



March 16, 2023

Dear Fellow Shareholders,

We are writing to you in connection with the 36<sup>th</sup> Annual General Meeting of Shareholders (the “General Meeting”) of KT&G Corporation (KRX: 033780) (“KT&G” or the “Company”), scheduled to be held on March 28, 2023.

Flashlight Capital Partners Pte. Ltd (“Flashlight Capital” or “we”) is the advisor of Agnes fund, which beneficially owns KT&G shares. For this General Meeting, Agnes, as a shareholder of KT&G, has put forward 10 shareholder proposals.

**FOREIGN SHAREHOLDERS WILL ENCOUNTER EARLY VOTING DEADLINES WITH SOME AS EARLY AS MARCH 17, 2023. THE VOTING DEADLINES SET BY THE VOTING AGENTS ARE NOT THE OFFICIAL VOTING DEADLINES SET BY THE COMPANY.**

**IF YOU ARE UNABLE TO VOTE BECAUSE YOU HAVE MISSED THE INTERNAL VOTING DEADLINE OF YOUR VOTING PROVIDER – OR IF YOU HAVE QUESTIONS ABOUT HOW TO VOTE – PLEASE CONTACT GEORGESON AT [ASIA.ENGAGEMENT@GEORGESON.COM](mailto:ASIA.ENGAGEMENT@GEORGESON.COM)**

Due to this tight timeframe, it is imperative that shareholders act quickly. The below table details Flashlight Capital’s recommendations on how to vote at KT&G’s upcoming General Meeting. Importantly, these proposals will appear as submitted by Agnes.

<b>KT&amp;G General Meeting Agenda</b>			<b>VOTE FOR:</b>
Agenda No. 2:	2-3:	Cash Dividends of KRW 10,000 per share (Shareholder Proposal by Agnes, etc.)	<b><u>VOTE FOR:</u> Dividend</b>
Agenda No. 3:		Partial Amendment to Articles of Incorporation (Shareholder Proposal by Agnes, etc.)	
	3-1:	Amendment to and Enactment of Provisions Concerning Evaluation and Compensation Committee (Shareholder Proposal by Agnes, etc.)	<b><u>VOTE FOR:</u> Compensation Committee</b>
	3-2:	Addition of Right to Decide Cancellation of Treasury Shares (Shareholder Proposal by Agnes, etc.)	<b><u>VOTE FOR:</u> Shareholder’s right to cancel Treasury Shares</b>
	3-3:	Establishment of New Provisions for Quarterly Dividends (Shareholder Proposal by Agnes, etc.)	<b><u>VOTE FOR:</u> Quarterly dividends</b>
	3-4:	Addendum (Shareholder Proposal by Agnes, etc.)	
Agenda No. 4:		Cancellation of Treasury Shares (Shareholder Proposal by Agnes, etc.) - <i>To be automatically scrapped if Agenda No. 3-2 is rejected</i>	<b><u>VOTE FOR:</u> Cancellation of Treasury shares</b>
Agenda No. 5:		Acquisition of Treasury Shares (Shareholder Proposal by Agnes, etc.)	<b><u>VOTE FOR:</u> Buy-back shares</b>
Agenda No. 7:		Appointment of Two (2) Outside Directors	



	7-6:	Appointment of Suk-Yong Cha as Outside Director (Shareholder Proposal by Agnes, etc.)	<b><u>VOTE FOR:</u></b> <b>Director candidate</b> <b>Mr. Cha</b>
	7-7:	Appointment of Ou-Jin Hwang as Outside Director (Shareholder Proposal by Agnes, etc.)	<b><u>VOTE FOR:</u></b> <b>Director candidate</b> <b>Mr. Hwang</b>
Agenda No. 8:		Appointment of Four (4) Outside Directors	
	8-7:	Appointment of Suk-Yong Cha as Outside Director (Shareholder Proposal by Agnes, etc.)	<b><u>VOTE FOR:</u></b> <b>Director candidate</b> <b>Mr. Cha</b>
	8-8:	Appointment of Ou-Jin Hwang as Outside Director (Shareholder Proposal by Agnes, etc.)	<b><u>VOTE FOR:</u></b> <b>Director candidate</b> <b>Mr. Hwang</b>
Agenda No. 9:		Appointment of Audit Committee Members	
	9-5:	Agenda No. Appointment of Suk-Yong Cha as Audit Committee Member (Shareholder Proposal by Agnes, etc.)	<b><u>VOTE FOR:</u></b> <b>Appoint director</b> <b>candidate Mr. Cha</b> <b>as a member of</b> <b>Audit Committee</b>
	9-6:	Appointment of Ou-Jin Hwang as Audit Committee Member (Shareholder Proposal by Agnes, etc.)	<b><u>VOTE FOR:</u></b> <b>Appoint director</b> <b>candidate Mr.</b> <b>Hwang as a</b> <b>member of Audit</b> <b>Committee</b>

Since the launch of our campaign last year, many KT&G shareholders have contacted us to voice their agreement with our position. We would like to express our sincere gratitude for all your advice and support. It is finally time for us to drive meaningful changes by voting at KT&G's General Meeting.

We have proposed two candidates, **Suk-Yong Cha (Ballot 7-6 / 8-7 / 9-5)** and **Ou-Jin Hwang (Ballot 7-7 / 8-8 / 9-6)**, for election to the Board of Directors (the "Board"). Both individuals are truly independent and qualify as "financial experts" per the guidelines set forth in the Korean Commercial Code. They have each demonstrated an impressive track record of delivering exceptional revenue growth and creating shareholder value:

- Mr. Cha served as the CEO of LG Household & Health Care for nearly 18 years, from 2005 to 2022, and he is publicly recognized as one of the top business leaders in Korea. He acquired the Association of International Certified Professional Accountants certification (AICPA), and also worked as CFO of P&G Korea (1989-1994), P&G Philippines (1995-1996), P&G Asia (1997-1998).
- Mr. Hwang has a deep understanding of finance from his experience as CEO of Prudential Life Korea, one of the most profitable life insurance companies for seven years.

Their roles as outside directors on the Board would be to provide objective and independent oversight – not to take control or be representatives of Flashlight Capital. Both are also excellent candidates for the Audit Committee and would bring much-needed independence to all audit processes.



There are two scenarios: where the total numbers of the new Board seat are two (Ballot 7) and four (Ballot 8). Please vote for both cases (Ballot 7 and Ballot 8), as we are fine in either case as long as both of Flashlight Capital's director candidates are elected. Also, we would like to tell you that your vote on directors will be on cumulative basis. Therefore, on Ballot 8, we ask you to concentrate your four votes on our two candidates.

On **Ballot 3-1 / 3-4**, we proposed the **creation of a Compensation Committee** in light of the current non-performance-linked pay structure that we believe does not incentivize leadership to improve shareholder value. We believe that establishing performance incentives that are aligned with shareholder value creation can help KT&G address the significant valuation gap that currently exists.

On **Ballot 2-3**, we proposed to issue a **dividend of KRW 10,000 per share**. From 2008 to 2022, KT&G distributed 60% of its net income to shareholders, a figure that falls short of the almost 100% distribution rate of its relevant global peers. In an effort to make up for this shortfall, we are proposing that KT&G return reserves totaling KRW 10,000 per share or KRW 1.2 trillion to shareholders, the Company has KRW 7 trillion in reserves accumulated over the past 15 years. This proposal aims to bridge the gap created by the "lost 15 years" and align KT&G's distribution practices with those of its peers.

There are multiple options on a dividend. The Company is proposing only KRW 5,000 per share, while some other shareholders are proposing another number less than our KRW 10,000. We ask you to vote on KRW 10,000, and reject other options, to ensure you get the largest amount (KRW 10,000 per share).

On **Ballot 3-3 / 3-4**, we proposed an amendment to the Company's Articles of Incorporation to **allow quarterly dividends**. This shareholder-friendly proposal seeks to amend the Company's Articles of Incorporation to permit the payment of dividends on a quarterly basis, as opposed to annually or semi-annually. It is a common practice among many companies, including peers such as Philip Morris International Inc. (NYSE: PM), Altria Group, Inc. (NYSE: MO), and Imperial Brands PLC (OTCMKTS: IMBBY), to issue quarterly dividends.

On **Ballot 5**, we proposed a **share buyback of KRW 1.2 trillion**, which allows the Company to maintain a net cash position, while also investing in future business growth. When combined with our proposed cash dividend (which is also KRW 1.2 trillion), this will result in shareholder returns that represent only one-third of the KRW 7 trillion surplus of cashable assets currently listed on KT&G's balance sheet.

On **Ballot 4**, we have proposed the **retirement of 15% of the Company's total treasury shares** by April 2023. We believe that these treasury shares have had a negative impact on the Company's stock price and should be retired to enhance shareholder value. Recent media coverage also revealed KT&G's inappropriate donation of treasury shares to shareholders, including charities and foundations controlled by the current and ex-CEO, who currently hold 11% of the Company's voting rights. The relevant article can be accessed at the following link: (<https://www.kedglobal.com/shareholder-activism/newsView/ked202303060007>).

On **Ballot 3-2**, we are proposing an amendment to **transfer power to make decisions regarding the future of KT&G's treasury shares** to the Company's shareholders. KT&G's Articles of Incorporation currently stipulate that only the Board has the authority to approve the cancellation of treasury shares.

Without Ballot 4 and Ballot 3-2, shareholders cannot stop KT&G management from using treasury shares to strengthen their entrenchment.



We need your support to put the Company back on the right track and close the significant valuation gap. Only truly independent directors can protect the rights of KT&G shareholders by overseeing management and asking for clarification when there is clearly a misalignment of incentives and lack of responsibility. Our proposed director candidates are genuinely independent directors who would hold management accountable for the Company's prolonged underperformance.

We are happy to provide additional information regarding the rationale behind our proposals to you, so please feel free to contact us at the below contact details:

- Georgeson: [asia.engagement@georgeson.com](mailto:asia.engagement@georgeson.com)
- Flashlight Capital Partners: [contact@flashlightcap.com](mailto:contact@flashlightcap.com)

Please visit [www.FlashlightCap.com](http://www.FlashlightCap.com) to view our investor presentation as well as other important investor materials.

We look forward to working together to help KT&G become a truly global player.

Sincerely,

A handwritten signature in black ink, appearing to read "Sangnyun Lee", written over a horizontal line.

Sangnyun Lee  
Managing Partner  
Flashlight Capital Partners, Agnes

