



March 2023

Continuing to Deliver Value for Shareholders



Disclaimer

This document contains certain "forward-looking statements" of KT&G (or "the Company") and such forward-looking statements are made based on management's current expectations, beliefs or plans, as well as assumptions based on information currently available to the management. Forward-looking statements relate to future events and address our expected future business condition and financial performance, and often contain words such as "target," "forecast," "plan," and "strategy". Moreover, forward-looking statements are subject to changes in business conditions and are inherently susceptible to uncertainties that may cause our actual future results to materially deviate from those expressed in or implied by the forward-looking statements.

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Executive Summary

- ✔ **KT&G is a leading tobacco and health functional food manufacturer in Korea with global presence in 120+ countries**
- ✔ **For future growth, KT&G is focused on 3 core businesses which are (i) Next Generation Products (“NGP”) (ii) Health Functional Foods (“HFF”) and (iii) Conventional Cigarette (“CC”)**
 - NGP: Globalization through global partnership with PMI and further developing capabilities to launch new platform
 - HFF: Focus on expansion into China and the US while increasing profitability domestically
 - CC: Accelerate globalization by increasing countries with direct business and localizing the value chain through the establishment of production network
- ✔ **KT&G has been outperforming its global tobacco peers and KOSPI for the past one and five years in total shareholder return**
 - Returned W1.86 trn out of W2.75 trn announced in the Mid-to-long-term Shareholder Return Plan ('21~'23), amounting to c.95% of '21 and '22 net income
- ✔ **KT&G has best-in-class governance in place while its current board members have expertise in every area necessary to successfully manage KT&G to the next level**
 - 6 out of 8 (75%) board members are independent directors
 - Key committees within the board including the evaluation committee and the audit committee are comprised solely of independent directors
 - Renowned ESG institutions have consistently recognized KT&G as having the best-in-class corporate governance
- ✔ **KT&G has never decreased the per share dividends even while carefully considering and executing the CAPEX required for its future growth**
- ✔ **Activists will not bring long-term value to the company and its shareholders as they have very little understanding about the business and have no feasible strategy**
 - Requests for excessive dividend and share buyback also indicate that the activists have very little interest in long term value accretion of the company
 - Activist nominees are underqualified and would add no additional value to the existing board of directors

KT&G's nominees must be appointed as independent directors in order to successfully implement growth strategies and increase long-term shareholder return

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01

Business Overview

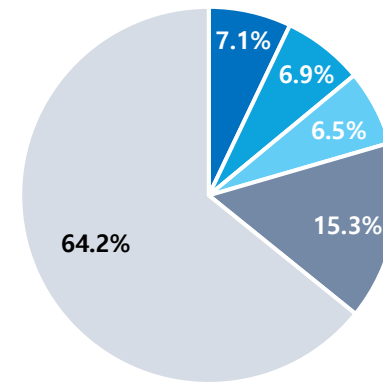
01 KT&G at a Glance

KT&G is a global company generating sustainable growth through a balanced business portfolio and continuous innovation of products

Company Overview

- Founded in 1987, KT&G is a leading tobacco and health functional food manufacturer in South Korea with c.4,370 employees and global presence in over 120 countries
 - Originally a government-owned monopoly, the Company has competed with global tobacco players since 1989. It was listed on the KRX in 1999 and successfully privatized in 2002
- KT&G engages in five different businesses: Tobacco, Health Functional Food, Real Estate, Pharmaceutical, and Cosmetics
 - With solid domestic market leadership in the flagship tobacco business (M/S¹: c.65%), the Company plans to focus future growth on its NGP/HFF business while focusing on globalization
- KT&G continues to received highest industry ratings for ESG management, displaying global standard governance and shareholder protection policies

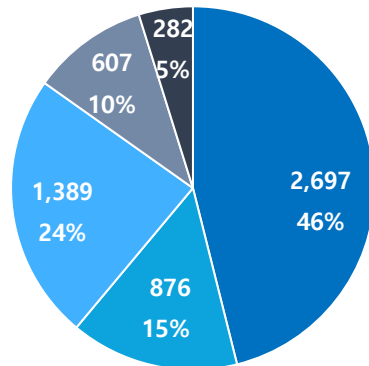
Ownership Structure (Dec 2022)



- National Pension Service (NPS)
- Industrial Bank of Korea (IBK)
- First Eagle Investment Management
- Treasury Share
- Others

Revenue² Breakdown by Business Segment (2022A)

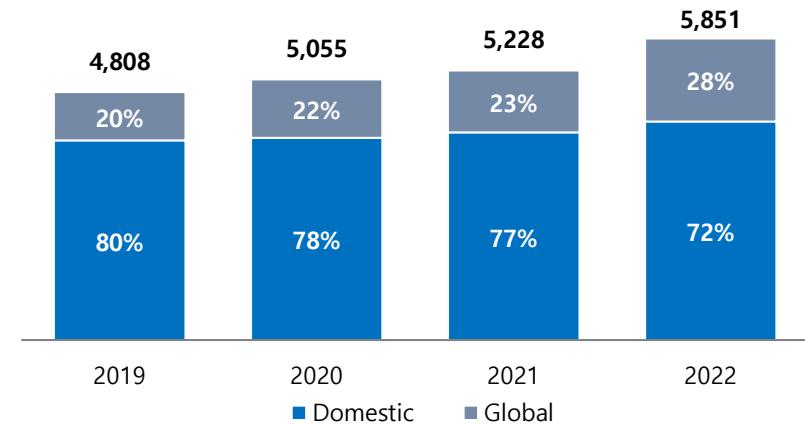
(W bn)



CC³	<ul style="list-style-type: none"> ▪ Odor-Reduced & Slim Conventional Cigarettes
NGP	<ul style="list-style-type: none"> ▪ Heat-Not-Burn Products & Sticks
HFF	<ul style="list-style-type: none"> ▪ Red Ginseng Roots & Products ▪ General Health Functional Food
Real Estate	<ul style="list-style-type: none"> ▪ Lease, Development, Investment
Others	<ul style="list-style-type: none"> ▪ Pharmaceutical, Cosmetics

Revenue² Breakdown by Region

(W bn)

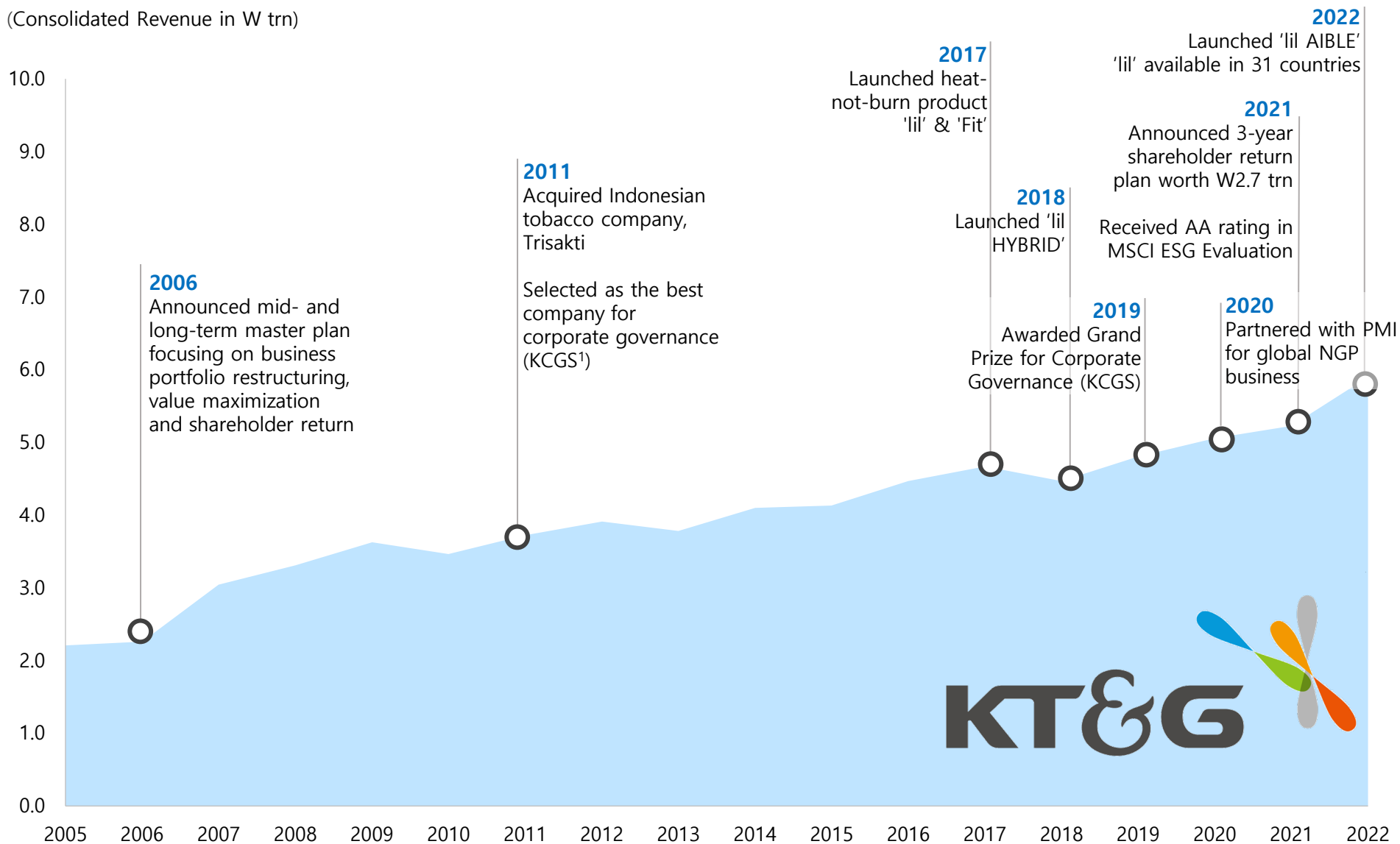


Note: ¹ Domestic conventional cigarette M/S (4Q22). ² Reflects discontinuation of KT&G USA Corp. ³ CC includes both domestic and overseas conventional cigarette business.

01 KT&G Milestones

Since privatization in 2002, KT&G has grown into a truly global company

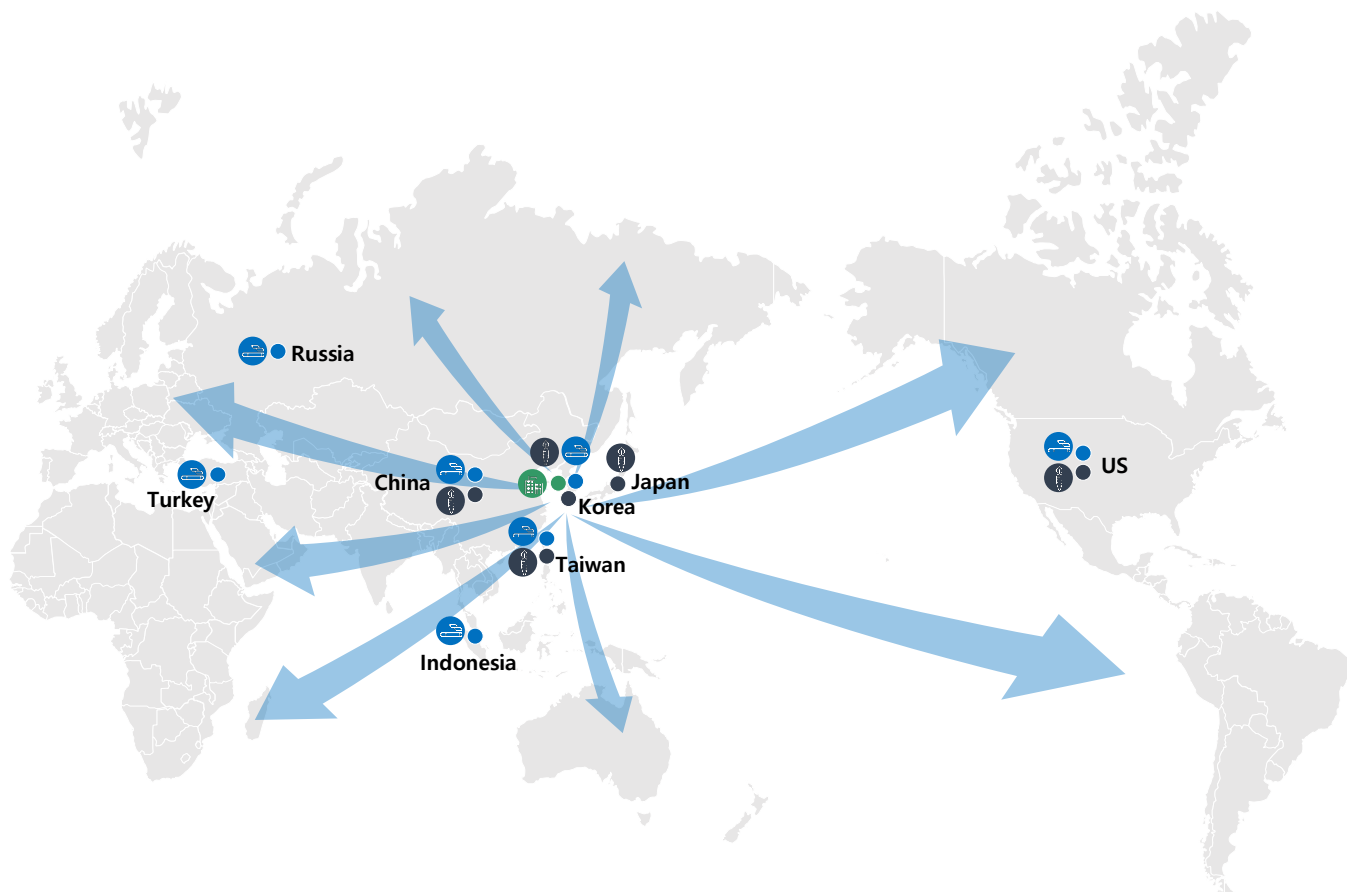
(Consolidated Revenue in W trn)



Note: ¹ Korea Institute for Corporate Governance and Sustainability.

01 Global Footprint

KT&G is accelerating overseas expansion by investing in distribution infrastructure and human capital, cementing its global brand value



Tobacco



Health Functional Food



Real Estate

Production Facilities

Tobacco (CC, NGP)	<ul style="list-style-type: none"> Korea: Sintanjin, Gwangju, Yeongju, Cheonan, Gimcheon Global: Indonesia, Russia, Turkey
Health Functional Food	<ul style="list-style-type: none"> Korea: Wonju, Buyeo

Overseas Subsidiaries

Tobacco (CC, NGP)	<ul style="list-style-type: none"> Indonesia, Russia, US, Turkey, Brazil, Taiwan
Health Functional Food	<ul style="list-style-type: none"> China, US, Japan, Taiwan

Highlights by Business Segment

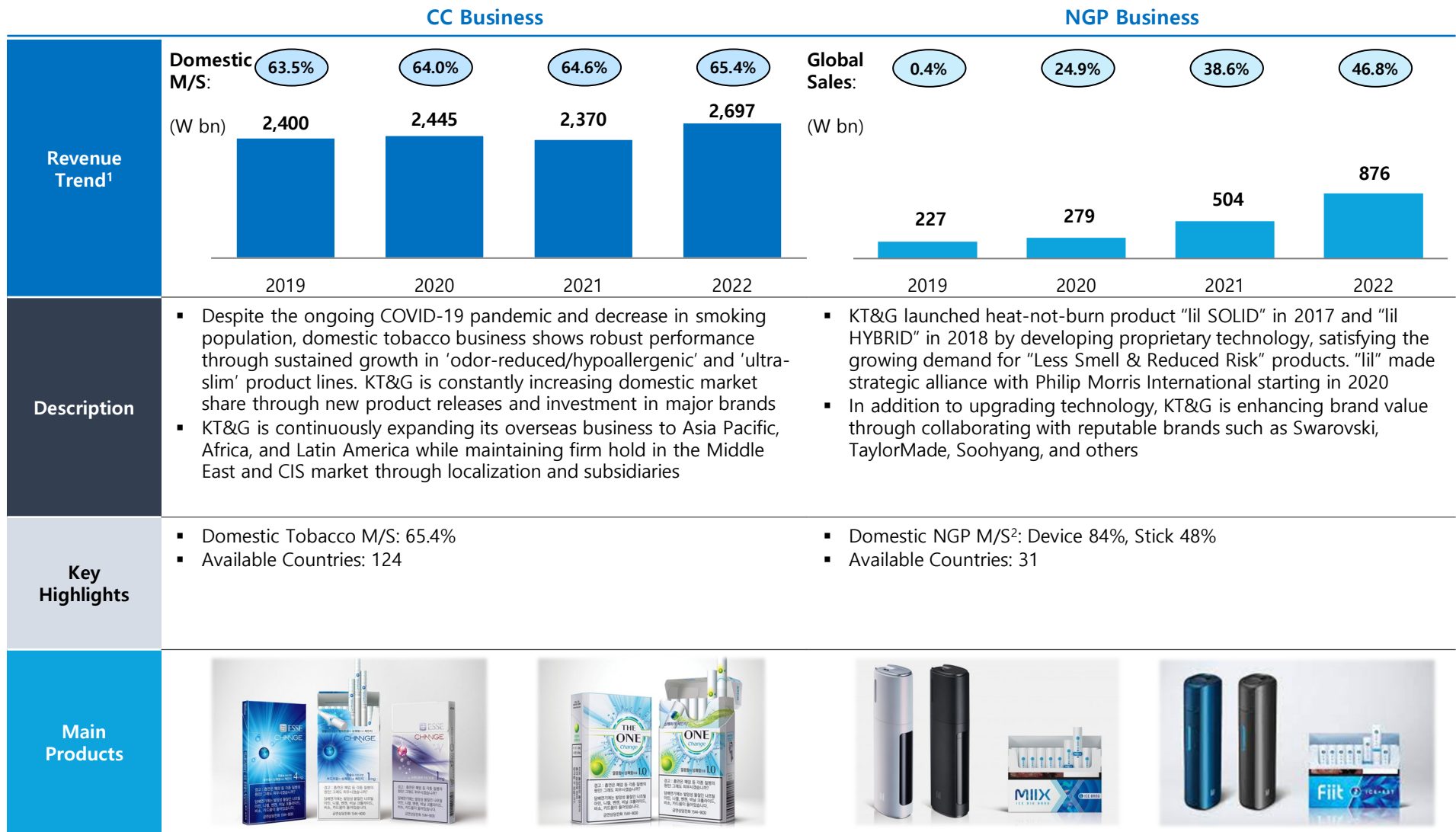
Tobacco (CC, NGP)	<ul style="list-style-type: none"> Tobacco M/S¹: 65.4% NGP M/S²: Device 84% Available Countries: Tobacco 124, NGP 31
Health Functional Food	<ul style="list-style-type: none"> Domestic M/S³: 78.8% Global M/S³: 41.9%
Real Estate	<ul style="list-style-type: none"> Fair Value: W1.9 trn Suwon Development Project

Note: Figures as of 4Q22 unless otherwise mentioned. ¹ Domestic conventional cigarette M/S. ² Domestic NGP Device M/S. ³ CheongKwanJang's M/S as of 2022.



01 Business Segments

KT&G competes globally through innovative growth in NGP and strong market leadership in conventional cigarettes



Note: Figures as of 4Q22 unless otherwise mentioned. ¹ Reflects discontinuation of KT&G USA Corp. ² CVS (Convenience Store) M/S.

01 Business Segments (Cont'd)

KT&G is focusing on global expansion of red ginseng-based health functional food and enhancing financial standing through real estate development and investment

	Health Functional Food Business	Real Estate Business																				
Revenue Trend¹	<p>Global Sales: (W bn)</p> <p>7.9% 9.5% 11.6% 13.9%</p> <table border="1"> <tr><th>Year</th><td>2019</td><td>2020</td><td>2021</td><td>2022</td></tr> <tr><th>Sales (W bn)</th><td>1,465</td><td>1,411</td><td>1,374</td><td>1,389</td></tr> </table>	Year	2019	2020	2021	2022	Sales (W bn)	1,465	1,411	1,374	1,389	<p>Fair Value²: (W bn)</p> <p>1,447 1,948 2,199 1,948</p> <table border="1"> <tr><th>Year</th><td>2019</td><td>2020</td><td>2021</td><td>2022</td></tr> <tr><th>Fair Value (W bn)</th><td>407</td><td>642</td><td>710</td><td>607</td></tr> </table>	Year	2019	2020	2021	2022	Fair Value (W bn)	407	642	710	607
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Sales (W bn)	1,465	1,411	1,374	1,389																		
Year	2019	2020	2021	2022																		
Fair Value (W bn)	407	642	710	607																		
Description	<ul style="list-style-type: none"> ▪ Korea Ginseng Corporate (KGC), a 100% owned subsidiary of KT&G, enjoys favorable tailwind from increase in health-conscious young population and post COVID-19 well-being trend that drives demand for Red Ginseng products and general health functional food ▪ Domestic sales comprises 86%, while marketing promotions and product development are centered on "CheongKwanJang" brand. Distribution is currently focused on offline channels, with plans to strengthen online channels ▪ Overseas sales is growing through marketing and direct sales in China, Taiwan, US, and Japan accompanied by product localization 	<ul style="list-style-type: none"> ▪ KT&G operates real estate business utilizing the financial capacity secured from the tobacco business and idle land, effectively responding to changes in market environment and tighter regulations ▪ 8 real estate development projects are ongoing, including Suwon Hwaseo Station apartment and office hotel construction ▪ 16 lease assets are under operation including KT&G Tower ▪ Financial investments in 26 domestic/overseas funds and REITs total W377.3 bn 																				
Key Highlights	<ul style="list-style-type: none"> ▪ Domestic M/S³: 78.8% ▪ Global M/S³: 41.9% ▪ Patents to Date: 289 ▪ Trademarks to Date: 7,557 	<ul style="list-style-type: none"> ▪ Fair Value of Investment in Real Estate: W1.9 trn ▪ Notable Assets and Projects: Courtyard by Marriott (Namdæmun), Sejong Complex, Dongdaemun Shopping Mall, Housing (Jeonju, Daegu, Daejeon, Andong), Office Buildings (Migeun-dong, Daechi-dong) 																				
Main Products / Locations																						

Note: Figures as of 4Q22 unless otherwise mentioned. ¹ Reflects discontinuation of KT&G USA Corp. ² Fair value of investment in real estate shown on annual report. ³ Cheong KwanJang's M/S as of 2022.

02

KT&G's Strategy and Financial Roadmap

02 5-Year: Achievements

#1

Domestic NGP M/S¹

31 Countries

Global NGP Footprint
(# of countries¹)

17%

Global Health Functional Foods
Segment Annual Revenue Growth
(CAGR '18~'22)

54%

Global CC Direct Business
Revenue Growth
('18 vs '22)

33%

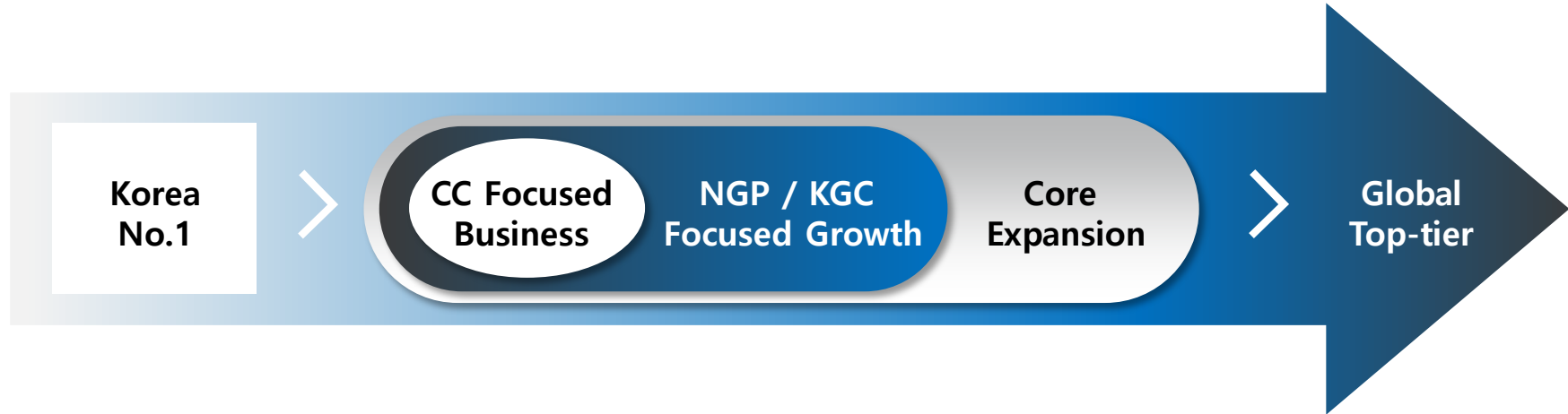
Global Business
Revenue Contribution¹
(excl. real estate business)

w3.7 trn

Shareholder Return
('18~'22)

Note: ¹ KPI as of 2022.

02 Medium to Long-term Growth Plan



02 Medium to Long-term Growth Plan Overview

KT&G is strategically focusing on three core business which are Next Generation Products, Health Functional Foods, and Global CC

Core Business

1 Next Generation Products (NGP)



Accelerate Globalization

- ✓ Establish **production network**
- ✓ Penetrate **new markets**



Increase Portfolio Competitiveness Based on Innovative Platform

- ✓ Internalize **device development capability**
- ✓ **Develop and launch new platform**



Establish R&D Capabilities

- ✓ Strengthen **harmful substance reduction and verification technology**
- ✓ **Acquire US PMTA and MRTP**



Strengthen and advance global partnership with PMI

2 Health Functional Foods (HFF)

Region

Two-track Strategy Overseas – Increase Profitability Domestically



China



US



Korea

Business Model

Become a **Global Nutrition Solution Provider** Through Expansion of HFF Business Model

ODM

Online

3 Global CC



Accelerate Globalization

- ✓ Increase **overseas branches**
- ✓ Grow **direct business capability**



Localize Value Chain

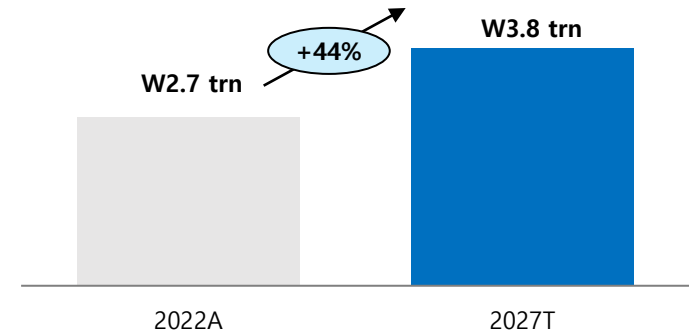
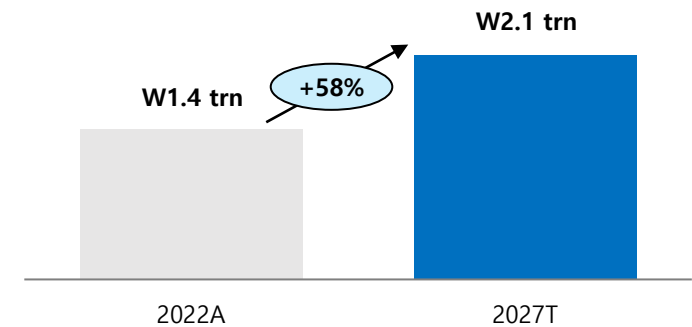
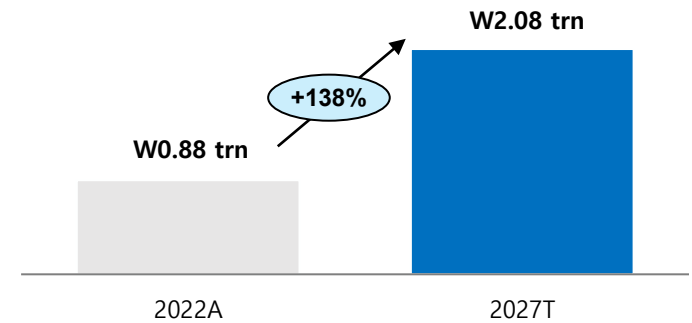
- ✓ Establish **production network**
- ✓ Advance **SCM capability**



Secure New Growth Drivers Through Internalization of New Biz Model

- ✓ Strengthen **partnership model**

Revenue Target

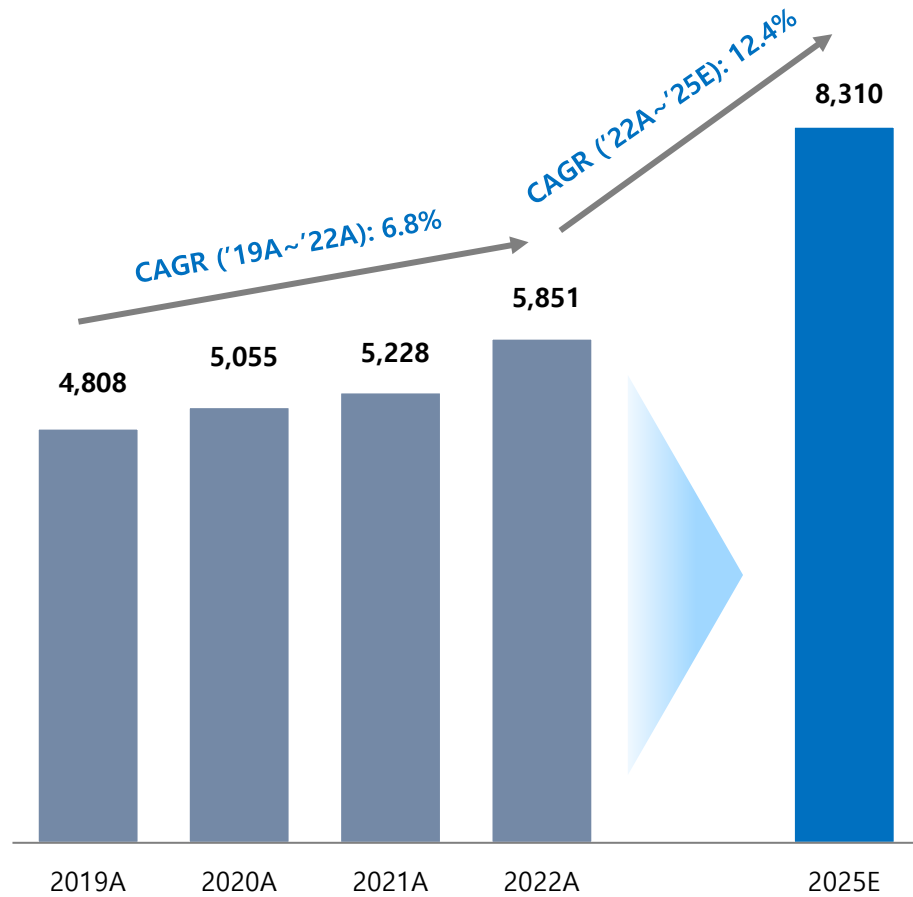


02 Key Financials

Strong top-line growth from CC, NGP, and KGC further catapulted by upcoming major investments will help and contribute to long-term superior shareholder return

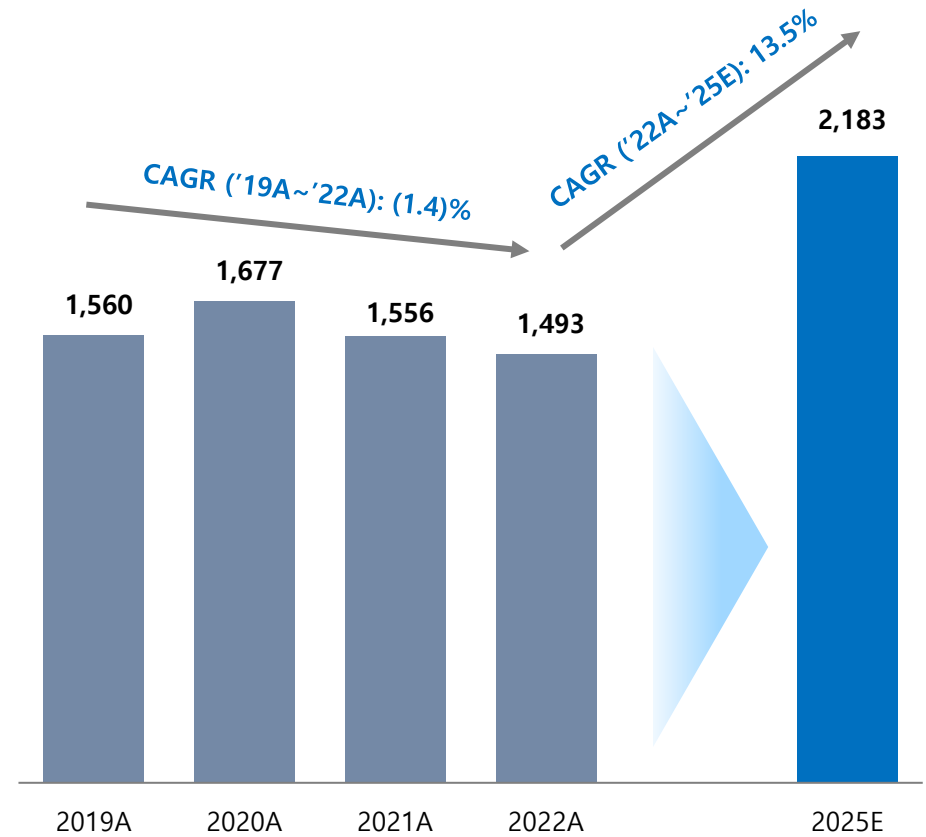
Revenue

(W bn)



EBITDA

(W bn)



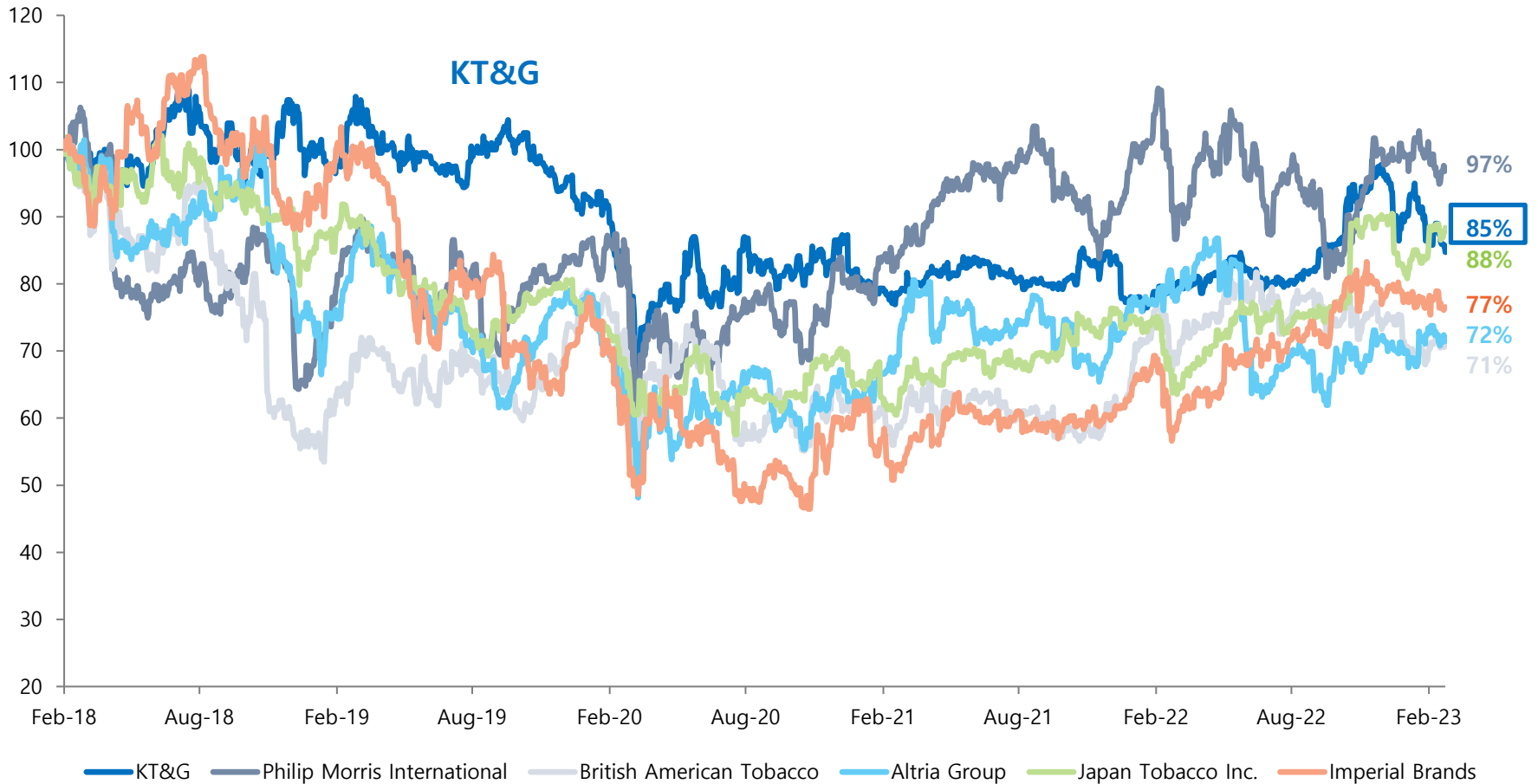
Note: Reflects discontinuation of KT&G USA Corp.



02 Stock Price Performance

KT&G's stock price performance over the last 5 years is superior compared to most global top-tier tobacco companies

Last 5-Years Stock Price Change (Feb 14, 2018 ~ Mar 8, 2023)



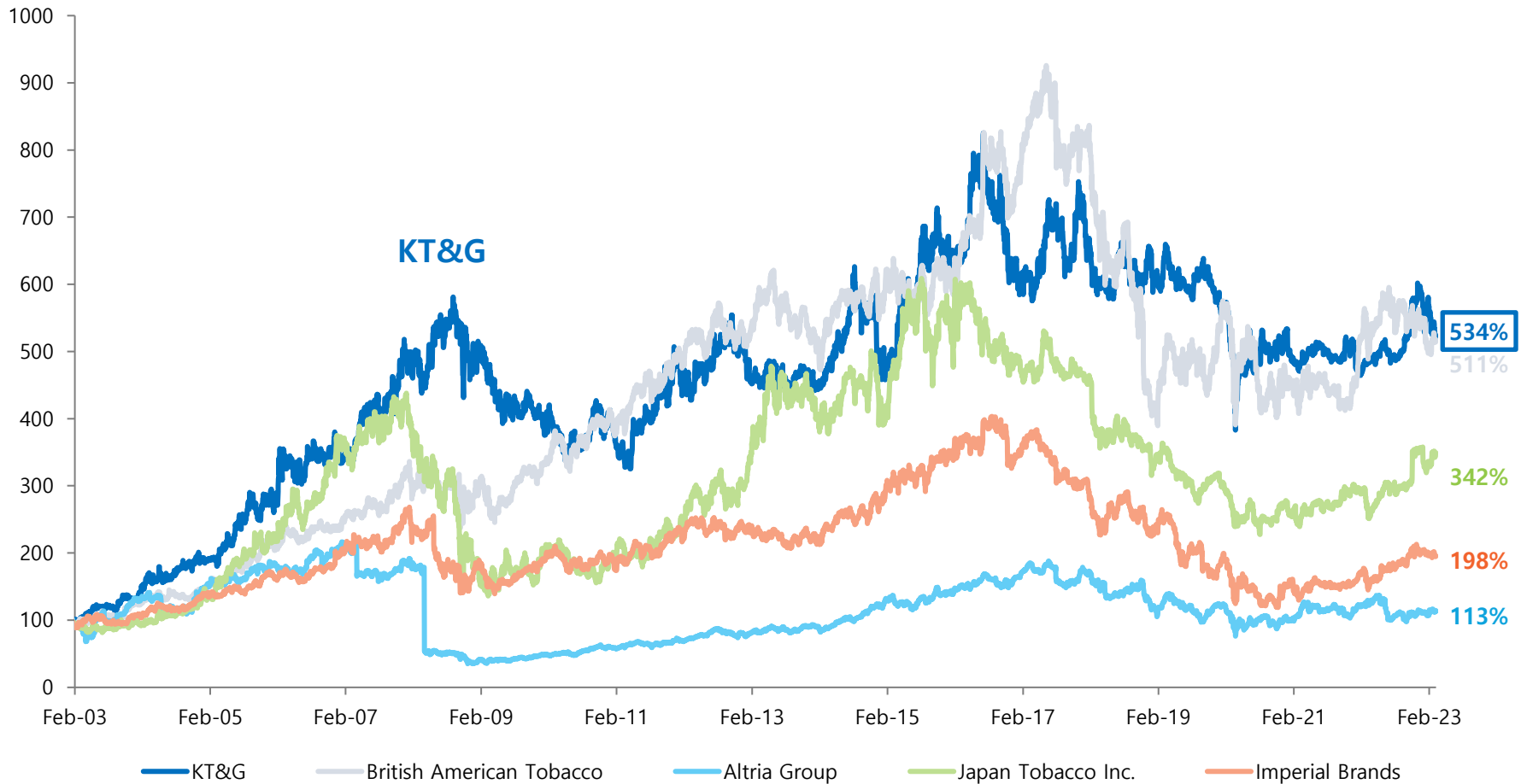
Source: Capital IQ
 Note: Market data as of Mar 8, 2023.



02 Stock Price Performance (Cont'd)

Contrary to the claims of some activist funds, KT&G's share price since privatization in 2002 has shown higher growth compared to global top-tier tobacco companies

Stock Price Change after Privatization¹ (Dec 27, 2002 ~ Mar 8, 2023)



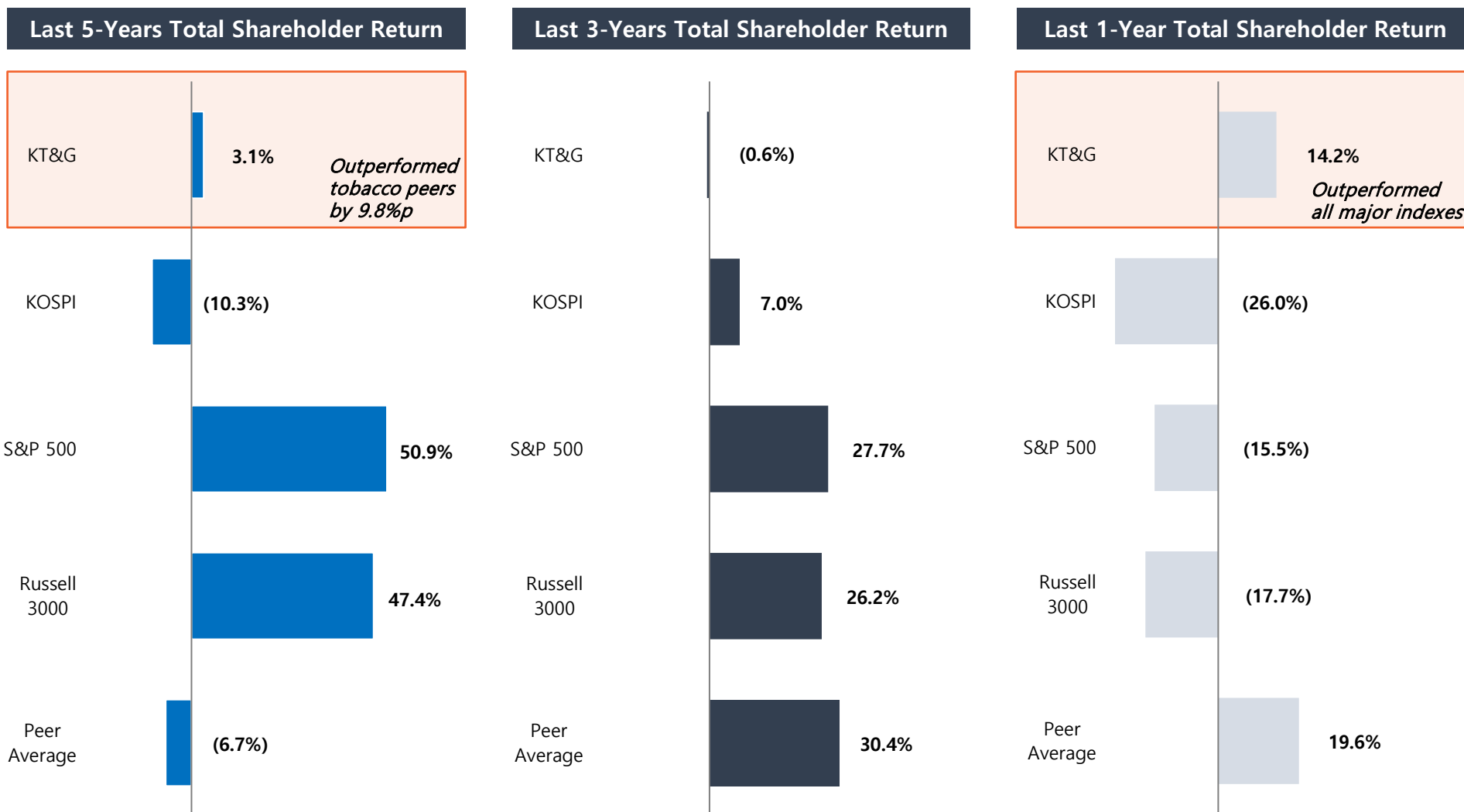
Source: Capital IQ

Note: Market data as of Mar 8, 2023. ¹ Since Philip Morris International went public in Mar 2008, it is not possible to directly compare the stock price change since KT&G's privatization in 2002.



02 Total Shareholder Return Before FCP's Activist Campaign

KT&G has proven aligned interest with shareholders by providing substantial total shareholder returns relative to peers and major indexes



Source: Capital IQ

Note: Market data as of Oct 25, 2022, one day prior to FCP's public campaign. Total Shareholder Return calculated as "(Total Dividend Paid + Change in Share Price) / (Beginning Share Price)". Index performance calculated as % change from base year. Peers include Philip Morris International, British American Tobacco, Altria Group, Japan Tobacco, and Imperial Brands.



03

**Strong Board and
Governance
Practices in Place**

03 Governance Highlights

KT&G strives to build a transparent and independent governance structure to promote the interests and rights of all our stakeholders

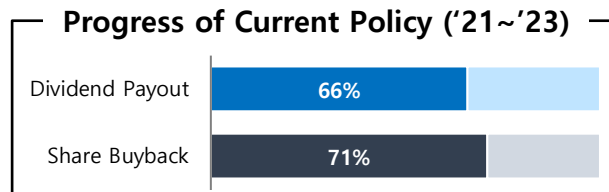
Governance Highlights

1 Independence and Expertise of BoD

- ✓ **Board Structure**
 - 75% of the Board of Directors (BoD) composed of outside directors
 - Separation of CEO and board chairman
- ✓ **Board Skills Matrix**
 - Utilize Board Skills Matrix to evaluate the expertise and capabilities of BoD
- ✓ **Transparent Outside Director Appointment**
 - Operation of the Outside Director Candidate Recommendation Committee
 - Use a search firm specialized in sourcing outside director candidates

2 Enhancement of Shareholder Value

- ✓ **Shareholder Return**
 - Returned W1.86 trn by 2022 out of the W2.75 trn announced
 - Returned W1.15 trn in dividends (payout ratio over 50%)
 - Repurchased W710 bn of shares
 - Total shareholder return to date is c.95% of '21 and '22 net income



- Semi-annual dividend policy to be introduced within the year
- ✓ **Shareholder Protection**
 - AGM held away from concentration day
 - Adopted electronic voting
 - Implemented cumulative voting system

3 Responsible Management

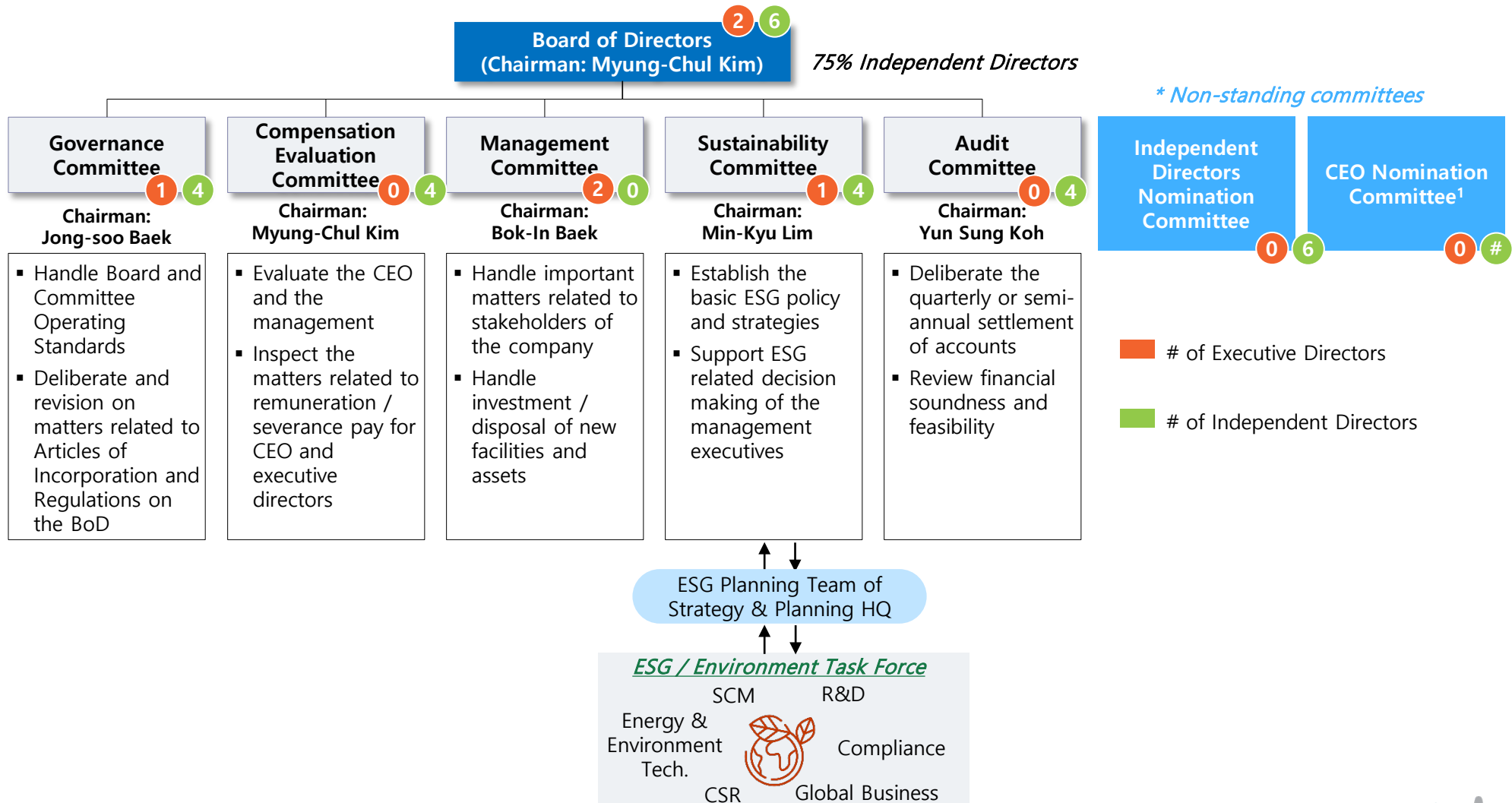
- ✓ **Compensation related to management performance**
 - Short and long-term bonuses tied to business performance and business KPIs
 - Bonuses account for 73% of the management's total compensation
- ✓ **Management interests are aligned with shareholder value**
 - Management's long-term performance matrix includes ROE (20%) and stock price increase rate (10%)
- ✓ **BoD have rights to propose dismissal of management**

03 KT&G Board of Directors Overview

The board of directors of KT&G, composed of 5 standing and 2 non-standing committees, deliberates and makes decisions on important strategies and policies of the Company

Board Overview

KT&G appoints independent directors through a transparent and objective review process



Note: ¹CEO Nomination Committee is formed when the expiry of the term of the incumbent CEO approaches; all members are made up of independent directors.

03 Current Members of the Board of Directors

To promote the Company's sustainable growth, KT&G has appointed directors who have expertise in various fields

Board Members

Bok-In Baek (CEO)



- Executive Director
- Appointed Period: 2015 – 2024E
- Expertise: Management Specialist

- Career
 - (Current) CEO, KT&G
 - Chief of Strategy HQ, KT&G
 - Chief of Marketing HQ, KT&G
- Sub-committee
 - Management

Kyung-Man Bang (COO)



- Executive Director
- Appointed Period: 2021 – 2024E
- Expertise: Management Specialist

- Career
 - (Current) COO, KT&G
 - Chief of Strategy, KT&G
 - Chief of Global HQ, KT&G
- Sub-committee
 - Management, Governance, Sustainability

Myung-Chul Kim (Chair of Board)



- Independent Director
- Appointed Period: 2020 – 2023E
- Expertise: Global / Finance

- Career
 - (Current) SEE Advisor
 - CFO, u.Life Solutions
 - President, Shinhan Bank of America
- Sub-committee
 - Governance, Evaluation, Audit

Jong-soo Baek



- Independent Director
- Appointed Period: 2018 – 2024E
- Expertise: Law

- Career
 - (Current) Partner Lawyer, DongIn
 - Legal advisor, Korea Housing and Urban Guarantee
- Sub-committee
 - Governance, Sustainability, Audit

Yun Sung Koh



- Independent Director
- Appointed Period: 2020 – 2023E
- Expertise: Finance / Accounting

- Career
 - (Current) Professor, Hankuk Uni. of Foreign Studies
 - Director, the Korean Accounting
- Sub-committee
 - Evaluation, Sustainability, Audit

Min-Kyu Lim



- Independent Director
- Appointed Period: 2021 – 2024E
- Expertise: Global/ESG

- Career
 - CEO, SK Materials
 - CEO, OCI Materials
- Sub-committee
 - Governance, Evaluation, Sustainability

Kwan-Soo Shon



- Independent Director
- Appointed Period: 2022 – 2025E
- Expertise: Logistics

- Career
 - (Current) President, Korea Automobile Racing Association
 - Co-CEO, CJ Logistics
- Sub-committee
 - Sustainability, Audit

Jee-Hee Lee



- Independent Director
- Appointed Period: 2022 – 2025E
- Expertise: Marketing

- Career
 - (Current) CEO, W Camp
 - Adjunct Professor, Department of Advertising, Chung-Ang Uni.
- Sub-committee
 - Governance, Evaluation

03 Current Members of the Board of Directors (Cont'd)

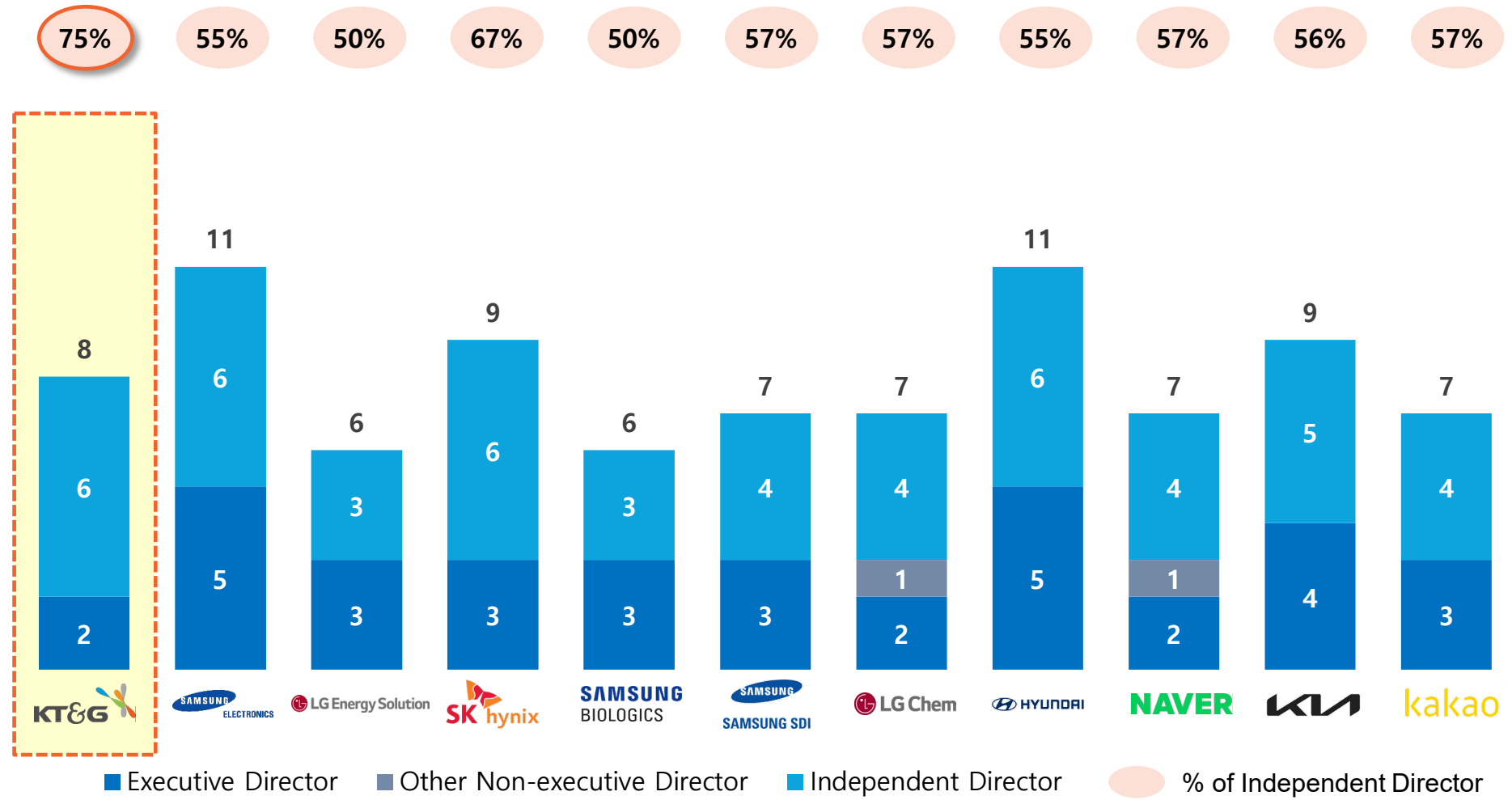
KT&G's current directors possess all necessary skills to successfully operate the Company, and appointing additional independent directors lacks efficacy in terms of operational efficiency, prompt decision making, and sustainability of BoD management

Evaluation Criteria	Myung-Chul Kim (COB)	Jong-soo Baek	Yun Sung Koh	Min-Kyu Lim	Kwan-Soo Shon	Jee-Hee Lee	Bok-In Baek (CEO)	Kyung-Man Bang (COO)
Leadership	✓	✓	✓	✓	✓	✓	✓	✓
CEO Experience	✓			✓	✓	✓	✓	
CFO Experience	✓						✓	✓
Corporate Management Experience	✓			✓	✓	✓	✓	✓
Understanding of Advanced Manufacturing				✓			✓	✓
Understanding of Supply Chain					✓			
Finance / Accounting	✓		✓					
Risk Management	✓	✓	✓	✓	✓	✓	✓	✓
Global Business Experience	✓			✓	✓		✓	✓
ESG Strategy				✓	✓		✓	✓
M&A	✓				✓		✓	✓
Marketing / PR / Consumer						✓	✓	✓
Legal / Regulations		✓						

03 Current Members of the Board of Directors (Cont'd)

KT&G has higher portion of independent directors within BoD compared to top 10 KOSPI companies, raising doubt on the need for appointing additional independent directors

BoD Member Composition of Top 10 KOSPI Companies (by Market Cap)



Source: Company data



03 KT&G's Nominees for Annual General Meeting

KT&G's independent director nominees are highly qualified for the position with sufficient experience and expertise

1

Myung-Chul Kim



▪ **Education**

- Seoul National University, Graduate School of Business CFO course
- Kyung Hee University, BA in English Education

▪ **Career**

- KT&G, Chairman of the BoD
- U.Life Solutions, CFO
- Shinhan Bank of America, President
- Shinhan Financial Group, CFO

Key Qualifications

- With experience at one of the largest financial institutions in Korea for c.30 years and having spent most of his career in advanced global financial markets including the U.S. and Hong Kong, Mr. Kim is a global finance expert specialized in risk management and capital allocation
- Mr. Kim's has significantly helped the board to assess the risks and returns associated with KT&G's investment and expansion plans including the global partnership with PMI and infrastructure investment related to CC. His experience as a CFO and a banker has advanced the board's ability to manage and access risks
- Mr. Kim made meaningful contributions to KT&G's 3-year mid-to long-term shareholder return policy announced in 2021, based on his deep understanding of and experience in the capital markets
- Mr. Kim meets all independent director qualifications under the commercial law, and his independence is guaranteed through having no material connection with major shareholders or the management

03 KT&G's Nominees for Annual General Meeting (Cont'd)

KT&G's independent director nominees are highly qualified for the position with sufficient experience and expertise

1

Myung-Chul Kim

Contribution to BoD Committees

- Since 2020, Mr. Kim has been on the Governance, Compensation Evaluation, and Audit Committee, and has proven his ability as an independent director
- As the chairman of the Compensation Evaluation Committee, Mr. Kim contributed to the advancement of corporate governance by improving the CEO evaluation system and the compensation system (Performance Sharing) in order to enhance long-term shareholder value
- As the chairman of the board of directors, Mr. Kim reviewed and approved large-scale facility/infrastructure investment in line with mid-to long-term strategy, as well as improved the board's risk management capabilities
- Other accomplishments as chairman of the board of directors (Apr 2022 – Mar 2023)
 - Revised KT&G Ethics Charter (May 2022)
 - Planned tobacco business's mid-to long-term demand response → mid-to long-term facility / infrastructure investment plan (Aug 2022)
 - Merger of Indonesian sales & manufacturing entity (Aug 2022)
 - KT&G's vision and mid-to long-term growth strategy (Jan 2023)
 - Signed KT&G-PMI global distribution supply contract (Jan 2023)
- Other accomplishments as chairman of the compensation evaluation committee (Apr 2021 - Mar 2023)
 - Reinforced CEO evaluation & compensation system (Feb 2021)
 - Introduced Performance Sharing (PS) system

03 KT&G's Nominees for Annual General Meeting (Cont'd)

KT&G's independent director nominees are highly qualified for the position with sufficient experience and expertise

2

Yun Sung Koh



Education

- Yonsei University, MA and PhD in Business Administration (Accounting)
- AICPA (California)

Career

- KT&G, Independent Director
- Hankuk Uni. of Foreign Studies, Business Administration (Accounting) Professor
- Korean Accounting Association, Director
- Korea Tax Association, Director
- Korea Accounting Information Association, Executive Director

Key Qualifications

- As one of the leading experts in the field of financial and tax accounting, Mr. Koh is an active scholar (has written over 70 theses) with experience in both academia industry
- Mr. Kim has wide practical experience, having served in the Korean CPA examination committee, taxpayer protection committee, and government-owned company management evaluation committee
- As a professor at Hankuk University of Foreign Studies since 2010, Mr. Koh fulfils the legal qualifications as an accounting and finance expert
- Tax consists c.70% of purchase price within the tobacco industry and change in taxation policies significantly affects operations. Mr. Koh can provide relevant analyses and consulting to KT&G
- Mr. Koh meets all independent director qualifications under the commercial law, and his independence is guaranteed through having no material connection with major shareholders or the management

03 KT&G's Nominees for Annual General Meeting (Cont'd)

KT&G's independent director nominees are highly qualified for the position with sufficient experience and expertise

2

Yun Sung Koh

Contribution to BoD Committees

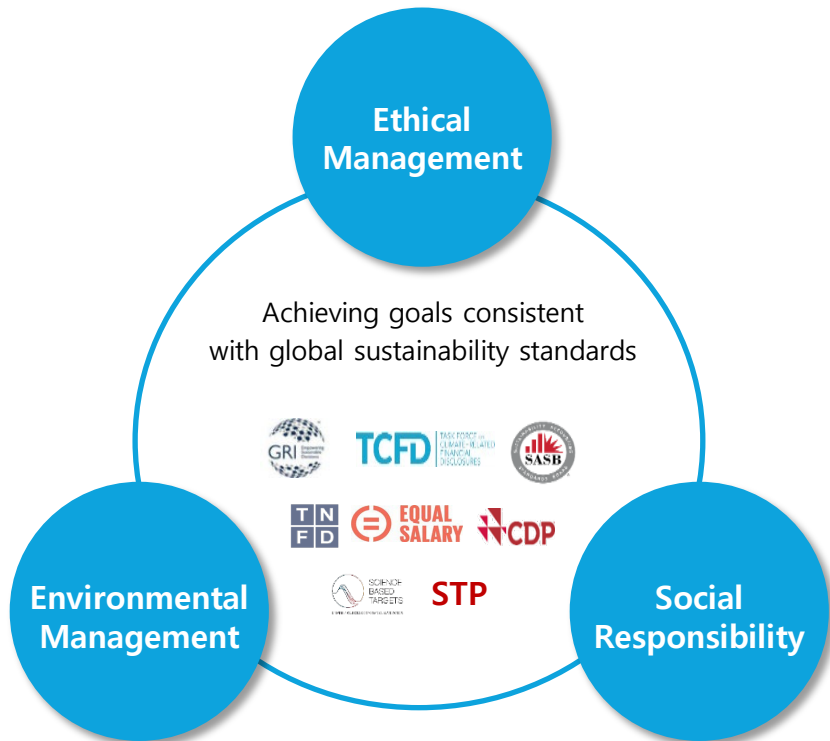
- Since 2020, Mr. Koh has been on the Compensation Evaluation, Sustainability and Audit Committee, and has proven his ability as an independent director
- As the Chairman of the Audit Committee, Mr. Koh took the lead in preparation, introduction and launch of the SAP system from 2020, and contributed to the enhancement of financial audit capabilities of the audit department under Audit Committee's direct control
- Other accomplishments as Chairman of the Audit Committee (Apr 2020 – Mar 2023)
 - Revised financial statement and reissued annual report from 2011 to 2019.
 - Improved reliability of financial statements by introducing the SAP system in 2022
 - ※ Advanced the account settlement process and took the lead in system stabilization during the preparation of process innovation (PI) and SAP introduction (2020~2021)
 - Led the risk inspection of subsidiary internal accounting in preparation for the introduction of the consolidated internal accounting audit system in 2023
 - Built E-portal system to strengthen the prevention-centered internal audit system and enhanced efficiency of monitory audits
 - Eliminated risks in advance by preemptive audits on overseas subsidiaries, such as the establishment and operation of an audit organization within Indonesian subsidiaries
 - KT&G was selected as the best institution in 2020 by the Korea Audit Association
- Acting as a member of the evaluation committee, established an appropriate evaluation and compensation system for building motivation by strengthening supervision over the managements' evaluation and compensation system

03 Responsible ESG Policies

KT&G has been adopting sustainable management policies and recognized for its market leading ESG excellence by multiple institutions

Sustainable Management Policies

- KT&G Code of Conduct
- Corporate Governance Charter
- Code of Ethics



- Environmental Management Policy
- Sustainable Product Policy
- Biodiversity & No Deforestation Policy
- Human Rights Management Policy
- Supplier Code of Conduct
- Responsible Marketing Policy
- Sustainable Agriculture Policy
- Safety & Health Management Policy

KT&G's Governance Recognized by Credible Institutions

MSCI

Highest ESG Rating
- AA, 2021

ChosunBiz

Awarded Grand Prize
in ESG, 2022

KCGS
한국기업지배구조원

Awarded the Grand Prize in
Governance, 2019

한국ESG기준원

Received A rating for both ESG
and Governance, 2021

한경 ESG

Ranked 10th
in ROESG, 2022

SUSTINVEST

Received AA rating
in ESG, 2022

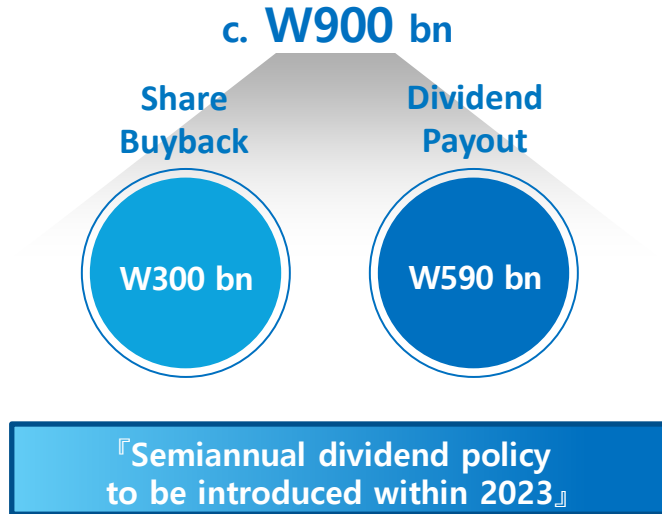
04

**Capital Allocation
to Achieve
Balance Between
Shareholder
Return and Future
Growth**

04 Capital Allocation Policy

KT&G allocates capital to achieve balance between shareholder return and capital expenditures for future growth

2023 Shareholder Return Plan



Overview of Current Shareholder Return Policy

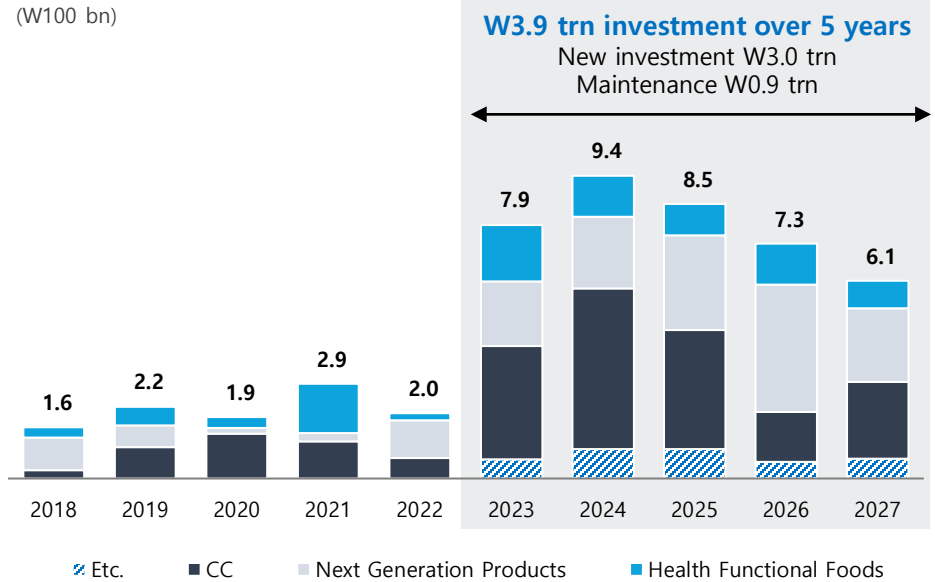
Returned W1.86 trn out of the W2.75 trn announced as part of the shareholder return policy in 2021

Maintain dividend payout ratio of over 50%

Actively review policies to increase shareholder return, including increase in share dividend, share buyback, and cancellation of treasury shares

New medium to long-term policy to be announced at the end of 2023

CAPEX Plan on Key Growth Areas

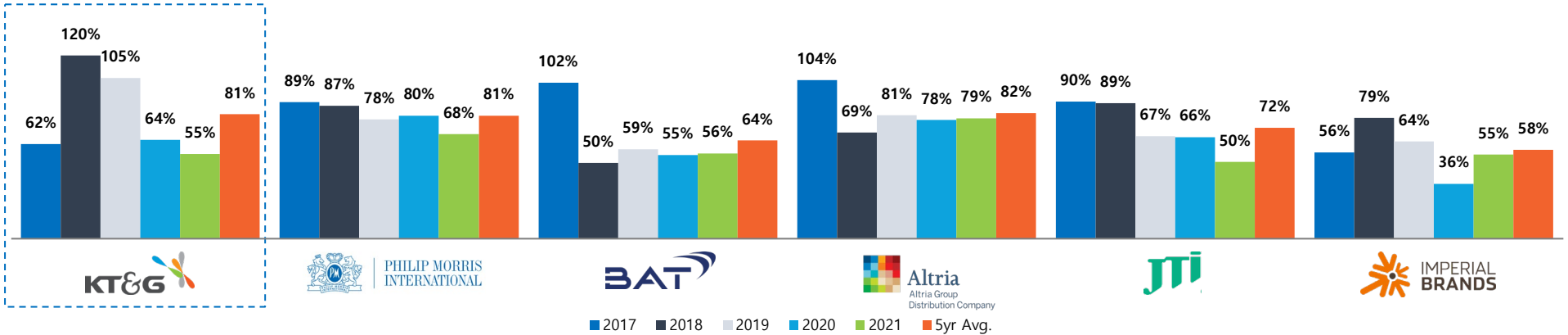


- NGP (W1.2 trn)** Expansion of global production capacity to respond to mid to long-term NGP demand
- HFF (W0.6 trn)** Investment in R&D capability and value chain localization
- CC (W0.9 trn)** Mapping export sales with production capacity by each region and expansion of capacity to respond to demand
- Etc. (W0.3 trn)** Relocation of a printing plant for process / logistics automation, etc.

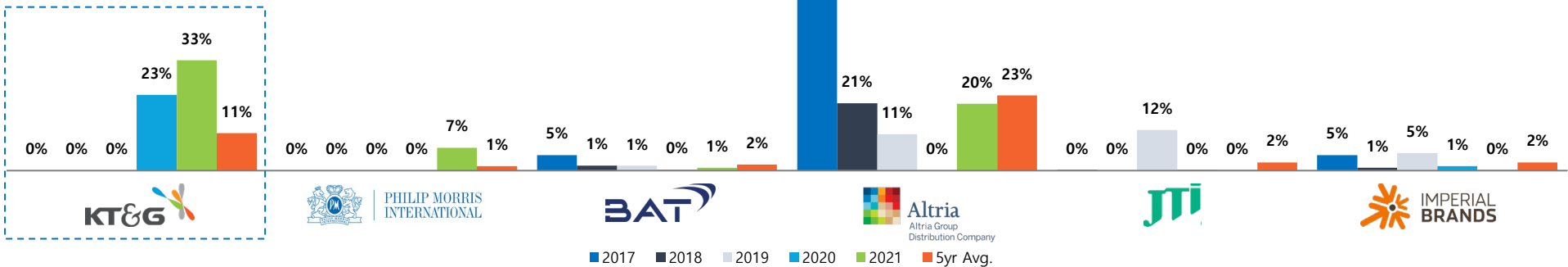
04 Dividend and Share Buyback Benchmarking

Relative to free cash flow, KT&G has been paying out higher dividends and repurchasing more shares than most of its competitors

5-Year Dividend / Free Cash Flow Trend



5-Year Share Buyback / Free Cash Flow Trend



Source: Capital IQ



04 Risk of Excessive Dividend and Share Buyback

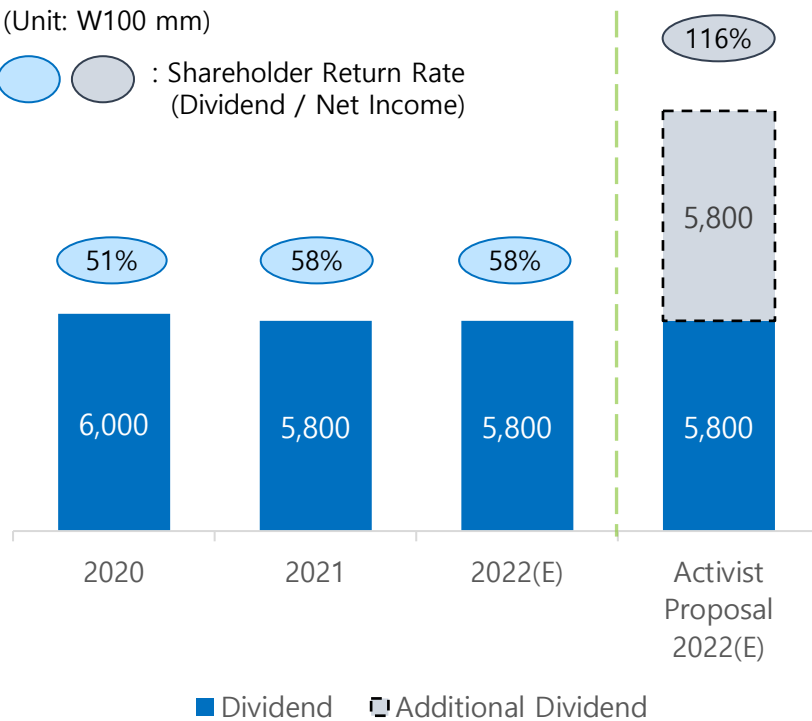
Shareholder return rate¹ planned for 2022 is ~93%, and Activist's excessive request of 2x dividend payout and 4x share buyback may damage KT&G's future growth engine

Activist's Proposed Shareholder Return Scenario

1 Dividend Increase

(Unit: W100 mm)

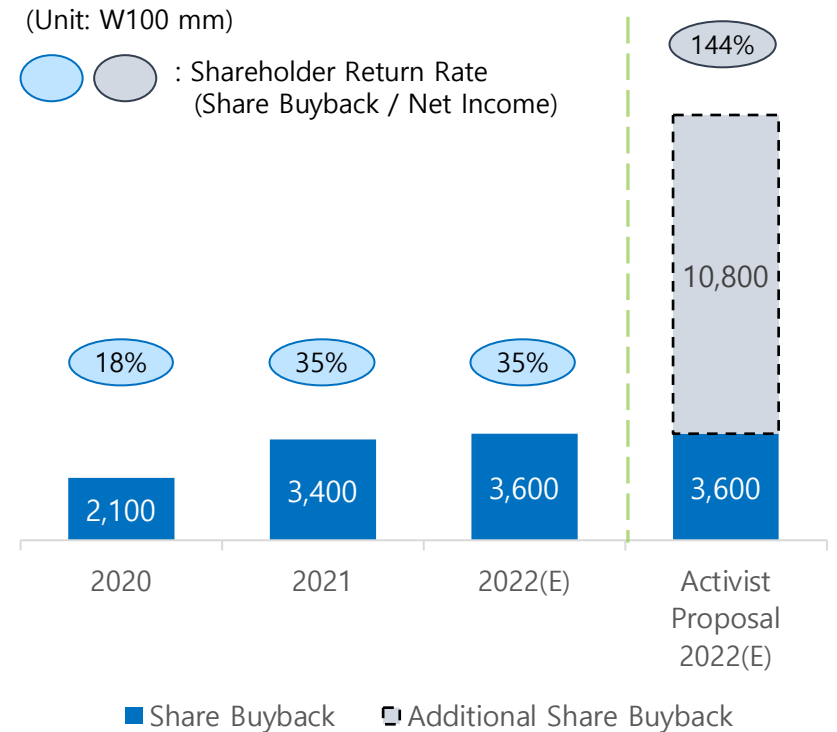
● : Shareholder Return Rate (Dividend / Net Income)



2 Share Buyback Increase

(Unit: W100 mm)

● : Shareholder Return Rate (Share Buyback / Net Income)



■ Activist's Dividend Payout Proposal

— 2022 Dividend per Share W10,000
(KT&G's proposal: W5,000)

■ Activist's Share Buyback Proposal

— 2022 Share Buyback of W1.08 trn (12 mm shares)

Note: ¹ Shareholder return rate: (dividend payout + share buyback) / net income.

05

On Activists Claims and Nominees

05 On Activists Claims

Activists will not bring long-term value to the Company and shareholders as they have very limited understanding about the business and suggest no feasible strategy

- X From what activists have claimed during their campaign, they have very limited understanding about the Company's core business**
 - Activists claim that KT&G should not partner with PMI but self-distribute NGP products. However, direct distribution in all countries is extremely risky given the time and costs taken to set up an overseas branch. Even JTI is setting up a JV to distribute its NGP product in the US
 - In addition, activists are claiming that long-term deposits of W1.4 trn, which cannot be liquidated in the short term, as cash assets and demand dividends due to restrictions on use in accordance with the US government's Tobacco Master Settlement Agreement

- X Activists ask for the spin-off of KGC from KT&G but none of them discuss the synergies between the two companies and how the synergies will be lost after the separation**

- X No activist has any plans on how and where the company should invest for future growth; rather they only demand excessive dividend payout and share buyback for the purpose of realizing short-term profits**

05 Impropriety of Shareholder Proposal

Shareholder proposed nominees are attempting to seize the Board in pursuit of specific stakeholders' interest instead of fairly representing the interest of all shareholders

- According to press release, FCP announced it will re-promote KGC's separate listing after its proposed nominees successfully secure seats in KT&G's BoD
- Directors are bound to act in the best interests of all shareholders, pursuant to Article 382-3 of the Commercial Act. It is doubtful whether FCP's nominees will be capable of fulfilling their duties as they are attempting to enter the Board in pursuit of a specific goal. Also, considering the inevitable cooperation needed between KT&G and standalone KGC, it is difficult to expect a CEO of KGC to serve KT&G as an outside director and remain fully independent
- According to the withdrawn spin-off plan, a nominee was recommended as an independent director and audit committee member in addition to the appointment as the CEO and the audit committee member of KGC. Also, the ceiling for the board's compensation has been set as W10bn which is twice the size of KT&G's ceiling. KT&G questions this nominee's ability to service as an independent outside director of KT&G

Excerpt from Withdrawn Spin-Off Plan

직명	성명	주민등록번호	약력	임기
대표이사 겸 사내이사 (감사위원회 위원)	차석용			선임일로부터 3년 이내 최종결산 기에 관한 정기 주주총회 종결시까지

Appointing Suk Yong Cha as CEO and Independent Director (Audit Committee Member) of KGC

FN 3) The ceiling for the board's compensation for the newly created entity will be W10,000,000,000 and the actual payment and method will be determined by the BoD...

Media Report on Retry of the Spin-Off

FCP emphasized that "Withdrawing injunction does not mean that we are forfeiting the proposal but rather is a step to reconstruct the shareholder strategy"

It seems though that FCP has determined that securing a seat at the board would expedite the spin-off plan. Under this consideration, they decided to take a step back.

Hankyung TV March 7, 2023

The plan for FCP is to retry the spin-off of KCG through the newly elected board if their two nominees secure seats in the board

BizWatch March 8, 2023

05 On FCP's Nominees

Mr. Cha has adequate experience in the consumer retail industry, but is an inappropriate nominee due to intention to become CEO of KGC and uncertain independence as a director

1

Suk Yong Cha



▪ **Education**

- Indiana University School of Law, JD
- Cornell University, MBA
- State University of New York, BBA

▪ **Career**

- LG H&H, Vice Chairman & CEO
- Haitai Confectionary & Foods President & CEO
- P&G Korea, President & CEO
- P&G Ssangyong Paper, President & CEO

Key Considerations

- During his time at LG H&H, the following issues have been raised against the company
 - “Substance for humidifier sanitizer found... LG HH decides to exit the wet tissue market”
 - “KRX designates LG HH as an entity for unfaithful disclosure”
- Mr. Cha sold 22,000 shares of LG H&H for W11bn in 2014. He also sold 21,776 shares in 2013
- When Lee Sang-hyun, current CEO of FCP was the former CEO of Affinity Equity Partners (“AEP”) Korea, LG H&H acquired AEP’s portfolio, The Face Shop, forming a business relationship with Mr. Cha
- Also, FCP announced plans to appoint Mr. Cha as the CEO of KGC if spin-off from KT&G is successful
- In 2022, LG H&H’s stock price dropped c.65%¹ from an all-time high (Jul-1-2021) due to excessive reliance on the slow-to-recover Chinese market

Media Report on LG H&H

- Last July, the Ministry of Food and Drug Safety issued a recall order against LG H&H’s wet tissue after discovering that the product included MIT/CMIT which are sanitizing preservatives
- According to personnel at LG H&H, “although some tissues had no issues while other weren’t, the company decided to recall the full volume.” The personnel indicated that the company plans to exit the wet tissue market within this year.

Point Daily, Sept 19, 2022

- KRX has designated LG H&H as an entity for unfaithful disclosure for leaking certain earnings-related information to few research analyst at securities company.

Tax Finance Media, Feb 14, 2022

Source: Press release

Note: ¹ LG H&H stock price; Jul 1, 2021: W1.77 mm, Nov 24, 2022: W0.62 mm.

05 On FCP's Nominees (Cont'd)

Mr. Hwang is an inappropriate nominee due to lack of experience in consumer retail industry and uncertain independence as a director

2

Ou Jin Hwang



▪ **Education**

- Sogang University, MBA
- Sogang University, BA in English Literature & Linguistics

▪ **Career**

- Board Member of ADT Caps
- Ceragem Group, Vice Chairman
- Prudential International, CMO
- Prudential Life Insurance Korea, President & CEO

Key Considerations

- Mr. Hwang specializes in designing and selling insurance policies but lacks relevant experience and understanding of the retail sector
- Mr. Hwang founded a general agency subsidiary "Pru & Partners" in 2009 to expand insurance offerings but had liquidated the business due to poor performance and lack of differentiation with existing insurance planners
- Mr. Hwang's most recently publicized accomplishment is establishing governance practices in ADT Caps (e.g., employee stock options). However, KT&G already has superior corporate governance in place
- When Lee Sang-hyun, current CEO of FCP was former head of the Carlyle Group (Korea), he acquired ADT Caps where Mr. Hwang was an independent director, forming a business relationship. This undermines the nominee's independence if working at KT&G

05 On Anda's Nominees

Nominees proposed by Anda lack experience in the consumer retail, and since KT&G already has directors with legal and marketing expertise, no additional appointments are necessary

1 Soo Hyung Lee



- **Education**
 - Kyung Hee University, BA in Law
- **Career**
 - Korea Technology Finance Corp., Outside Director
 - Korea Ratings, Outside Director
 - Seoul Central District Court, Presiding Judge

Key Considerations

- Lacks experience in managing a business and not familiar with tobacco and health functional food industry
- No additional lawyers are needed since KT&G already has legal expert among existing board members

2 Doreen Kim



- **Education**
 - Yonsei University, BA in Business Administration
 - Columbia Business School, MBA
- **Career**
 - Louis Vuitton Kor., Marketing and Communication Director
 - Bausch + Lomb Marketing Director
 - McKinsey & Co., Marketing Specialist

Key Considerations

- Business experience focused on targeting consumers of luxury products, which is less relevant to KT&G's business

3 Jae Whan Park



- **Education**
 - Korea University, Ph.D in Business Administration
- **Career**
 - Deloitte Korea, Corporate Governance Development Center Advisory
 - POSCO, Audit Committee Chairperson
 - Chung Ang University, Professor in Business major

Key Considerations

- Unfamiliar with consumer goods, especially tobacco and health functional foods
- With a career focused only on accounting, he lacks experience in managing a company and does not add additional value to the BoD

05 KT&G Nominees' Superiority

Based on the following key evaluation criteria, KT&G's nominees are superior to and more suitable for directorship than nominees proposed by FCP and Anda

	KT&G's Nominees		FCP's Nominees		Anda's Nominees		
Evaluation Criteria	Myung-Chul Kim	Yun Sung Koh	Suk Yong Cha	Ou Jin Hwang	Soo Hyung Lee	Doreen Kim	Jae Whan Park
1. Field Experience / Expertise - able to practically contribute considering the characteristics of consumer retail industry and KT&G's business, as well as in marketing, finance, and global expansion	○ (familiar with consumer retail, KT&G's business)	○ (familiar with consumer retail, KT&G's business)	○ (adequate experience in consumer retail)	✗ (lacks experience in consumer retail and KT&G's business)	✗ (lacks experience in consumer retail and KT&G's business)	○	✗ (lacks experience in consumer retail and KT&G's business)
2. Independence / Fairness - able to make independent decisions for the benefit of the company and shareholders without pursuing specific interests	○ (no issues)	○ (no issue)	✗ (in business relationship with proposer)	✗ (in business relationship with proposer)	✗ (controversy over judgement fairness, expressed support for a specific politician)	○	○ (no issues)
3. Ethicality / Responsibility - have an unwavering sense of ethics and morality	○ (no issues)	○ (no issues)	✗ (sold large stake)	○ (no issues)	✗ (violated Attorney Act)	○ (no issues)	○ (no issues)
4. Devotion to the Position - cause no concerns over fulfilling duties through performing as an independent director only for KT&G	○	○	○	○	○	○	○
5. Accounting / Finance Expertise under Commercial Act	○ (satisfies conditions under Commercial Act)	○ (satisfies conditions under Commercial Act)	✗ (check required)	✗ (check required)	✗ (check required)	✗ (check required)	○

👉 Evaluation Criteria 1~4 : Minimum qualification to be reviewed as a KT&G's independent director nominee

06

Conclusion

06 Conclusion

We strongly encourage shareholders to vote FOR all of management's proposals at this year's annual general meeting of shareholders

- ✔ **KT&G's strategy to expand globally is disciplined and has paved the path to becoming a global market leader**
- ✔ **KT&G and KGC have grown together enjoying various synergies for 100+ years and are better together**
- ✔ **KT&G demonstrates best-in-class corporate governance led by independent directors, and globally renowned institutions have recognized the excellence of KT&G's governance**
- ✔ **Directors proposed by FCP and Anda would bring no additional value to the board of directors while some of their past records indicate that they may not be qualified as independent directors**
- ✔ **KT&G has efficiently allocated its capital to drive long-term value while balancing shareholder return and will continue to do so**
- ✔ **Activists have very little understanding about the business and has no feasible strategy to bring long-term value to the company and its shareholders**

KT&G's nominees must be appointed as independent directors in order to successfully implement growth strategies and increase long-term shareholder return

06 KT&G Key AGM Agenda Items & Relevant Supporting Slides (1/3)

KT&G 2023 AGM Agenda Items	Proposal Entity	Relevant Information	KT&G Board Recommendation
Item 1: Approval of Financial Statements (excluding Statement of Appropriation of Retained Earnings)			
Item 2: Approval of Provision of Dividends and Statement of Appropriation of Retained Earnings			
Item 2-1 : Cash Dividends of KRW 5,000 per Share	KT&G's BoD	30-32	FOR
Item 2-2 : Cash Dividends of KRW 7,867 per Share	ANDA etc.	30-32	AGAINST
Item 2-3 : Cash Dividends of KRW 10,000 per Share	Agnes etc.	30-32	AGAINST
※ Voting will be conducted for all three (3) agendas above and, among the agendas satisfying the requirements for ordinary resolutions, the agenda with the most votes shall be approved.			
Item 3: Partial Amendment to Articles of Incorporation		Agnes etc.	
Item 3-1: Amendment to and Enactment of Provisions Concerning Evaluation and Compensation Committee	Agnes etc.		AGAINST
Item 3-2: Addition of Right to Decide Cancellation of Treasury Shares	Agnes etc.		AGAINST
Item 3-3: Enactment of New Provisions for Quarterly Dividends	Agnes etc.		FOR
Item 3-4 : Addendum	Agnes etc.		FOR
※ To be automatically abandoned if either Agendas No. 3-1 or 3-3 are rejected.			
Item 4: Cancellation of Treasury Shares		Agnes etc.	AGAINST
※ To be automatically abandoned if Agenda No. 3-2 is rejected.			
Item 5: Purchase of treasury share		Agnes etc.	AGAINST
Item 6: Decision to maintain or increase outside director members			
Item 6-1: Maintenance of the Current Number of Six (6) Outside Directors	KT&G's BoD	21-23	FOR
Item 6-2: Increase of the Number of Outside Directors to Eight (8)	ANDA etc.	21-23, 38-39	AGAINST
※ Voting will be conducted for the two (2) agendas above and, among the agendas satisfying the requirements for ordinary resolutions, the agenda with the most votes shall be approved.			

06 KT&G Key AGM Agenda Items & Relevant Supporting Slides (2/3)

KT&G 2023 AGM Agenda Items	Proposal Entity	Relevant Information	KT&G Board Recommendation
Item 7: Proposal to appoint 2 outside director (In the event Item 6-1 is passed – Cumulative Voting)			
Item 7-1 : Appointment of Myung-Chul Kim as Outside Director	KT&G's BoD	17, 19-27, 39	FOR
Item 7-2 : Appointment of Yun Sung Koh as Outside Director	KT&G's BoD	17, 19-27, 39	FOR
Item 7-3 : Appointment of Soo Hyung Lee as Outside Director	ANDA etc.	38-39	AGAINST
Item 7-4 : Appointment of Doreen Kim as Outside Director	ANDA etc.	38-39	AGAINST
Item 7-5 : Appointment of Jae Whan Park as Outside Director	ANDA etc.	38-39	AGAINST
Item 7-6 : Appointment of Suk Yong Cha as Outside Director	Agnes etc.	35-36, 39	AGAINST
Item 7-7 : Appointment of Ou Jin Hwang as Outside Director	Agnes etc.	35, 37, 39	AGAINST
Item 8: Proposal to appoint 4 outside director (In the event Item 6-2 is passed – Cumulative Voting)			
Item 8-1 : Appointment of Myung-Chul Kim as Outside Director	KT&G's BoD	17, 19-27, 39	FOR
Item 8-2 : Appointment of Yun Sung Koh as Outside Director	KT&G's BoD	17, 19-27, 39	FOR
Item 8-3 : Appointment of Il Soon Lim as Outside Director	KT&G's BoD	17, 19-27	FOR
Item 8-3 : Appointment of Soo Hyung Lee as Outside Director	ANDA etc.	38-39	AGAINST
Item 8-4 : Appointment of Doreen Kim as Outside Director	ANDA etc.	38-39	AGAINST
Item 8-5 : Appointment of Jae Whan Park as Outside Director	ANDA etc.	38-39	AGAINST
Item 8-6 : Appointment of Suk Yong Cha as Outside Director	Agnes etc.	35-36, 39	AGAINST
Item 8-7 : Appointment of Ou Jin Hwang as Outside Director	Agnes etc.	35, 37, 39	AGAINST

06 KT&G Key AGM Agenda Items & Relevant Supporting Slides (3/3)

KT&G 2023 AGM Agenda Items	Proposal Entity	Relevant Information	KT&G Board Recommendation
Item 9 : Appointment of Audit Committee			
Item 9-1 : Appointment of Myung-Chul Kim as Audit Committee Member	KT&G's BoD	17, 19-27, 39	FOR
Item 9-2 : Appointment of Yun Sung Koh as Audit Committee Member	KT&G's BoD	17, 19-27, 39	FOR
Item 9-3 : Appointment of Soo Hyung Lee as Audit Committee Member	ANDA etc.	38-39	AGAINST
Item 9-4 : Appointment of Doreen Kim as Audit Committee Member	ANDA etc.	38-39	AGAINST
Item 9-5 : Appointment of Suk Yong Cha as Audit Committee Member	Agnes etc.	35-36, 39	AGAINST
Item 9-6 : Appointment of Ou Jin Hwang as Audit Committee Member	Agnes etc.	35, 37, 39	AGAINST
※ If any candidates for the Audit Committee members are not appointed as outside directors under the Agendas No. 7 through No. 8 above, the agendas applicable to such candidates will be automatically discarded.			
Item 10 : Approval of Cap on Remuneration for Directors			FOR