6,066	3,737	21,340	17,603	3,737	52,718	37,973	14,745
		(b) Net Cash	4,038	3,848	190	4,038	3,848	190	219	31	188
<u>KGC</u>											
Cash and etc. (6 items)	265	(c) RE Investment	2,199	2,199	-	2,199	2,199	-	-	-	-
Debt (4 items)	75	(d) Non-Core Subsidiary	335	335	-	335	335	-	-	-	-
Net Cash (B)	190	EV (=a-b-c-d)	3,231	(316)	3,547	14,768	11,221	3,547	52,499	37,942	14,558
		EV/EBITDA		-0.3x	20.0x		12.0x	20.0x		12.0x	20.0x
<u>Yungjin</u>											
Cash and etc. (3 items)	1										
Debt (5 items)	13										
Net Cash (C)	(12)										
<u>Cosmocos</u>											
Cash and etc. (2 item)	4										
Debt (3 items)	15										
Net Cash (D)	(11)										
<u>Assuming sale of KGC and subsidiaries</u>											
KT&G's Net Cash (=A-B-C-D)	3,848										

PROJECTION: KEY ASSUMPTIONS

(KRW Billions unless otherwise noted)

Tobacco Biz Assumptions	
Cigarette ASP increase in Korea?	N
Cigarette M/S gain in Korea?	N
Premium on sale of Yungjin Pharm	N
Premium on RE sale	N
Price assumed for other subs	Zero
Cigarette export ASP increase?	N
Cigarette export volume increase	Zero
HNB penetration in 2026	50%
KT&G's HNB M/S in 2026	65%
Capex (22-26)	1,200

(KRW Billions unless otherwise noted)

Tobacco Financials	16-21	21-26
Revenue growth (p.a.)	2.7%	20.1%
Revenue (21/26)	3,132	7,818
HNB rev in Korea (21/26)	252	1,156
HNB % of dometic revenue	19%	70%
HNB % of total revenue	19%	81%
EBITDA growth (p.a.)	-6.6%	27.6%
EBITDA (21/26)	939	3,174

(KRW Billions unless otherwise noted)

Ginseng Biz Assumptions	
Ginseng ASP increase in Korea?	N
Ginseng domestic M/S gain?	N

(KRW Billions unless otherwise noted)

Ginseng Financials	16-21	21-26
Revenue growth (p.a.)	3.6%	23.7%
Revenue (21/26)	1,378	3,993
Export revenue (21/26)	263	2,198
Export % of revenue	19%	55%
EBITDA growth (p.a.)	-1.9%	32.6%
EBITDA (21/26)	177	728