



Delivered Electronically

Mr. Bang, Kyung-Man

Chief Executive Officer, KT&G Corp.

March 5, 2025

Dear Mr. Bang,

We, Flashlight Capital Partners, are a significant shareholder of KT&G Corporation (the "KT&G"), and would like to share our thoughts on your first-year performance as CEO.

1. Stock Price Performance

Since your appointment on March 28, 2024, until February 28, 2025, KT&G's stock has grown by only 4.9%. In contrast, KT&G's global peers (the top four tobacco companies) saw an average increase of 35% during the same period.¹

2. Lack of Understanding of Shareholder Value

I do not recall seeing you talk about KT&G's current valuation. Metrics like PER and PBR would be inadequate for KT&G which has extremely poor capital allocation (cash, fin assets, RE investments, and subsidiary values accounting for more than half of mkt cap). In terms of EV/EBITDA, KT&G, the world's 5th largest tobacco company, is trading below 4x, when its peers (top 1-4 players) are trading at 10x. What is your plan to close this valuation gap?

3. Management Entrenchment

Do you intend to serve the shareholders, or are you continuing the legacy of your predecessors? KT&G has a history of illegally donating treasury shares to CEO-controlled foundations, making management the largest shareholder (13%). We are pursuing legal action against these.

Your ambiguous stance on treasury shares only raises further suspicion. In 2023, you stated that treasury shares cancellation had limited impact on stock price, causing a 10% stock price crash. Later, you announced that only half of KT&G's 15% long-term treasury shares would be cancelled. This raises a critical question: Who are you keeping the remaining half for?

4. Backward Business Strategy

Global tobacco leaders are transitioning into a smokeless future. For example, Philip Morris pioneered Heat-Not-Burn (HNB) products, later acquiring Swedish Match. New businesses now account for 40% of its total revenue, and CEO Jacek Olczak's vision to eliminate cigarettes from the planet has driven a 72% stock price increase in just one year.

Meanwhile, KT&G is backpedalling at full speed. You invested KRW 1 trillion in new cigarette factories, despite a declining global smoking population. Current KT&G's stock price (KRW 98,300) remains below the KRW 100,000 mark after our campaign announcement in 2022.

KT&G handed over its HNB future to a competitor (Philip Morris) for 15 years. The result? In Japan—the world's largest HNB market—KT&G's HNB product, lil, was missing from 90% of the 41 retail stores we visited.² Is there any update? What is KT&G's HNB M/S in Japan?

¹ Please see Appendix for details

² Please see Appendix for details



5. Lack of Transparency

KT&G's overseas business remains alarmingly opaque. Based on court-ordered financial disclosures, our analysis shows that cigarette exports accumulated a KRW 68 billion loss over the past three years. Similarly, HNB exports recorded a KRW 57 billion loss. You are planning KRW 3.9 trillion investment in HNB exports; why are you hiding the Return on Investment (ROI)?

You do not even bother to attend quarterly earnings calls, instead leaving your stand-ins to read from a script. While a Q&A session technically exists, shareholders are deliberately blocked from asking questions. Below is a video documenting how our questions were completely ignored during the latest investor relations (IR) call. (*Click the image below to watch the video.*)



Avoiding shareholders in public while meeting select investors in private raises concerns about a 'divide and conquer' strategy. Anyone who fears open communication with shareholders is, in our view, unfit to lead a listed company.

That said, there is one thing we appreciate. While previous CEOs masked deteriorating profitability by boasting sales volume, you have prioritized profit growth. In 2023, KT&G's EBIT was KRW 1.17 trillion with a 19.9% margin, and according to preliminary 2024 results, EBIT reached KRW 1.19 trillion with a 20.1% margin. It may not be a major increase, but we genuinely appreciate this shift in direction.

In March 2023, you were elected CEO with 50.9% of the vote. However, excluding the 13% controlled by foundations that became major shareholders through illegal treasury share donations, your real support among independent shareholders was only 38%.

Our assessment of your first-year performance barely exceeds 38 points. No doubt, the current board will give you a higher score—based on vague evaluation criteria like "Group Infrastructure Innovation" and "ESG Sophistication." But let this be clear: shareholders are watching you.

To earn shareholder trust, you must take bold and decisive action. If you are truly committed to breaking away from past bad practices and moving forward, know that we are willing to support you on that journey.

Sincerely yours,

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

Sanghyun Lee,

Flashlight Capital Partners

Appendix

Peers Stock Price

(Local Currency)	28-Mar-24	28-Feb-25	Inc.
KT&G	93,700	98,300	4.9%
PMI	91.62	155.28	69.5%
Altria	43.62	55.85	28.0%
BAT	2,406.00	3,087.00	28.3%
JTI	4,028.00	3,750.00	-6.9%
Imperial Brands	1,770.00	2,795.00	57.9%
Average			35.4%

KT&G EV/EBITDA

(KRW mil)	28-Feb-24	
Market Cap	10,928,355	(a)
Net Debt ¹	(2,330,569)	(b)
Investment Property FMV	1,648,551	(c)
KGC ²	1,900,000	(d)
Young-jin Pharm	195,215	(e)
EV	4,854,020	(a)+(b)-(c)-(d)-(e)
EBITDA ³	1,263,864	
EV/EBITDA	3.8x	

Note 1: Exclude KGC, Youngjin Pharm, etc., from consolidated net debt.

Note 2: Value FCP proposed to buy at in 2024. KT&G refused the offer.

Note 3: Tobacco only.

Peers EV/EBITDA

As of Feb 28, 2025	EV/EBITDA
KT&G	3.8x
PMI	17.8x
Altria	8.9x
BAT	7.2x
JTI	8.3x
Imperial Brands	7.6x
Average	10.0x

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 HNB¹

IQOS widely promoted competing with JTI and BAT²



- 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



- 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

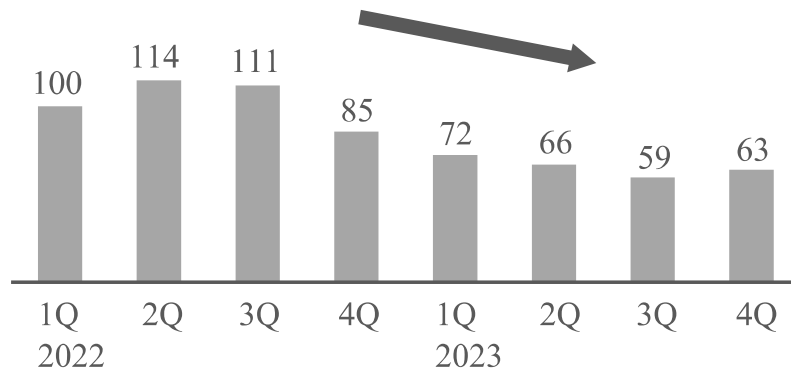
1: Source: Hana Securities (Aug 2023); https://www.hanaw.com/download/research/FileServer/WEB/global/company/2023/08/03/edit-JT_2023_Re.pdf

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 Revenue¹
(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 2024², 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, 千代田区神田相生町 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, 渋谷区猿樂町 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