

**[Press Release]**

## **SM Accepts Proposal from Align Partners to Move Forward as a Respected Global Company**

- Recommendation of Align CEO Chang-hwan Lee as a new director and inclusion of one Align nominee in the interim Outside Director Recommendation Committee... further enhancement of the independence of the SM Board of Directors
- Transition to a multi-production system to enhance sustainable competitiveness in producing... Strengthened investor relations to enhance shareholder value and return at least 20% of separate net income to shareholders over the next three years.
- SM to focus its full attention on the development of the company going forward with this decision... Align to conclude year-long public shareholder campaign and actively work with management as a friendly shareholder

(Seoul, January 20, 2023) SM Entertainment has decided to fully accept the governance improvement plan proposed by Align Partners Capital Management to become a global company that is trusted and respected by shareholders, employees, and all stakeholders. Align, which has been leading the campaign to improve governance and enhance shareholder value at SM since February 2022, welcomed this decision and will continue to work with SM as a friendly shareholder to improve governance and enhance shareholder value. The 12-point agreement between the two companies is as follows:

- 1) At the 28th Annual General Meeting of Shareholders scheduled to be held in March 2023, SM will establish a Board of Directors consisting of three Inside Directors, three Outside Directors, and one Non-executive Director, and will nominate three new Outside Directors through an interim Outside Director Recommendation Committee comprised of one Inside Director, one external member, and one member recommended by Align.
- 2) At the Annual General Meeting of Shareholders, SM will recommend Chang-hwan Lee of Align as the new Non-executive Director.
- 3) After the Annual General Meeting of Shareholders, SM will separate the positions of CEO and Chairman of the Board. One of the independent directors will be appointed as Chairman.
- 4) After the Annual General Meeting of Shareholders, SM will establish an independent Outside Director Recommendation Committee comprised of only Outside Directors. The committee will recommend future Outside Director candidates
- 5) After the Annual General Meeting of Shareholders, SM will establish an Internal Transactions Committee consisting of directors and auditors who are not Inside Directors to closely review all transactions between SM and its major shareholders, related parties, and subsidiaries and take necessary measures.
- 6) After the Annual General Meeting of Shareholders, SM will establish a Compensation Committee

within the board of directors to evaluate the performance of management, determine the level and type of compensation, etc. The members of the compensation committee will consist of all directors who are not Inside Directors.

- 7) SM will officially announce and implement the transition to a multi-production system.
- 8) SM will sell non-core assets unrelated to its business held by its headquarters and subsidiaries and utilize the proceeds to invest in the growth of its core business.
- 9) SM will enhance its investor relations and shareholder communications to the highest level in the industry.
- 10) SM will disclose and implement a policy to return at least 20% of separate net income to its shareholders over the next three years and will restate this policy every three years.
- 11) Align will withdraw its claims.
- 12) Align will end its year-long public shareholder campaign and work with the SM Board as a friendly shareholder to improve SM's governance and enhance shareholder value.

With this decision, SM has further strengthened the independence, transparency, and credibility of the Board. SM will nominate Chang-hwan Lee of Align, who has been leading the shareholder value enhancement campaign on behalf of various shareholders, as a Non-executive Director at the AGM. The company will also nominate three new independent directors with proven independence and expertise through an interim Outside Director Recommendation Committee that includes one member recommended by Align.

In addition, SM will establish an Internal Transactions Committee, a Compensation Committee, and an Outside Director Recommendation Committee centered on the newly appointed Non-executive Directors and Outside Directors, to improve SM's governance to a global level. The Internal Transactions Committee will scrutinize major internal transactions that have been controversial and take necessary measures. The Compensation Committee will introduce advanced compensation measures to motivate talented employees and align the interests of management and shareholders. The Outside Director Recommendation Committee will maintain the independence of the Board of Directors in the future.

In addition, SM will transition to a multi-production system from 2023 to build a long-term sustainable production system. Over the past 26 years, SM has established its unique identity through the continuous creative production of founder Soo-man Lee. Starting with H.O.T., which debuted in 1996, SM has produced many of Korea's leading K-pop artists, including S.E.S., Shinhwa, BoA, TVXQ!, Super Junior, Girls' Generation, SHINee, f(x), EXO, Red Velvet, NCT, and aespa.

Under the new multi-production system, several talented and capable junior producers will inherit and develop SM's unique identity. This will ensure the sustainability of SM's creative production and maximize productivity and creativity.

In addition, SM will accelerate the enhancement of shareholder value through the sale of non-core assets, strengthening of IR, and announcement of a shareholder return plan.

Sung-su Lee and Young-jun Tak, co-CEOs of SM, stated, "SM has decided to accept Align's proposal upon internal discussion as we agreed with many shareholders and stakeholders in that we need to improve our governance to leap forward as a respected global entertainment company, through

measures such as establishing an independent Board of Directors that everyone can trust," adding, "We will introduce a sustainable multi-production system, reform corporate governance, and strengthen shareholder communication to dispel the concerns of the capital market surrounding SM."

"SM is the de facto representative of K-POP with the best, largest artist pool and original IP in Korea," said Chang-hwan Lee, CEO of Align. "This decision by SM's management is a historic step towards developing SM into a global company loved by all and will be remembered as a prime example of activist investing in the Korean capital market."

The agreement resolves all internal and external conflicts between SM's management and Align over the past year, and Align will remain SM's partner in shareholder value enhancement and a friendly shareholder of SM. Through this transformation, SM will leap forward as a global entertainment company with a transparent and advanced governance befitting of its status in the industry.