



KT&G Board of Directors
KT&G Tower, 416, Yeongdong-daero,
Gangnam-Gu, Seoul, Korea

Dear valued shareholders,

This is Min Kyu Lim, Chair of the KT&G Board of Directors,
and Yoon Sung Koh, Chair of the KT&G Audit Committee.

We would like to extend our deepest gratitude to all our shareholders and relevant stakeholders for the interest and support you have shown for KT&G.

On January 10th, 2024, the Board received a letter from the legal representative of 'Agnes'¹, our shareholder in the Cayman Islands, demanding that the company file suit for damages against the directors that made the decision on disposal of treasury shares to organizations including the Scholarship Foundation² from 2001 to 2019 on accounts of negligence.³

Following the receipt of the letter, the Audit Committee convened for the 1st Audit Committee meeting of 2024 on January 19, to resolve the 「Review Plan on Claims to File Suit」, and the committee selected an external legal expert to obtain objective and professional opinion on whether the claim is legally justified.

We then received the legal opinion from the external legal expert on the 2nd Audit Committee meeting on February 6 and the 5th Board of Directors meeting on February 7, and made follow up inquiries to duly review and deliberate on the matter.

¹ The asset manager of the fund is known to be FCP(Flashlight Capital Partners).

² Employee Stock Ownership Association, KT&G Employee Welfare Fund, KT&G Welfare Foundation, KT&G Scholarship Foundation, Tobacco & Ginseng Mutual Aid Association Employee Welfare Fund, and Public Enterprise Employee Welfare Fund

³ The claims for damages specified in the letter was on the treasury share disposal to the KT&G Scholarship Foundation ("Scholarship Foundation") in 2015 and 2016, and to the Tobacco & Ginseng Mutual Aid Association Employee Welfare Fund and the Public Enterprise Employee Welfare Fund in 2019.

As a result, with regard to the treasury share disposal in question, it was determined that:

- i) the purpose to enhance public good can be acknowledged as the disposals were made to fulfill corporate social responsibility by pursuing stable public projects and securing business necessities in the form of providing better stability, benefits and opportunities for mutual growth to employees working for the Company or its suppliers,
- ii) judging based on its purpose or the financial status of the company, the scale or the conditions of the share contribution cannot be deemed excessive,
- iii) all legally required procedures were followed as necessary Board resolutions were made, and the fact of the treasury share disposal were transparently disclosed, and
- iv) it cannot be interpreted as efforts to entrench management.

In consequence, the Board of Directors and the Audit Committee have resolved not to file suit based on the opinion of the external legal expert that the probability of possible violation of the directors' duty for due diligence on the disposal of treasury shares being acknowledged is insignificant.

We would also like to take this opportunity to make some corrections and share the Board's view on the disposal of treasury shares as Agnes is alleging in the media.

FCP, the asset manager for Agnes, has been alleging that the Company has donated its treasury shares to non-profit entities and organizations free of charge and without justifiable reason with the objective of entrenching management and that the facts pertaining to the relevant shareholding cannot be found in public disclosures. However, this is far from the truth.

First of all, all previous disposals of treasury shares have followed lawful procedures in accordance with relevant laws and have been duly disclosed. The shareholding of the Company's affiliated organizations has always been made transparent to shareholders and the market via annual public disclosures. Specifically, a total of 66 individual disclosures have been published with regard to the 21 occasions of shareholder disposal (24 occasions if we breakdown the destination), and additional disclosures on the matter is constantly published in the 'Quarterly/Semi-annual/Annual Business Reports' and the 'Large Business Group Status Disclosures'.



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Also, nearly half of the disposed treasury shares were in fact shares distributed with cost to the Employee Stock Ownership Association by personal contribution of the individual employees, and the voting rights attached to those shares are exercised by the individual employees as the law dictates. The remaining disposal of shares have been made under justifiable purposes including for public good and employee welfare, and the voting rights are exercised independently by each organization. That being said, the contribution of treasury shares have been made lawfully and justifiably to either enhance shareholder value or protect shareholder interest.

As described above, the disposal (contribution) of the Company's treasury shares have been made with justifiable purpose under lawful procedure followed by transparent disclosure, and the shares have been continuing to make positive impact in enhancing public good ever since.

The Board is deeply concerned on the possibility of the company's reputation being damaged and ultimately the common interest of all shareholders being harmed due to the flawed allegation on the disposal of treasury shares.

The KT&G Board of Directors will continue to tune in to the valuable opinions of our shareholders and spare no effort in enhancing corporate value and maximizing the value of all shareholders.

We sincerely ask for your unwavering support for the continued growth of the Company.

Thank you.

February 7, 2024

Chair, KT&G Board of Directors, Min Kyu Lim

Chair, KT&G Audit Committee Yoon Sung Koh