



CITY OF LONDON
Investment Management Company Limited

Mr. Byung Suk Chung
Chairman of the Board of Directors
Samsung C&T Corporation
29th Floor, 123, Olympic-ro 35-gil,
Songpa-gu, Seoul, 05510
SOUTH KOREA

September 19, 2023

Dear Mr. Chung,

Re: Samsung C&T Corporation (“Samsung C&T” or the “Company”)

City of London Investment Management Company Limited (“CLIM”) is the investment advisor to clients who have been shareholders in the Company since 2017. As at August 31, 2023 CLIM clients in aggregate own 882,543 shares of Samsung C&T, equivalent to 0.48% of total share capital.

In September 2020, CLIM wrote to the Company to express our disappointment that the shares traded at a significant (over 60%) discount to intrinsic value and had significantly underperformed the KOSPI index since the merger with Cheil Industries in 2015. We offered a number of potential solutions to address the discount and enhance shareholder value.

In September 2022, CLIM met with the Company’s CFO, Mr. Kue Jong Song, and expressed concern regarding the significant underperformance of the Company’s shares relative to the KOSPI index since 2015. We also discussed the extreme valuation gap that had opened up between the share price and the Company’s intrinsic value. At the meeting CLIM presented a comprehensive set of proposals to enhance the attractiveness of the Company’s shares and narrow the extraordinarily wide discount via improvements to the capital allocation policy.

In a follow up letter on October 21, 2022, we formally confirmed the proposals discussed with the CFO and asked that the board take action (letter attached for reference). We noted that other shareholders shared our concerns, and that CLIM and other shareholders were considering submitting the proposals to a vote at the next AGM.

In March 2023, CLIM with other institutional shareholders together representing over 1% of outstanding shares submitted a number of proposals for consideration at the Company’s upcoming AGM. These proposals included the immediate cancellation of all treasury shares, the introduction of a long-term share repurchase programme and an increased dividend via a more progressive distribution policy. These proposals were intended to address the significant discount to intrinsic value whilst maintaining adequate capital to fund modest growth initiatives.

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Although the Company announced the cancellation of all treasury shares over five years prior to the AGM, none of CLIM's other proposals, which were intended to narrow the discount and improve the capital allocation policy, were adopted. In response to CLIM's proposals we were informed:

- The board determined that it is necessary to expand "new growth engines". In this regard, the Company intends to spend a total of KRW 3-4trn during FY 2023-25 expanding into new eco-friendly energy and bio/healthcare businesses and strengthening the competitiveness of core operations.
- The Company is expected to generate FCF (including dividend income from affiliates) of KRW 1.6trn per annum for the next three years but approximately KRW 1.2trn per annum has been earmarked for new businesses and capex, leaving only KRW 0.4trn to be distributed to shareholders.
- Only 60-70% of annual dividend income from listed affiliates would be returned as cash dividends under the new three-year shareholder return policy, despite an effective tax rate on dividend income which is below 20% and has been reduced from the start of 2023.
- The board reviewed but ultimately rejected the idea of increasing the dividend to include FCF from operating businesses.
- The board reviewed a stock repurchase program. This was ultimately rejected in favour of first considering the Company's "investment performance and cash flow conditions".

In CLIM's view this is unacceptable:

- There is absolutely no rationale for investing in anything but the Company's own shares whilst they are trading at such a wide discount. Indeed, if the Company spent just 50% of the expected new investment over the next 3 years buying back its own shares, it would be able to repurchase approximately 10% of shares outstanding, enhancing EPS by more than 11% and intrinsic value per share by nearly 8%.
- Cash is being generated by the improved performance of the underlying businesses. This cash is worth 100% in the hands of the Company's shareholders. However, once reinvested by the Company it is worth less than 40%! Return this cash to shareholders and allow them to decide whether to reinvest in the Company.
- Since announcing the shareholder return policy for FY 2023-25 to end-August, the discount has expanded from 64% to 68% and the share price of the Company has fallen by 5.9%, underperforming the KOSPI index by 11.7%.¹ This is, in our opinion, contrary to the positive view promulgated by the Company citing favourable press and analyst commentary following the announcement. This implies that the *market* believes the new three-year *shareholder return* policy is actually value destructive for shareholders. CLIM agrees with the market.
- The most recent Q2 results published on July 26, 2023 show improving underlying business conditions and operating performance. However, we see no evidence of progress towards new investments as envisaged by the Company in March. **As at August 31, 2023 the shares trade at a discount of 68% to intrinsic value and have declined by 7.8% year to date, underperforming the KOSPI by 22.6%.¹**

¹ Total returns in KRW as at August 31, 2023.

Table 1

In KRW	30 Jun 2023	29 Dec 2022	30 Jun 2022	30 Jun 2020	29 Jun 2018	Cheil merger ²
C&T share price	105,700	113,500	123,000	116,000	116,500	163,000
C&T intrinsic value ³	325,776	302,894	309,141	282,997	243,766	134,990
(Discount)/premium	-67.6%	-62.5%	-60.2%	-59.0%	-52.2%	20.7%

Total return in KRW	3 months	6 months	1 year	3 years	5 years	Since merger ²
C&T share price	-2.3%	-6.9%	-12.4%	-2.1%	1.2%	-26.0%
C&T intrinsic value ³	5.0%	8.3%	6.1%	18.2%	38.9%	153.1%
KOSPI	3.8%	15.2%	12.4%	29.7%	22.8%	55.8%

Note: Cumulative total returns to June 30, 2023.

Source: Bloomberg, CLIM analysis.

CLIM intends to propose the following resolutions at the 2024 AGM:

- 1) A dividend for FY 2023 of KRW 4,500 per common share and KRW 4,550 per preferred share.⁴
- 2) The immediate introduction of a share repurchase program, whereby KRW 500 billion is allocated to buying back the Company's own shares during FY 2024.⁵

As we have expressed to the board in the past, CLIM has no doubt that Samsung C&T possesses an exceptionally valuable portfolio of assets – it is time that their value is reflected in the Company's share price.

Unless the Company agrees to engage constructively on these matters, it is our current aim to make our **intentions for the 2024 AGM public by the end of October 2023 via the publication of this letter** to allow sufficient time for shareholders to consider our proposals.

We look forward to hearing from you in due course.

Sincerely,

Mark Dwyer
Chief Investment Officer

² The merger between Cheil Industries and Samsung C&T was completed on September 15, 2015.

³ Calculated as the sum of the market value of all listed affiliates/entities owned and CLIM's estimated value of the core businesses.

⁴ Calculated assuming the distribution of 100% of post-tax dividend income from affiliates plus 25% of FCF from operations (ex Samsung Biologics). For the latter, we have used the Company's own estimate of annual FCF for FY 2023-25.

⁵ Calculated assuming that this will equate to approximately 50% of annual FCF from operations (ex Samsung Biologics) per the Company's own estimates for FY 2023-25.

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