

[Press Release]

SM announces 2023 AGM Agenda and Board Nominees Express Commitment to Enhancing Corporate Governance and Shareholder Value

- **Establishing a Board of Directors with the highest level of independence, diversity, and expertise in the country, without reappointment of current members**
- **Accepting appropriate agendas from the shareholder's proposal while seeking to amend the Articles of Incorporation to further enhance the Board's independence**
- **Proposing the six-fold increase in the dividend payment compared to the previous year, considering last year's record high earnings**
- **The shareholder's proposal by former Executive Producer Lee and hostile M&A could hinder SM's growth**

(Seoul, February 22, 2023) SM Entertainment has today announced that its Board of Directors has set the agenda for the 2023 Annual General Meeting of Shareholders, which will be held on March 31, 2023. SM also announced its goal to generate KRW 1.2 trillion in revenue and KRW 430 billion in operating profit by 2025, with a target stock price of KRW 360,000, and triple its corporate value over the next three years through the implementation of its "SM 3.0" strategy.

The "SM 3.0" aims to advance SM into a fan- and shareholder-centric global entertainment company and includes the transition plan to a multi-production center/label system, an IP monetization strategy, global expansion strategy, and investment strategy. In doing so, SM aims to establish a fundamentally sustainable business model by moving away from relying on a single outsourced producer. In order to implement SM 3.0, a strategy centered on enhancing shareholder value, SM has recognized that 1) the Board of Directors must be independent from any particular shareholder; 2) the Board of Directors must have relevant expertise; 3) the Articles of Incorporation should be amended for sustainable growth of the Company; 4) a proactive capital deployment and shareholder return policy should be introduced; and 5) and compensation linked to the achievement of the target share price should be introduced. SM's Board of Directors resolved that all of the above are essential requirements and set them as agenda items for the upcoming AGM.

All of the current Inside Directors of the SM's Board of Directors, including co-Chief Executive Officer Sung-su Lee, have decided to step down as registered directors without serving consecutive terms, taking full responsibility for the current situation brought by the former Executive Producer Soo-man Lee's mismanagement of the Company. Further, SM has proposed to increase composition of Outside Directors to 55% and of 36% to be female, to ensure that the new Board of Directors has the highest level of independence, expertise, and diversity globally. In addition, SM proposes to appoint at least two corporate governance experts to pursue the proportionate interests of all shareholders. The Articles of Incorporation (AOI) will also stipulate that the Chairperson of the Board must be the Outside Director to enhance its independence, and that the Outside Director Recommendation Committee must be composed entirely of Outside Directors.

In terms of enhancing shareholder value, SM proposed a cash dividend of KRW 1,200 per share in 2022 in light of its record-breaking performance. This represents a 32% dividend payout ratio based on the consolidated net income, which is the highest in the industry, and a six-fold increase from the previous year. In addition, SM will introduce a shareholder value-linked incentive system for executives to build a corporate management environment centered on enhancing SM shareholder value.

Establishing a Board of Directors with the highest level of independence, diversity, and expertise in Korea

SM has nominated Cheol-hyuk Jang, Chief Financial Officer (CFO) of SM Entertainment, Ji-won Kim, Head of the SM Entertainment Marketing Center, and Jung-min Choi, Head of the SM Entertainment Global Business Center as Inside Directors.

Cheol-hyuk Jang is the current CFO of SM, a certified public accountant, and an expert in accounting, taxation, and M&A, who will contribute significantly to increasing financial efficiency and making the investment decisions to implement the SM 3.0 strategy. Ji-won Kim plans to actively carry out marketing activities to monetize SM's IP by utilizing the press, media network, and fan club management experience accumulated over 20 years. Jung-min Choi has also worked for SM for more than 20 years and will focus on enhancing SM's overseas investment opportunities and overseas sales by expanding SM's overseas networks through the implementation of the global strategy, a key pillar of the SM 3.0 strategy.

As for the Outside Directors, the interim Outside Director Recommendation Committee reviewed more than thirty Outside Director candidates with support from global consulting and search firms and selected six candidates after assessing their suitability and competencies based on the Board Skill Matrix (BSM, Board Skill Matrix (BSM)), verifying their disqualifications, and conducting reputation checks. The six chosen nominees following the extensive review are; Kyu-shik Kim, Chairman of the Korean Corporate Governance Forum; Tae-hee Kim, Attorney at Pyeong San Law Firm; Jung-bien Moon, Professor at Korea University Business School; Kyung-hwan Min, Partner at Blocore; Seung-min Lee, Partner at Peter & Kim; and Sung-moon Cho, CEO of Chartmetrics.

Kyu-shik Kim is a governance, law, and investment expert who has worked at multiple asset management companies and is expected to contribute to the establishment of a sustainable and advanced corporate governance at SM. Tae-hee Kim is a lawyer and tax expert, with 15 years of experience at the National Tax Service, who help prevent and respond to tax issues that may arise in the future. Jung-bien Moon is a professor of ESG management and global strategy, who will support the introduction of advanced governance and establishment of global expansion strategies. Kyung-hwan Min is a partner at a blockchain project investment firm Blocore, who will contribute strategically to SM's expansion into new businesses such as NFT and blockchain. As an international dispute expert, Seung-min Lee will provide the legal expertise needed to expand SM's IP business globally and Sung-moon Cho will contribute strategically to the expansion SM's data-driven global music business as the head of a company that provides music big data analysis services.

The proposed nominees for non-executive director are Chang-hwan Lee, CEO of Align Partners, and Yoon-joong Jang, EVP & Global Strategy Officer at Kakao Entertainment. Chang-hwan Lee is the representative of Align Partners, who has led SM's Like Planning contract termination and governance improvement campaign, as well as an expert in corporate governance and M&A. He is expected to contribute to the board by discovering and accessing various investment or acquisition opportunities that will underpin SM's growth. Yoon-joong Jang is a nominee of Kakao, a key strategic partner in the SM 3.0 strategy, who can contribute to the creation of synergies between the two companies. Jang is

also a global entertainment business expert who is the former CEO of Sony Music Korea and the current GSO of Kakao Entertainment who can support the development and execution of SM's global expansion strategy.

While SM has nominated Board candidates with the highest level of independence, diversity, and expertise in Korea, comprised of 55% of Outside Directors and 36% of female directors, the director and auditor candidates nominated by former Executive Producer Soo-man Lee are lacking expertise in governance and technology/platform, both of which are key priorities of SM's business model. Moreover, Soo-man Lee's nominees – Jin-soo Jung, Byung-moo Park, and Kyu-dam Choi – are believed to be inappropriate to serve as SM's Directors, as they are alleged to have undermined shareholder value at their respective companies through mutual equity investment decisions for the purpose of defending management rights.

Amendment of the Articles of Incorporation for sustainable development at SM

While SM accepts reasonable agendas proposed by a shareholder, it proposes to amend the AOI further to enhance the independence of the Board of Directors by appointing the Chairperson of the Board from Outside Directors and the Outside Director Recommendation Committee to be only comprised of Outside Directors.

In addition to introducing an electronic voting system and clarifying the Directors' duty of loyalty and duty of care, SM accepted the proposal agenda aimed at protecting shareholders' rights and improving governance, such as establishing an Internal Transactions Committee and Compensation Committee and appointing a compliance officer.

Moreover, by proposing that the Chairperson of the Board to be selected from outside directors, SM secured the independence of the entire Board of Directors, going further than the shareholder's proposal which left the possibility of appointing a non-executive Director to the Chairperson of the Board. Lastly, SM expanded the authority of the Outside Directors by proposing to exclude Inside Directors from the Board Committees, unlike the shareholder's proposal which allowed possible inclusion of Inside Directors.

SM opposes the shareholder's proposal and hostile M&A from former Executive Producer Soo-man Lee and HYBE

SM expressed its firm opposition to the shareholder's proposal and hostile M&A attempt by former Executive Producer Soo-man Lee and HYBE. In particular, SM pointed out the fact that Soo-man Lee, the individual responsible for the major governance issues at SM and for damaging corporate value, is launching the shareholder proposal to 'introduce exemplary corporate governance and enhance corporate value shareholder value.' In the past, Lee undermined SM's shareholder value by: 1) tunneling profits through Like Planning; 2) funneling SM's core businesses to SM Brand Marketing and Dream Maker, companies he owns a stake in; 3) operating CTP, an overseas version of Like Planning; 4) making unfair demands to artists to benefit his real estate business; and 5) acting as the de facto CEO.

SM's criticisms of shareholder's proposal submitted by Lee and hostile M&A attempt can be summarized in following three key points:

1. Conflicts of interests between SM, HYBE and its shareholders: As both SM and HYBE are direct competitors, operating in the entertainment industry, the appointment of HYBE insiders as SM's Board of Directors could result in leakage of key information about SM's business to HYBE. There is also risk that those Directors could vote in favor of a proposal that favors HYBE, not SM. Under the governance structure based on the hostile M&A, HYBE holds only 15-40% of SM shares, creating a structural conflict of interest between the HYBE and SM shareholders, which is very likely to lead to the

destruction of shareholder value. Conversely, if HYBE prioritizes SM, this would place the interests of the HYBE shareholders at risk.

Due to the loss of SM's platform business opportunities, the loss of control in high-margin/growth businesses, and the transfer of profits from Soo-man Lee to HYBE through the share acquisition, the hostile M&A will only result in losses for SM shareholders.

2. HYBE's double-sided position on amending the Articles of Incorporation: The shareholder's proposal HYBE made through Soo-man proposes to amend the AOI as follows – "Chairperson of the Board of Directors will be elected annually by resolution of the Board of Directors, amongst directors who are not Inside Directors." However, the current Chairperson of the Board of Directors at HYBE is actually Si-hyuk Bang, an Inside Director and the largest shareholder of HYBE. In addition, the proposal requests that SM to "maintain a dividend payout ratio of 30% based on consolidated net income," however, HYBE has never paid any dividends to its shareholders.

3. Korea Fair Trade Commission (KFTC) review risks: As HYBE's acquisition of shares from the major shareholder and the tender offer are announced at the same time and on the same date, the two should be considered as the single transaction, which are subjected to preliminary review by the KFTC. However, HYBE avoided the preliminary review by acquiring only 14.8% of Lee's shares (18%), just below the threshold for KFTC review. In case HYBE continues with the tender offer then a review by KFTC is inevitable, which is a risk to SM future. If the merger is rejected due to antitrust issues, a large amount of SM shares will be dumped into the market, leading to a sharp drop of the stock price. If the KFTC conditionally approves the merger, there is a risk that HYBE will reduce the size of the acquired company, SM, to implement the corrective measures proposed by the KFTC. Even if the approval is granted, the delay in the review process is expected to cause a significant disruption in the implementation of SM's business strategy.

"Through the realization of SM 3.0, we have been working hard to improve the organization of our Board of Directors, amend the Articles of Incorporation, and establish advanced governance structure to enhance shareholder value, which are essential for us to become a fan- and shareholder-centric global entertainment company," said Sung-su Lee, co-CEO of SM. "We kindly ask for your attention and support for our nominees who are the right people to realize our SM 3.0 strategy and triple SM's corporate value over the next three years."

*Attached [Appendix] SM 2023 AGM Agendas and Comparison with Soo-man Lee's Shareholder Proposal

[Appendix] SM's 2023 AGM Agendas and SM's Board of Directors' Opinions

	Agenda		SM's Stance	
Agenda Item 1	Agenda Item 1-1) Approval of the Financial Statements (Dividends: KRW 1,200 per share)		Targeting a cash dividend of KRW 1,200 per share (based on consolidated net income) in 2022, driven by record earnings from SM's core operations	
Agenda Item 2: Partial Amendment to the Articles of Incorporation	Agenda Item 2-1: Amend AOI for regulatory purposes (BOD proposal)		Corrected typographical errors and reflected amendments to laws and regulations	
	Agenda Item 2-2: Propose Article 24.2 of the AOI (BOD and Soo-man Lee's proposal)		In favor of the proposal to introduce an electronic voting system at the AGM as it will enhance the convenience for shareholders in exercising their voting rights	
	Agenda Item 2-3: Propose Article 30.5 of the AOI (BOD and Soo-man Lee's proposal)		In favor of the proposal to disqualify a person from serving as a director if it has not been three years since he/she was sentenced to a term of imprisonment or more for fraud and embezzlement	
	Agenda Item 2-4: Amend Article 34.2 of the AOI (BOD and Soo-man Lee's proposal)		In favor of the proposal to clarify directors' duties of loyalty, care, and confidentiality	
	Agenda Item 2-5: Amend Article 38 of the AOI (one of two)	Agenda Item 2-5-1: Separation of the Representative Director and the chairman of the BOD, Procedures for calling a Board Meeting and principles of Board composition (BOD proposal)		Further enhanced the independence of the entire Board of Directors by clearly stipulating that the Chairman of the Board of Directors shall be elected annually by resolution of the BOD amongst outside directors (To replace Agenda Item 2-5-2 of Soo-man Lee's proposal)
		Agenda Item 2-5-2: Separation of the Representative		Opposed to the proposal because it stipulates that the chairman of the BOD must be appointed annually by the BOD amongst non-inside directors, which opens the possibility that other non-executive directors may be appointed as the chairman of the BOD, thereby

		Director and the Chairman of the BOD, Procedures for calling a Board meeting and principles for Board composition (Soo-man Lee's proposal)	undermining its independence
	Agenda Item 2-6: Propose Article 8.2 of the AOI (one of two)	Agenda Item 2-6-1: Establishment of Committees within the BOD (BOD proposal)	The Outside Director Recommendation Committee is to be composed entirely of outside directors, and other committees, such as the Internal Transactions Committee and the Compensation Committee, are composed only of directors who are not inside directors, but at least two-thirds must be outside directors (To replace Agenda Item 2-6-2 of Soo-man Lee's proposal)
		Agenda Item 2-6-2: Establishment of Committees within the BOD (Soo-man Lee's proposal)	Opposed to the proposal because it stipulates that all committees, including the Outside Director Recommendation Committee, must have at least 2/3 of their members as outside directors, which may allow inside directors to join the committee
	Agenda Item 2-7: Propose Article 38.3 of the AOI (BOD and Soo-man Lee's proposal)	In favor of the proposal to appoint at least one compliance officer and establish and operate compliance control standards	
Agenda 3: Appointment of Inside Directors	Agenda Item 3-1: Appointment of Cheol-hyuk Jang as an Inside Director	In favor of the proposal as Cheol-hyuk Jang is a certified public accountant, the current Chief Financial Officer (CFO) of SM and an expert in accounting, taxation, and M&A, that can contribute significantly to increasing financial efficiency and making investment decisions to implement the SM 3.0 strategy and is therefore suitable for SM's current situation.	

	<p>Agenda Item 3-2: Appointment of Ji-won Kim as an Inside Director</p>	<p>In favor of the proposal as Ji-won Kim has worked at SM for more than 20 years and is currently the head of SM's marketing center, who will be able to contribute significantly to expanding the marketing network for IP sales, one of the key pillars of SM's 3.0 strategy.</p>
	<p>Agenda Item 3-3: Appointment of Jung-min Choi as an Inside Director</p>	<p>In favor of the proposal as Jung-min Choi, who has worked at SM for 20 years and is currently the head of SM's Global Business Center, will be able to contribute significantly to SM's overseas investment opportunities and overseas sales by expanding SM's overseas networks through the implementation of the global strategy, a key pillar of the SM 3.0 strategy.</p>
	<p>Agenda Item 3-4: Appointment of Jae-sang Lee as an Inside Director (Soo-man Lee's proposal)</p>	<p>Opposed to the proposal as Jae-sang Lee is an employee of HYBE, a competing company currently conducting a hostile takeover of SM, and may have conflicts of interest, including making decisions that prioritize the interests of HYBE and Chairman Si-hyuk Bang. Lee also has a history of corporate value destruction.</p>
	<p>Agenda Item 3-5: Appointment of Jin-soo Jung as an Inside Director (Soo-man Lee's proposal)</p>	<p>Opposed to the proposal as Jeong Jin-soo is also an employee of HYBE, a competitor, and may have a conflict of interest by making decisions that prioritize the interests of HYBE and Chairman Si-hyuk Bang. Jeong also has a history of undermining shareholder value by executing mutual equity investment with Netmarble Games for the purpose of defending management rights during his tenure at NCSOFT.</p>
	<p>Agenda Item 3-6: Appointment of Jin-hwa Lee as an inside director (Soo-man Lee's proposal)</p>	<p>Opposed the proposal as Jin-hwa Lee, a candidate proposed by Soo-man Lee, is an employee of HYBE, a competitor and has a history of damaging corporate value. Lee is currently engaged in a hostile takeover and may have a conflict of interest by making decisions that prioritize the interests of HYBE and its Chairman Si-hyuk Bang.</p>
<p>Agenda Item 4: Appointment of Outside Directors</p>	<p>Agenda Item 4-1: Appointment of Kyu-shik Kim as an outside director</p>	<p>In favor of the proposal as Kyu-shik Kim is the current chairman of the Korean Corporate Governance Forum and an expert in governance, law and investment who has worked at several asset management companies, and can contribute significantly to the establishment of sustainable and advanced governance at SM</p>

	<p>Agenda Item 4-2: Appointment of Tae-hee Kim as an outside director</p>	<p>In favor of the proposal as Tae-hee Kim, is a lawyer at Pyeong San Law Firm with 15 years of experience in taxation at the National Tax Service, and will be able to contribute significantly to preventing and responding to tax issues that may arise in the future</p>
	<p>Agenda Item 4-3: Appointment of Jung-bien Moon as an Outside Director</p>	<p>In favor of the proposal as Jung-bien Moon is a professor at the Korea University Business School who studies ESG management and global strategy, and can contribute significantly to the introduction of advanced governance and establishment of global expansion strategies</p>
	<p>Agenda Item 4-4: Appointment of Kyung-hwan Min as an Outside Director</p>	<p>In favor of the proposal as Kyung-hwan Min, is a partner at Blocore, a blockchain project investment company, and will be able to contribute significantly to SM's strategic expansion into new businesses such as NFTs and blockchain</p>
	<p>Agenda Item 4-5: Appointment of Seung-min Lee as an Outside Director</p>	<p>In favor of the proposal as Seung-min Lee is a Korean and British lawyer and an expert in IP and international disputes, who is expected to contribute to SM's global IP business expansion based on his legal expertise</p>
	<p>Agenda Item 4-6: Appointment of Sung-moon Cho as an Outside Director</p>	<p>In favor of the proposal as Sung-moon Cho is the CEO of Chartmetrics, a company that provides music big data analysis services, and is expected to make significant strategic contributions to SM's data-driven global music business expansion</p>
	<p>Agenda Item 4-7: Appointment of Nam-kyu Kang as an Outside Director (Soo-man Lee's proposal)</p>	<p>Oppose the proposal as Nam-kyu Kang has a history of corporate value destruction and has legal expertise that the BOD proposed candidates possess</p>
	<p>Agenda Item 4-8: Appointment of Soun-man Hong as an Outside Director (Soo-man Lee's proposal)</p>	<p>Oppose the proposal as Soun-man Hong has a history of corporate value destruction and has accounting expertise that the BOD proposed candidates possess</p>
	<p>Agenda Item 4-9: Appointment of Dae-woong Lim as an Outside Director (Soo-man Lee's proposal)</p>	<p>Oppose the proposal as Dae-woong Lim has a history of corporate value destruction and has ESG expertise that the BOD proposed candidates possess</p>

Agenda Item 5: Appointment of Non-Executive Directors	Agenda Item 5-1: Appointment of Chang-hwan Lee as Non-Executive Director	In favor of the proposal as Chang-hwan Lee is the CEO of Align Partners, which led the campaign to terminate SM's contract with Like Planning and improve its governance, and is expected to contribute to the board as an expert in corporate governance and M&A.
	Agenda Item 5-2: Appointment of Yoon-joong Jang as Non-Executive Director	In favor of the proposal as Yoon-joong Jang has been recommended by Kakao, a key strategic partner of SM's 3.0 strategy, and is expected to contribute to the creation of synergies between the two companies. Jang is also an expert in the global entertainment business who is the former CEO of Sony Music Korea and currently serves as the GSO of Kakao Entertainment
	Agenda Item 5-3: Appointment of Byung-moo Park as Non-Executive Director (Soo-man Lee's proposal)	Oppose the proposal as Byung-moo Park has served as a non-executive director of NCSOFT from 2007 to the present, and has a history of undermining shareholder value by executing a mutual equity investment with Netmarble Games in 2015 for the purpose of defending management rights with Jin-soo Jung
Agenda Item 6: Appointment of Non-Executive Auditor	Agenda Item 6-1: Appointment of Kyu-dam Choi as Non-Executive Director (Soo-man Lee's proposal)	Oppose the proposal as Kyu-dam Choi has a history of undermining shareholder value as the head of financial strategy at NCSOFT in 2015, by executing a mutual equity investment with Netmarble Games for the purpose of defending management rights with Jin-soo Jung. Choi has worked with director candidates Jin-soo Jung and Byung-moo Park, and therefore lacks the independence required as a non-executive auditor