

KT&G Statement on Materials Posted by IBK

This statement addresses KT&G's position on the Supplementary Documentation for Proxy Voting, submitted by the proposing shareholder, the Industrial Bank of Bank ("IBK"), to the Financial Services Commission ("FSC") on March 12, alongside the presentation material they disclosed on the same day. The Company wishes to inform shareholders that the majority of the proposing shareholder's argument as expressed in the two materials contain misleading/false information or groundless accusations. We kindly ask shareholders to review the contents of the statement below to make an informed and reasonable decision when exercising your voting rights.

(1) Regarding the Allegation of 'Board Entrenchment through Enticement (overseas business trips)'

- a) **The Board of Directors' understanding and insight on the global business environment as the highest decision-making body is imperative for KT&G** as the Company strives to become a global top-tier company through international business expansion, overcoming the limits of the domestic market.
- KT&G is already a company with global operations as its international sales volume accounts for over 60% of total volume and has presence in over 140 countries worldwide.
- b) To this end, outside directors at KT&G **conduct overseas business trips as required in accordance with established Company regulations** and use these opportunities to enhance their understanding of the global business environment and gain insights to better perform their given role as professional advisors to the Company.
- Regulations on the business trip expenses are strictly complied with, including limiting the trip to once a year and within seven days.
 - Average annual expenses for business trip per outside director is approximately 6.8 million Won (not including airfares)
- c) The cases highlighted in the media relate to **trips that** date back to **2012 and 2014**, and the **internal regulations governing such matters were rigorously overhauled in 2017**.
- Spousal accompaniment during these trips was completely unrelated to the Company's operation, and no financial or other forms of support were extended beyond official business trip purposes.
- d) Nonetheless, the **Board of Directors takes this issue with utmost seriousness and is actively reviewing the relevant regulations to prevent any recurrence**.
- e) Moreover, while the Company acknowledges the allegations raised in the media, **no formal investigation has been initiated or notice served to any nominee by regulatory bodies, and this asserts that the accusations are unsubstantiated. KT&G is committed to providing clarification in the event of any investigative proceedings by the authorities in the future.**

(2) Regarding Alleged 'Entrenchment through Outside Director Appeasement'

- a) Outside director candidates at KT&G are recommended by the **Independent Director Candidate Recommendation Committee composed of only outside directors** reflecting the inputs of **multiple independent 3rd party search firms** and the **External Advisory Panel composed of 3rd party experts** with no conflicting interest to the Company or the Board. The final appointment of the directors is decided not by the management but **by approval of the shareholders at the AGM**.
- b) Given this independent nomination process, **there is no room for potential involvement of or impact by the Company management in the outside director recommendation or appointment process**.
- c) Consequently, **IBK's accusation that the outside director candidate and CEO candidate has mutually appointed one another is completely unfounded**.
- CEO candidate recommendation and outside director candidate recommendation are distinctly separate, with no interference between the two.
- d) The KT&G Independent Director Candidate Recommendation Committee **recommended Min-Kyu Lim, incumbent Chair of the Board, as outside director candidate** as he possesses a **deep understanding of the Company's business in relation to its mid- to long- term strategies** as well as expertise in the **environmental and health sector and global supply chain management**, making him an appropriate candidate to **contribute towards achieving the Company's strategic goals**.
- Min-Kyu Lim was appointed to his first term in 2021 with a high approval rate from shareholders of 99.88% and has led the Company's policies in enhancing shareholder value including two rounds of mid- to long- term shareholder return plans in '21 and '23 and the share cancellation policy.
 - In his role as Chair of the Board, he has played a pivotal role in enhancing corporate value by leading the fine-tuning of the mid- to long- term investment plan and the improvements to the capital policy efficiency including by issuing of the AAA-rated corporate bonds.

(3) Regarding Alleged 'Improper use of Treasury shares'

- a) KT&G's contribution of treasury shares¹, totaling a 0.9% of total outstanding shares (993,546 shares), to two foundations historically served **the purposes of serving public interest by supporting the financial stability of public non-profit organizations to fulfill corporate social responsibility**. This contribution was not intended to serve the purpose of management entrenchment.

¹ Single contribution of 255,000 shares to the Welfare Foundation, and total of 738,546 shares contributed to the Scholarship Foundation in 5 occasions from 2010 to 2016. No further shares given to the foundations since.

- The shareholding by these foundations is insignificant in size to have an impact on the results of any AGM, with historical records indicating no AGM results would have been changed by differing votes from the foundations
 - Notably, there have been no such contributions in the past eight years, nor any plans for the future.
- b) **Each foundation is under strict oversight and monitoring by the Ministry of Health and Welfare, Ministry of Education and the respective governing authorities on operation and exercising of ownership rights, and these authorities have control over the composition of the foundations' board of directors, in accordance with relevant laws and articles of incorporation**
- (Welfare Foundation) Under **jurisdiction of the Seoul Gangnam-gu office**, which mandates that personnel **recommended by the governing authority occupy at least one-third of the director or auditor roles** as prescribed by the **Social Welfare Business Act**. The Board includes only one ex-KT&G employee.
 - (Scholarship Foundation) Scholarship Foundation is under jurisdiction of the **Seoul Metropolitan Office of Education**. Its articles of incorporation stipulate that **all appointment of directors and auditors must go through the approval of the Seoul Metropolitan Office of Education**. There is only one KT&G-related personnel on its board (who abstains from participating in board meetings deliberating on voting rights).
- c) **The exercising of voting rights by the foundations is constrained by the Fair-Trade Act, and the voting is decided independently by the board of each foundation**
- The foundations have independently exercised their voting rights, including by voting for shareholder proposals in the past for amendment to the articles of incorporation to allow quarterly dividends
- d) Also, the disposal of contributed shares from KT&G held by these foundations is subject to approval from the respective governing authorities, as dictated by applicable laws. **Ultimately, these shares are to be owned by the government.**
- KT&G has no rights to the shares contributed to the foundations

(4) Regarding Alleged 'Lack of Transparency with Shareholders'

- a) **Accusation that KT&G was non-responsive to IBK's inquiries is not true**
- b) KT&G sent an official document of response to IBK's **'request for materials on US state long-term deposits'** (Feb 6)
- c) KT&G also provided due reply to IBK's **'inquiry on the CEO candidate appointment and AGM convocation resolution process'** (Mar 12)

(5) Expertise of the Outside Director Candidate Recommended by Shareholder

- a) Candidate Dong-Hwan Shon's legal area of expertise as the shareholder argues (fair trade, collusion, etc.) has low relevance to the expertise required in the nature of the Company's business
- Domestic tobacco business, unlike other commodities, has low risk of collusion as it has a mandatory 'Retail Price Notification System' under relevant law, is completely banned of marketing or promotions including price discounts, and as tax accounts for 74% of the entire retail price
 - Also, while IBK's accusations on the US DOJ investigation and the refund of the Escrow fund is in itself not true, it is difficult to see how the candidate of shareholder proposal with expertise in Korean law possesses any kind of expertise in relevant US law.
- b) On the other hand, **candidate Sang-Wook Kwak for outside director/audit committee member recommended by the KT&G Board** not only has **over 20 years of professional experience in law**, but also experience as an **inspection commissioner of the Board of Audit and Inspection** as well as **outside director/audit committee member in listed companies**
- High contribution to the board's role of providing oversight on the Company is expected with the addition of Mr. Kwak as an outside director/audit committee member as he has a track record of leading better management performance and efficiency through improvements to management, financial regulation and audits on the status of business control of public financial institutes and special-purpose entities during his time as an inspection commissioner in the Board of Audit and Inspection
 - He also possesses a deep understanding of the capital market through his experience as an outside director in a number of listed companies including KB Asset Management and Daekyo

(6) Regarding Management Performance of the CEO Candidate

- a) After CEO candidate Kyung-Man Bang was appointed as an inside director of the Company (in 2021), its **consolidated operating profit actually grew by 4% excluding one-off impacts like the completion of the Suwon property development project**
- The operating profit of the real estate business dropped by 75.0% in '23 versus '21 due to the completion of the Suwon property development project
- b) In the same time, the **operating profit of the Company's 3 Core Growth Businesses grew by 18.9%**, and the **operating profit of the global tobacco business, that combines overseas CC and NGP, grew by 55.6% in '23 versus '21.**
- Consolidated operating profit of the Company is expected to grow by 6.5% in '24 through growth in NGP and global cigarettes despite the unfavorable environments of continued cost

pressure from material prices including tobacco leaves (manufacturing cost per pack increase by 17.4%), price freeze in domestic cigarettes for 10 years, and depressed high-profit duty-free sales due to COVID.

c) Also, **stock prices surged by 13.4%** (while KOSPI Index dropped -11.8%) since candidate Bang was appointed as inside director (on Mar 19, '21), and **annualized TSR** (Mar 19, '21 ~ Mar 12, '24) **stands at 10.9%, outperforming global peers (7.6%) and the KOSPI Composite Index (-3.9%)**

- (Share price) KRW 81,800(Mar 19, '21) ⇒ KRW 92,800(Mar 12, '24), 13.4% increase

* The KOSPI index in the same time fell by -11.8% (KRW 3,039.5 ⇒ KRW 2,681.8)

(7) Closing Remarks

KT&G has been respecting the opinions of IBK, a major shareholder for the Company, and will continue to strengthen transparent management and compliance control going forward, listening to the opinions of our shareholders including IBK.

However, when it comes to this AGM, IBK, who has been continuously engaging with the Company, unexpectedly made an abrupt shareholder proposal with a candidate without prior consultation or discussion with the Company, leading to potential expertise overlap with the candidate recommended by the Board of Directors.

In this context, our Board of Directors kindly asks shareholders to support the Board's rationale in endorsing the candidate who has undergone rigorous assessment in consideration of KT&G's strategies and the Board Skills Matrix through a fair and impartial process. The Board firmly believes that our candidate possesses the expertise required at the KT&G Board.

Especially, with regard to President/Representative candidate Kyung-Man Bang, rejection of his appointment without a proper alternative will lead to serious absence in Company management, ultimately jeopardizing corporate value and the interests of shareholders, including IBK. We urge our shareholders to carefully consider this matter, as your support is needed more than ever to prevent such consequence.

Thank you.