

December 10, 2024

RE: Letter to Shareholders from CEO of Korea Zinc Company

Dear Shareholders,

As the CEO of Korea Zinc Company, Ltd. (“Korea Zinc” or the “Company”), I would like to take a moment to express my gratitude for your continued trust and support. In light of the hostile takeover attempt by MBK Partners (“MBK”) and Young Poong Co., Ltd. (“Young Poong”), I am writing to highlight key considerations in connection with the Company’s performances and future plan.

Upcoming EGM

On October 28, 2024, MBK and Young Poong requested the convening of an extraordinary general meeting and proposed the appointment of 14 additional directors to the Board of Directors, along with the introduction of an executive officer system as the Company’s corporate governance structure. The Company duly reviewed the EGM request made by MBK and Young Poong in accordance with relevant laws, regulations, and the Company’s by-laws and procedures.

On December 3, 2024, Korea Zinc’s Board of Directors, through deliberation, decided to accommodate the EGM request made by MBK and Young Poong, despite its hostile context, scheduling the shareholders meeting for January 23, 2025. The record date to establish shareholders entitled to exercise their voting rights at the upcoming EGM has been set for December 20, 2024. *The Board of Directors also resolved to hold another extraordinary board meeting shortly to deliberate on and finalize additional agenda items, including but not limited to the Company’s recommendation to appoint additional board members, to be presented at the EGM.*

Korea Zinc Today and for the Next 50 Years

As many of you are long time investors of Korea Zinc, it is likely that you already have some prior knowledge of Korea Zinc, its consistent financial performance, our first-tier shareholder return ratio (through dividends and share cancellation) of approximately 69% in 2023 – one of the highest in Korea – as well as our well-published three-pronged future growth strategy, *a.k.a. the “Troika Drive.”* However, it seems worthwhile to remind everyone of Korea Zinc’s past performances and our vision for its future.

1. Financial and Operating Performance of Korea Zinc

To assist your understanding, we highlight some of the key performance metrics of Korea Zinc for your reference as follows:

- Past 10-year Key Performance Metrics

(Unit: KRW Bn, unless otherwise)

	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023
EBITDA ⁽¹⁾	757.0	777.4	868.0	948.0	859.6	944.8	998.8	1,160.6	1,163.5	924.5
Dividend ⁽²⁾	114.9	150.2	150.2	176.7	194.4	247.4	265.1	353.5	397.3	302.7
Payout Ratio ⁽¹⁾⁽³⁾	24.8%	30.7%	28.0%	33.3%	42.2%	43.6%	47.2%	46.9%	60.5%	68.8%
P/E Ratio	14.2x	16.3x	14.2x	13.9x	14.5x	11.9x	12.4x	11.2x	13.1x	19.1x
P/B Ratio	1.5x	1.6x	1.5x	1.5x	1.2x	1.1x	1.0x	1.2x	1.2x	1.1x

(1) On a standalone financial basis

(2) Dividend in 2023 does not include KRW100 billion of treasury share cancellation

(3) Payout ratio in 2023 includes KRW100 billion of treasury share cancellation

Source: Bloomberg, Dart filings

- Korea Zinc has had no labor dispute for the past 36 consecutive years (since 1987), an achievement that is exceptionally rare in Korea and stands as one of many keys to our success.

2. Our Continuous Effort to Improve Korea Zinc's Governance

I wholeheartedly agree that Korea Zinc's governance should be subject to continuous improvement and can be further improved. Our efforts must be continuous and unwavering. This is why we have our Board of Directors with robust and independent outside directors comprising a majority of the Board, and this is why the Company is able to consistently improve its ESG performance, while continuing to improve its shareholder return over the past decade. This is also why, when the Company made a misstep regarding the general public offering recently, the independent directors were able to step up, conduct rigorous review of the decision, and have the courage to recommend the withdrawal of the public offering, after listening to the opinions of the shareholders and other stakeholders of the Company. This recommendation by the independent directors was adopted by the Company as the final decision of Korea Zinc's Board of Directors on November 13, 2024, *and as a result, the previously proposed general public offering is now withdrawn.* Korea Zinc is an evolving organization which is capable of learning from its experiences.

The governance of all companies, including that of Korea Zinc, can and should improve continuously. To this end, I and the current management of Korea Zinc have vowed to implement the following measures to enhance the independence, transparency and supervisory authority of the Company's Board of Directors and to improve our communication with our shareholders:

- Separation of CEO and Chairperson of the Board of Directors: As is quite common in Korea, I currently serve the role of the CEO and Chairman of the Board of Directors simultaneously. **Taking recommendation from various shareholders and experts on corporate governance, the Company is undergoing a review, in connection with the upcoming EGM, to amend our by-laws, to separate the role of CEO and Chairperson.** Under such proposal, the Chairperson would be selected from one of our independent directors, enhancing independence of the Board and improving our corporate governance.
- Recommendation of Foreign Independent Director(s) and Appointing an Independent Director in Charge of Investor Relations: Defending MBK and Young Poong's hostile takeover attempt for the last 3 months, we learned an obvious yet invaluable lesson that we need to communicate with our shareholders better. We also recognize that a significant number of our shareholders include respected financial institutions, both domestic and international. To better serve our shareholders and receive their feedback more efficiently, we will recommend election of both foreign director(s) and/or director(s) with background in reputable financial institution experience, in the upcoming EGM.
- Revision of Dividend Payment to Quarterly Basis: Currently, the Company pays out its dividends bi-annually. We will propose a change of our by-laws in the upcoming EGM so that dividends are paid on a quarterly basis.

The Company will continue to consider other ways in which *(i) independence, transparency, expertise and supervisory authority of the Board of Directors can be enhanced, and strive to make continuous improvement, and (ii) the Company can better listen to the concerns of our shareholders and reflect them in our day-to-day operations and workings of the Board of Directors and the Company.*

3. Korea Zinc – a Highly Complex Non-ferrous Metals Refining Facility

Korea Zinc is a 50-year-old company with a proven track record of generating profits for 99 consecutive quarters. Its profitability and technological prowess in the industry are well documented and evidenced by past performances. As mentioned above, Korea Zinc's total shareholder return ratio (through dividends and share cancellation) in 2023 was approximately 69%, one of the highest in Korea.

Mr. Kwang Il Kim, Vice Chairman of MBK (one member of the consortium which is attempting a hostile takeover against Korea Zinc), was recently quoted by Bloomberg as saying, “*We hate making investments in commodities because it is a cyclical sector, but we are investing in Korea Zinc because of its **amazing margin**, which makes it the price setter in the market.*” **I suppose when you create something valuable, some people will try to take it. In that regard, we take this hostile takeover attempt by MBK and Young Poong as a compliment!**

Korea Zinc certainly boasts “amazing margin” compared to its peers. There are hundreds of zinc and non-ferrous metals refiners and smelters worldwide, including China, Europe, Americas and India. Although these companies largely deploy the same technologies and production methods, none can match the profitability or performance of Korea Zinc. Some may mention companies like Hindustan Zinc, an Indian zinc smelter, which seemingly has higher profit margin than Korea Zinc as a counter example. However, Hindustan Zinc has perfect vertical integration. It owns and operates its own zinc mines which feed the smelter, and Vedanta Limited, the parent company of Hindustan Zinc, also owns coal mines and coal power plants which supply electricity to the zinc smelter (zinc smelting is an extremely energy-intensive operation).

Korea Zinc achieves its “**amazing margin**,” even though its major operation is domiciled in Korea with high electricity cost, requiring successful and delicate management of labor relations, and with no vertically integrated mines to feed its smelters. For the last 5 years, electricity cost (decided by KEPCO, Korean government-owned power company, unilaterally) and labor cost increased by approximately US\$200 million, a direct hit to our bottom line; despite these challenges, Korea Zinc has been able to deliver consistently growing EBITDA as illustrated in the table above.

This raises the key question: what distinguishes Korea Zinc from its global competitors? As boring as this answer may be, it is through constant innovation, relentless pursuit of further efficiency and better metals recovery and sometimes making big investments to overcome structural challenges (like our decision to build our own solar farm in Australia and our own LNG power plant in Korea, without which the electricity cost would have been even higher).

More fundamentally, it is the people and the culture of continuous innovation of Korea Zinc that empowers us to overcome industry challenges, consistently achieve strong returns, and effectively execute our long-term growth strategies. **We have been forging this culture for 50 years, and it would be impossible for someone else to copy it or duplicate it overnight.**

Troika Drive – The Next 50 Years for Korea Zinc

What’s most exciting thing about Korea Zinc is its vision for future growth. In light of ever-increasing energy cost, labor costs and inflation, stricter regulations becoming more and more stringent, faced with our need to not only exist but to thrive in the new decarbonized world and through its transition, we have been searching for ways to sustain our profitability and grow into the greater company we know we can be.

We did not go to a consulting firm and shop for good and trendy ideas to do this; we searched within ourselves to answer the following questions:

- What is the biggest threat to the sustainability of our business, and how can we turn it into an opportunity?
- What are the skills at which we are excellent (to put it boldly, best in the world), and is there a future-looking, fast-growing industry that such skills can be applied and valued?
- Which part of our business produces excellent returns, and can we scale it up?

These three questions evolved into three-pronged growth strategy, which we named *Troika Drive*. *The three pillars of Troika Drive are:*

(i) *Renewable energy projects development and operation*

(ii) *EV battery materials production (e.g., nickel refining, pre-cursor, and copper foil)*

(iii) *Recycling and urban mining*

(i) *Renewable Energy Development: Ark Energy*

While I was serving as a CEO of Sun Metals from 2014 to 2019, overseeing then 225,000 tons per annum zinc refinery in Queensland, Australia, we built a 124 MWac solar farm adjacent to our plant, which provides approximately 25% of Sun Metals' electricity demand. **I confess that the decision to build the solar farm was not an ideological one, but purely economical and in response to increasing electricity price in Australia, in that, the net cost of electricity produced at this solar farm, thanks to Australian sun, cheap and flat landscape and renewable energy generation credit awarded by Australian government (LGCs), is less than US\$10/MWh, which is extremely low by any standards.** Currently, yearly average price of industrial electricity tariff in Korea is about US\$120/MWh, so Sun Metals enjoys electricity cost that is only 1/12 of that in Korea. Furthermore, it is carbon-free, putting us on a viable path to produce "green zinc" from our Sun Metals zinc refinery.

After the successful completion of the Sun Metals solar farm, we began searching for a wind farm, because putting solar and wind together can simulate a base-load-like generation profile. It was a long and arduous search, but we finally found a perfect fit and acquired a 30% stake in what is currently the largest wind farm in Australia: the MacIntyre Wind Farm project. This project has commenced early generation in commissioning and is expected to start exporting to the grid in January 2025. **Along with the Sun Metals solar farm, it is expected to provide up to 75% of total electricity demand to Sun Metals zinc refinery, making it 75% green.**

In 2021, we founded Ark Energy. We began our journey with a focus on reducing Sun Metals' electricity cost, which is the largest production cost item for any zinc refinery. However, our relentless pursuit of cost reduction and more innovative ways to produce and use energy led us to believe this could be our growth strategy, not just defensive cost reduction efforts. Our journey led us to believe that development and operation of renewable projects, such as solar, wind, energy storage systems, hydrogen and/or green ammonia, were important for our future to focus on and to dedicate significant resources to. Ark Energy is now a leading Australian renewable energy developer, and we now have 9GW of renewable projects in the development pipelines in Australia (mostly wind, which we generally prefer, due to saturation of solar generation in Australia). **Our vision is to grow Ark Energy into a leading renewable independent power producer, which will help not only Korea Zinc and Sun Metals, but also other companies on their decarbonization journeys, with revenue exceeding US\$650 million and EBITDA of US\$520 million in 2033.**

(ii) *EV Battery Materials: KEMCO and All-in-One Nickel Refinery*

We have been studying the nickel market for a long time. The nickel market, compared to the zinc market which only grows at 2% per annum, is a rapidly expanding market, growing at 6% per annum in the last 7 years. The introduction and proliferation of electric vehicles, of course, is the main cause of such growth. The growth of nickel usage in electric vehicles has exhibited at a compound annual growth rate of 37% in the same period. In studying the nickel market, we learned a few things:

- Even with the "chasm" and the rise of LFP (Lithium Iron Phosphate) batteries, nickel market is and will remain an important market for us with small numbers of select players participating.
- The world nickel market is becoming more and more bifurcated, in that China and its allies are producing a lot of nickel for its own consumption (primarily due to geo-political circumstances and heightened trade barriers), and the rest of the world is looking for "non-Chinese" nickel.
- While it is relatively easy to find nickel mines located outside of China (in fact, there is not much nickel mined in China), it is extremely difficult to find nickel refining / processing facilities in US-friendly locations.

- Unlike other non-ferrous metals refining, nickel comes in many forms: MHP (Mixed Hydroxide Precipitate), MSP (Mixed Sulfide Precipitate), Matte (an intermediate product with nickel content between 30-60%), nickel concentrates, black mass (recycled battery materials), etc., to name a few. Usually, a nickel refinery is designed to treat one particular type of nickel-bearing materials, but there is almost no nickel refinery in the world that is able to treat a variety of nickel-bearing materials simultaneously.
- Learning the above took some time, because we first tried to design a refinery that is optimized to treat one particular type of nickel-bearing material, and for one reason or another (such as inability to access that type of material at a reasonable price due to market fluctuation), had to re-design the refinery to treat different types of materials, so on and so forth. After several years of intensive R&D and closely observing ever-changing, ever-mutating nickel markets, we learned that what the world needs right now is a nickel refinery that is able to treat all different kinds of nickel-bearing materials, whose technologies and supply chain are China-free (this is not a “political” judgement, but rather an identification of which part of the supply chain contains hidden value for our Company).

Based on above findings (which took me and our team more than 4 years, going through more than 20 versions of plant designs and business plans), we decided to build a 42,600 tons per annum nickel refinery in Korea, capable of processing MHP, MSP, Matte, nickel powder, nickel briquets and black mass (recycled battery materials), through our 73% owned subsidiary, KEMCO. It will also be the world’s first nickel refinery with the utmost flexibility to intake different feed materials in varying proportions. **As such, we named it “All-in-One Nickel Refinery” and it will be the largest nickel refinery in the non-Chinese world utilizing Korea Zinc’s own technology, scheduled to commission in 2026. We made this decision, because many of the technologies deployed by Korea Zinc to refine and smelt more than 14 different non-ferrous metals can be utilized in refining nickel, and we knew that we could do this better than anybody in the world. Our vision for KEMCO is to reach more than US\$1.9 billion in revenue and EBITDA of US\$180 million as early as 2029.**

(iii) Recycled Copper and Urban Mining

In 2023, Korea Zinc produced cir. 31,050 tons of copper, which is not a large volume compared to other copper smelters worldwide. **However, the EBITDA contribution from such small amount of copper production was approximately US\$118 million – a disproportionately large sum.** I began noticing this peculiarity back in 2019 and discovered that the reason for such high returns is because 100% of our copper production comes from recycled materials, whose raw materials cost (“payables,” as we call it) is much lower than that of copper concentrates sourced from mines. We have now found something that produces excellent returns, and decided to do more of it, to scale it up. We needed technologies, which we had. We needed funds, which we had. One thing missing was access to recycled copper in the form of PCBs (Printed Circuit Boards), e-waste, copper scraps, etc. **We wanted to quintuple our recycled copper production to 150,000 tons per annum, and we needed a lot of recycled copper to achieve this.**

This is why Korea Zinc acquired recycling and shredding operations in the US and France in 2022, Igneo and evTerra. Subsequently, in early 2024, the Company bolted on a copper scrap trader, Kataman Metals, followed by an ITAD (IT Asset Disposition) company more recently. All these companies are held under our 100%-owned US holding company, PedalPoint Holdings, LLC (“PedalPoint”). **It is through this segment of the Troika Drive that Korea Zinc plans to quintuple its copper production volume by 2028, exclusively using recycled copper. More than 50% of such recycled copper materials will come from the aforementioned PedalPoint and its subsidiaries. Therefore, PedalPoint is strategically critical for Korea Zinc to achieve its production goal of 150,000 tons of recycled copper by 2028.** As a side note, the International Energy Agency recently published a report titled “Recycling of Critical Minerals,” which argues that the world needs to dramatically increase copper recycling capabilities in order to mitigate the looming copper deficit by 2035, and to “turn environmental liabilities into valuable resources.” **It is our vision to achieve, through Korea Zinc’s copper division and PedalPoint, US\$4.3 billion of revenue and US\$322 million of EBITDA by 2029.**

(iv) *Execution of Troika Drive*

Each pillar of the Troika Drive represents a highly ambitious undertaking, requiring intricate coordination and exceptional execution skills. Maximizing synergies among these pillars, alongside Korea Zinc's core non-ferrous metals refining business, demands an in-depth understanding of each segment and their interdependencies. At the risk of stating the obvious, it is our *people and our culture* that drive this vision.

Through Troika Drive and our continued excellence in our core business, Korea Zinc aims to double its revenue to US\$19.4 billion and increase its EBITDA to US\$2.7 billion by 2033. The detailed plans have been announced on its Investor Day 2023 and can also be found on our website (<https://www.koreazinc.co.kr/>)

Sustainability – The Top Priority of Korea Zinc

Right now, we are at a tipping point in addressing climate change. The urgency of reducing greenhouse gas emissions to zero has never been greater. However, geopolitical tensions, supply chain disruptions, and rising inflation have shifted attention back to economic growth and energy security. How governments, corporations, and investors balance economic growth with climate goals is one of the most pressing questions facing the world today.

Korea Zinc, as one of the leaders in the non-ferrous metals industry, is building a new business model to drive sustainable growth. By embedding ESG management throughout our operations and new business investments, we are helping the world transition into a sustainable, low-carbon future.

In November, we reaffirmed our strong commitment to carbon neutrality and disclosed our carbon reduction plan by 2030, based on global standards set by the Science Based Targets initiative (SBTi), to the Board of Directors. Our carbon neutrality roadmap includes detailed action plans to reduce up to 1,503 thousand tons of carbon dioxide emissions – 46% of our total emissions of 3,277 thousand tons as of 2023 – through process improvements by 2030, with the ultimate goal of achieving carbon neutrality by 2050.

Additionally, we are committed to reducing workplace accident rates through continuous investments in safety and health initiatives. As a result, the actual accident rate decreasing from 0.70 in 2021 to 0.49 in 2023.

Conclusion

We understand that recent developments may have raised concerns about the stability and future direction of our company. We trust that this letter provides you with a comprehensive overview, reaffirming and our unwavering commitment to preserving Korea Zinc's stability and continuity as we work to drive the continued growth and success of the business.

Sincerely,



Yun B. Choi
Chief Executive Officer
KOREA ZINC COMPANY, LTD.