

[Press Release]

SM Board of Directors Confirms Three Members of the Interim Outside Director Recommendation Committee and Approves Shareholder Return Plan

To announce plan to transition to multi-production system on February 3rd

- Appointment of Sung-su Lee CEO of SM, Professor Myeong-hyeon Cho of Korea University, and Visiting Professor Namuh Rhee of Yonsei University GSIS as members of the Interim Outside Director Recommendation Committee
- A shareholder return plan to return at least 20% of separate net income to shareholders approved by the Board of Directors

(Seoul, January 25, 2022) SM Entertainment held its Board of Directors meeting on January 22 to pass three resolutions, regarding the interim Outside Director Recommendation Committee and shareholder return. The resolutions were based on the 12-point agreement SM made with Align Partners Capital Management on January 20, to enhance shareholder value and improve governance. Three of the four Inside Directors voted in favor of the resolutions and while the Outside Director abstained.

As its first item, the Board of Directors passed a resolution on the regulation for the interim Outside Director Recommendation Committee followed by a resolution to appoint the committee's three members, which included CEO Sung-su Lee as an Inside Director, Professor Myeong-hyeon Cho of Korea University Department of Business Administration as a nominee from the Board of Directors, and Visiting Professor Namuh Rhee of the Yonsei University Graduate School of International Studies as a nominee from Align.

Professor Myeong-hyeon Cho is a corporate governance expert who has served as the Chairman of the Korea Corporate Governance Service (KCGS) and the Chairman of the Korea Stewardship Code Council. He also serves as the Outside Director of Korean Air and Hyundai Globis. The SM Board of Directors has appointed Cho as a member of the interim Outside Director Recommendation Committee upon recommendation from a reputable global advisory organization. Professor Namuh Rhee is a finance and investment expert who has worked at international financial companies including as the Co-Head of Korea at Bank of America Merrill Lynch and Head of Asia Client Management at Nomura Securities. Rhee has recently served as an Outside Director at Korea Investment Management, ABL Bio, and Hansol Holdings. By working with the members of the interim Outside Director Recommendation Committee, the SM Board of Directors will be able to recommend independent and reasonable Outside Director candidates to accelerate board-centered management.

In addition, the Board of Directors passed a shareholder return plan to return at least 20% of the company's separate net income to shareholders over the next three years. With the disclosure and resolution of this plan, SM plans to return the company's profits to its shareholders through cash dividends or the retirement of treasury stock starting from the upcoming AGM in March 2023.

Finally, SM announced the introduction of a multi-production system to ensure sustainability in production, one of the most important items in the 12-point agreement announced on January 20 as

it constitutes the company's intrinsic value. SM will publicly announce the plan for the multi-production system through the SMTOWN YouTube channel and website at 12 PM on February 3.

With the conflict due to Align's shareholder activism resolved through the dramatic agreement with SM management, the company will be able to establish the policies necessary to enhance shareholder value through the Board of Directors and promptly implement them. The capital market also responded positively to this move, as SM's stock price rose 8.2% to KRW 83,100 on January 20.