2025 KT&G

SUSTAINABILITY DISCLOSURE – CLIMATE

ABOUT THIS REPORT

REPORT OVERVIEW

KT&G engages primarily in the manufacturing and sale of tobacco products. The parent company operates the Daejeon Plant for tobacco manufacturing, along with 2 additional manufacturing facilities, 11 regional headquarters, and 88 branches/offices for selling manufactured tobacco. It also owns the Gimcheon Plant for processing leaf tobacco and the Cheonan Plant for packaging materials. The company's headquarters is located at 71, Beotkkot-gil, Daedeok-gu, Daejeon. For details regarding the shareholder status of the parent company, please refer to the current business report under "VII. Matters Related to Shareholders."

REPORTING CORPORATION AND SCOPE

This report provides climate-related financial information for KT&G and its subsidiaries (hereinafter referred to as the "consolidated entities"). Information specific to KT&G, which constitutes a significant part of the consolidated entities, is presented separately as information pertaining to "the company." Other information categorized as "consolidated entities" refers to data including both the company and its consolidated subsidiaries. For details on the full list of consolidated subsidiaries, please refer to the current business report under "XII. Detailed Table – 1. Status of Consolidated Subsidiaries (Details)."

REPORTING STANDARDS

This report has been prepared in accordance with the requirements of the draft sustainability disclosure standard No. 2, "Climate-related Disclosures," set by Korea Sustainability Standards Board (KSSB). The financial information within this report is based on the business report prepared under the Korean International Financial Reporting Standards (K-IFRS).

REPORTING PERIOD

The reporting period covered in this report is from January 1, 2025, to December 31, 2025. However, for timely information, certain activities, such as the status of the Board of Directors and the Sustainability Committee, include updates through June 2026.

REPORTING CURRENCY

The currency used in this report is the South Korean Won (KRW), which is consistent with the currency used in the consolidated financial statements of the consolidated entities.

DISCLAIMER

This report is a pilot report prepared to preemptively address the climate-related risks and opportunities of consolidated entities, based on the requirements of the sustainability disclosure standard No. 2, "Climate-related Disclosures," set by the Korea Sustainability Standards Board (KSSB) of the Korea Accounting Standards Board.

CAUTIONARY STATEMENT REGARDING FORWARD-LOOKING STATEMENTS

This report contains not only information about the current or past activities and achievements of KT&G aimed at sustainable growth and social value creation, but also forecasts, prospects, and estimates about the future. Terms such as "prospect," "expectation," "estimate," "anticipation," "plan," "goal," "scheduled," and similar expressions in this report denote these forward-looking statements. These are based on reasonable assumptions and expectations as of the date of this report's preparation and involve known and unknown risks and uncertainties. Consequently, the actual outcomes of the forecasts, prospects, and estimates may differ from those originally predicted. While KT&G believes the expectations reflected in these forward-looking statements are reasonable, it cannot assure that these expectations will prove to be correct. Such statements are intended to assist stakeholders in understanding our approach, strategy, and initiatives regarding key ESG areas, and under no circumstances should this report be used as evidence in determining legal liability for investors' investment outcomes.

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INTERACTIVE PDF

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GOVERNANCE

1. GOVERNANCE BODY

(1) Governance Body and Responsibility Policy

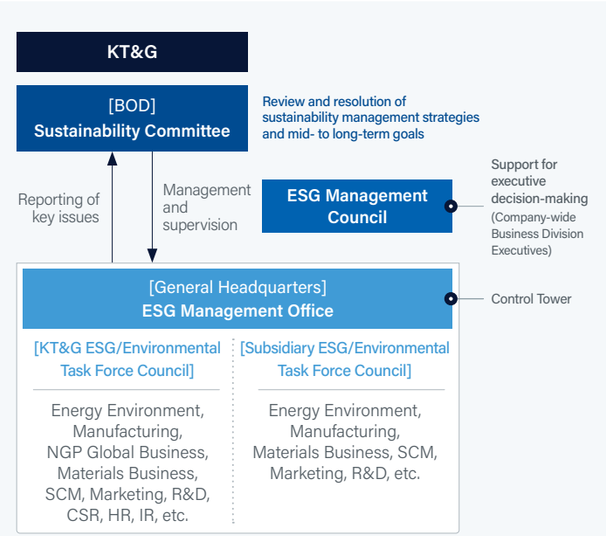
KT&G recognizes sustainability, including climate change, as a key agenda, and fulfills its responsibility for managing and overseeing climate-related risks and opportunities, centered on the Board of Directors (BOD). The BOD has final responsibility for KT&G's strategic direction and major decision-making, with the Sustainability Committee under the BOD for more professional deliberations and decisions. The Management Committee, Evaluation & Compensation Committee, Independent Directors Nomination Committee, and Audit Committee also support ensuring that climate-related matters are appropriately reflected throughout management in accordance with their respective authorities and functions.

Pursuant to Article 4 (Committee Authority), Paragraph 1 of the "Sustainability Committee Operation Regulations," the Sustainability Committee has the authority to deliberate and decide on major agenda items, including establishing basic policies and strategies and setting mid- to long-term goals for sustainability management. In accordance with KT&G's "Environmental Management Policy," it establishes strategies to address climate-related risks and opportunities and oversees their implementation. In August 2025, we revised the Supplier Code of Conduct to promote ESG management in line with global standards, recommending participation in climate-related global initiatives such as SBTi and CDP and specifying supply chain due diligence procedures. We also established the Responsible Sourcing Policy (RSP) in response to the EU Corporate Sustainability Reporting Directive (CSRD) and Corporate Sustainability Due Diligence Directive (CSDDD), strengthening the climate and environmental risk management system across the supply chain.

Management/Oversight Roles and Responsibilities

Category	Sustainability Committee Operation Regulations	KT&G Environmental Management Policy
Scope of authority and responsibility	**Article 4 (Committee Authority)** ① Matters that shall be deliberated/decided by the Committee are as follows: 1. Establish basic policies and strategies on sustainability management 2. Set mid- to long-term goals of sustainability management	**Scope of Responsibilities** At KT&G, the Sustainability Committee, which is a board committee, reviews implementation strategies in the environmental area and the direction of response to major issues, and manages and supervises execution outcomes.

Management/Oversight Implementation System



Composition of the Sustainability Committee

Category	Name	Position	Initial Appointment Date	Gender
Independent Director	Shon, Dong-hwan	Chairperson	Mar. 29, 2024	Male
Independent Director	Lee, Jee-hee	Member	Mar. 30, 2022	Female
Executive Director	Lee, Sang-hak	Member	Mar. 27, 2025	Male

* As of June 2026

The Sustainability Committee held three meetings in 2025. In May, the Committee approved the appointment of the Chairperson and received a report on the 2025 ESG management implementation plan, including progress toward greenhouse gas (GHG) reduction targets and key implementation tasks. In August, it deliberated on and approved ESG policy proposals aligned with global standards, including the revision of the Supplier Code of Conduct and the establishment of the Responsible Sourcing Policy. In November, it deliberated on and approved the Group-level ESG implementation framework enhancement plan. Through these activities, the Committee reviewed the business implications of climate-related risks and opportunities from various perspectives and contributed substantially to strengthening the execution of the Group's ESG strategy.

Other board committees also support sustainability-related decision-making according to their respective authorities and functions. The Management Committee deliberates on and decides matters such as post-investment reviews and risk management for new facility investments and investment projects exceeding KRW 50 billion, and oversees large-scale climate-related capital investments to ensure they are appropriately reflected in management. The Evaluation & Compensation Committee has the authority to approve the President's management evaluation and compensation, and ensures that ESG performance, including climate change response, is substantively reflected in executive compensation by reviewing performance against quantitative and qualitative indicators. The Governance Committee and the Independent Directors Nomination Committee enhance the BOD's expertise in sustainability issues, including climate issues, by comprehensively considering ESG oversight capabilities when proposing and determining selection criteria for independent director candidates. The Audit Committee is responsible for evaluating the internal control system and overseeing the internal audit department, and reviews ESG management activities, including climate change, through the Audit Office, which is an independent internal audit organization.

Criteria for Convening the Sustainability Committee

Category	Content
Operation cycle	Convened as needed at the discretion of the Chairperson (Held three times in 2025)

(2) Management/Oversight Competency Assessment and Development

KT&G recognizes the expertise and decision-making capabilities of the BOD as crucial elements for effectively formulating climate change response strategies and managing and overseeing their implementation. Accordingly, we define sustainability-related competencies in a structured manner for the composition and operation of the BOD and have established and operate a system that enables their objective evaluation.

Board Skills Matrix

Experiences & Expertise	Shon, Kwan-soo	Lee, Jee-hee	Kwak, Sang-wook	Shon, Dong-hwan	Nho, Hwan-yong	Han, Soong-soo	Bang, Kyung-man (Executive Director)	Lee, Sang-hak (Executive Director)
Senior Executive Leadership	●	●	●	●	●	●	●	●
Manufacturing/Supply Chain	●				●			
Finance/Accounting						●	●	●
Risk Management	●				●	●	●	●
Global Business	●	●			●		●	
Sustainability		●			●		●	●
Consumer Industries	●	●			●		●	●
Legal/Regulatory			●	●				●
Tenure	2028 Annual General Meeting	2028 Annual General Meeting	2027 Annual General Meeting	2027 Annual General Meeting	2029 Annual General Meeting	2029 Annual General Meeting	2027 Annual General Meeting	2027 Annual General Meeting
Transactions with the company, relationship with the largest shareholder or major shareholders	None	None	None	None	None	None	None	None
Committee	Evaluation & Compensation Committee Audit Committee Independent Directors Nomination Committee	Governance Committee Sustainability Committee Independent Directors Nomination Committee	Governance Committee Audit Committee	Evaluation & Compensation Committee Sustainability Committee	Governance Committee Audit Committee Independent Directors Nomination Committee	Evaluation & Compensation Committee Audit Committee Independent Directors Nomination Committee	Management Committee	Management Committee Sustainability Committee
Gender * Female Ratio: 13%	Male	Female	Male	Male	Male	Male	Male	Male

* As of April 2026

When appointing a new director, KT&G uses the "KT&G Board Skills Matrix" as criteria to quantitatively evaluate the collective expertise and diversity of BOD members. BSM consists of a total of eight evaluation items, of which sustainability capability is set as a separate item. This item is defined as "the capability to support the company's sustainable growth and to contribute to the management/oversight of ESG-related risks and opportunities." We determine whether a director has this ability based on the following internal criteria. This enables us to review the climate and ESG-related expertise and practical understanding of director candidates from multiple perspectives, ensuring that the Board possesses the necessary capabilities to effectively oversee climate strategies.

Status of Skills and Competencies Independent director Lee, Jee-hee has been participating in the committee since 2022 and is a consumer goods industry expert who carried out sustainability management-related activities at international organizations, including the Women Corporate Directors Foundation (2022–2023). In addition, she developed expertise and awareness of global issues related to ESG and climate change by completing the ESG Management Executive Leadership Program of Seoul National University. Based on this background, she has been contributing to the strategic review and policy direction regarding climate change risks and opportunities within the committee and served as the Chair of the Sustainability Committee in 2024.

Date	Trainee	Content
Apr. 9, 2024 – Nov. 26, 2024	Lee, Jee-hee	Executive course for ESG management at Seoul National University

Executive director Lee, Sang-hak, who joined the Sustainability Committee in 2025, is serving as Chief Operating Officer and performing key roles in realizing the mid- to long-term vision and establishing an ESG-based management system. When he was formerly the Chief of Sustainability Management HQ, he overhauled the ESG foundation by responding to policies and carrying out external communication in consideration of the overall value chain, and made practical contributions to overall sustainability management, including climate change issues.

Independent director Shon, Dong-hwan, who has been serving as the Chair of the Sustainability Committee since 2025, contributes, as a legal expert, to the early identification and management of compliance and legal risks that may arise in the course of promoting sustainability management. Additionally, in response to the mandatory adoption of global climate-related disclosures and the strengthening of related regulations, he enhances external confidence in the company's climate risk response system by rigorously verifying the legal validity and transparency of disclosure information.

Sustainability Competency Assessment Items

Work experience at an executive level or higher in a sustainability-related department at a listed company, experience in establishing ESG strategies or implementing policies, completion of relevant educational courses, achievements in ESG disclosures and external communications, experience in consultation with stakeholders on sustainability issues, etc.

(3) Methods and Frequency of Obtaining Information on Risks and Opportunities

KT&G operates a structured internal reporting system to enable the BOD and the Sustainability Committee under the BOD to effectively manage and oversee climate change-related risks and opportunities. To make strategic judgments on climate issues, the Sustainability Committee receives, in advance, explanations and materials on major policy changes, legislative and regulatory trends, and status of ESG implementation from the ESG Management Office under the General Headquarters when it holds a meeting. In addition, it receives sufficient information through support from working-level departments before and after deliberation of agenda. We also have a structure in place that allows the Committee to receive outside expert advice based on company expenses for matters that are complex or require expertise.

Major climate-related agenda are introduced officially to the BOD or Sustainability Committee in accordance with the Board of Directors Regulations. Matters that are deliberated/decided on by the Committee are notified to all BOD members within three days of the decision to enable prompt sharing of relevant content among all directors.

Information Reporting Structure for the BOD and Its Committees

Category	Sustainability Committee	BOD
Main agent	Head of ESG Management Office	Chairperson of the BOD Committee
Frequency and timing	• Convened on an ad hoc basis at the discretion of the Chairperson • When a Sustainability Committee meeting is held, each member expresses his or her opinion on the agenda items under discussion and adopts resolutions.	• At least four times a year • Each director, rather than the Committee, is notified within three days from the date of the Sustainability Committee resolution.
Main content	• Agenda items related to sustainability, including climate-related risks and opportunities	• Deliberation and resolution results of sustainability-related agenda items, including climate-related risks and opportunities

(4) Methods of Considering Climate-related Risks and Opportunities in the Major Decision-making Process

Climate-related risks and opportunities of KT&G and its consolidated subsidiaries are regularly monitored through the Sustainability Committee. The BOD deliberates on and approves matters involving large-scale facility investments and other related matters.

Major Agenda Items Considered from the Perspective of Climate-related Risks and Opportunities During the Reporting Period

Category	Date	Approval Status	Major Agenda Item	Climate-related Risks and Opportunities Considered
Sustainability Committee	May 8, 2025	Reported	2025 ESG management implementation plan	• Achievement of SBTi approval for the net-zero target in 2024 and progress on the Group's GHG emissions reduction implementation (including climate change response) • Climate-related targets and key implementation plan for 2025, including the acceleration of the net-zero strategy • Design and results of the 2025 materiality assessment (identification of material topics, including climate change)
	Aug. 7, 2025	Approved	Establishment and revision of ESG policies (Draft)	• Revision of the Supplier Code of Conduct: Recommendation to participate in climate-related global initiatives, including SBTi and CDP, and specification of supply chain due diligence procedures • Establishment of the Responsible Sourcing Policy: Establishment of a supply chain climate and environmental risk management system in response to the EU CSRD and CSDDD
	Nov. 6, 2025	Approved	The Group ESG implementation framework enhancement plan (Draft)	• Establishment of the ESG Implementation Framework 3.0: Selecting five Sustainable Values and establishing key performance indicators under the vision of "Beyond Growth, with Sustainability" • Setting "Advancing climate response capability" as the first of the five Sustainable Values and maintaining the Group-Wide Shared Targets of a 42% reduction in Scope 1 and 2 emissions and a 25% reduction in Scope 3 emissions • Enhancement of the 2030 mid- to long-term ESG targets: Establishing seven new targets aligned with global standards (S&P Global DJSI, CDP, etc.) • Enhancement of the "KT&G Green Impact" Environmental Management Vision: Adding a pillar for managing natural capital and protecting biodiversity

(5) Management/Oversight of Goal Setting and Progress

KT&G establishes strategies and targets to address climate-related risks and opportunities, and oversees their implementation through the Sustainability Committee. In August 2023, the Committee deliberated on and approved the Group-level mid- to long-term GHG reduction targets based on the Science Based Targets Initiative (SBTi) guidelines. In May 2024, it deliberated on and approved an agenda item that brought forward the net-zero target by five years, from 2050 to 2045. The target received official approval from the SBTi in November 2024. It regularly monitors the progress of the established targets, reviews implementation, and evaluates strategy effectiveness based on achievement and performance. Details of each target can be found in "2. Climate-related Targets" under "Metrics and Targets."

As of 2025, the Group's GHG emissions amounted to 178,767 tCO_2eq, achieving a Group-wide reduction of 9.2% compared to 2020 (13% for KT&G on a standalone basis). In addition, through the establishment of a roadmap for the Group subsidiaries' GHG emissions reduction plans, we quantified the Group-wide reduction pathway, targeting GHG emissions reductions of approximately 127.2 thousand tCO_2eq in 2030 and approximately 144.4 thousand tCO_2eq in 2035, compared to the business-as-usual (BAU) scenario.

To strengthen the top management's accountability for and execution of climate change response, KT&G links sustainability management performance to the compensation of executive directors. In accordance with the "Compensation Policy for Executive Directors," the Evaluation & Compensation Committee under the BOD annually evaluates sustainability-related performance, including climate response targets, and the results are reflected in executive directors' bonuses.

Management/Oversight Results of Target Setting and Progress

Category	Date	Content
Target setting	May 9, 2024	• Achieve the Group's net-zero emissions across Scope 1, 2, and 3 by 2045
Management and oversight of progress	May 8, 2025	• Reduction performance of the Group's GHG emissions compared to 2020, renewable energy achievement status, etc. • Approval from the SBTi for the 2045 net-zero target
Management and oversight of progress	Nov. 6, 2025	• Maintain the Group-wide Shared Targets of a 42% reduction in Scope 1 and 2 emissions and a 25% reduction in Scope 3 emissions

* The target year was revised from 2050 to 2045 on May 9, 2024

Linking Climate-related Goal Performance with Compensation KT&G incorporates ESG management performance, including climate change response, into the compensation of top management, including executive directors. Executive directors' compensation consists of base pay, a short-term incentive, and a long-term incentive. The payment criteria for each component are differentially applied according to the results of the annual performance evaluation, including ESG and climate-related metrics. The short-term incentive is paid at 0% to 280% of base pay (CEO), and the long-term incentive is paid at 0% to 600% of base pay (CEO), based on three-year performance.

In 2024, we increased the weight of ESG metrics in the executive directors' short-term management goals from 5% to 10%. Of this, 5% is based on performance in responding to ESG evaluations conducted by domestic and overseas ESG rating agencies, including CDP and MSCI, and the remaining 5% is evaluated based on internal strategy implementation results, including GHG reduction performance and the implementation rate of the company's low-carbon transition strategy. Climate-related metrics are included in both performance in responding to external ESG evaluations and the internal strategy implementation rate, and the short-term incentive is determined by comprehensively reflecting these climate-related performance results.

Furthermore, KT&G operates a performance-linked share-based compensation system for top management, including executive directors, to link ESG performance to long-term shareholder and corporate value. In February 2024, we increased the share-based compensation portion of the CEO's long-term incentive to approximately 60% and introduced the system for the short-term incentive. We also expanded the application of the performance-linked share-based compensation system to executives.

For long-term incentives, we have adopted a three-year deferred payment structure using restricted stock to ensure that sustainability management performance is reflected in long-term compensation. In addition, to enhance the integrity and fairness of the incentive system, the Executive Directors' Compensation Policy includes a clawback provision allowing the recovery of incentives in the event of fraudulent accounting or intentional distortion of evaluation materials. This strengthens the link between sustainability management based on responsible management and climate response performance. Furthermore, in August 2025, we extended the share-based compensation ratio previously applied to the CEO to executive directors, increasing their share-based portion of long-term incentives to approximately 60%.

2. TOP MANAGEMENT

(1) Delegation of Climate-related Management/Oversight Roles

The Sustainability Committee establishes and oversees strategies and policies regarding climate-related risks and opportunities, delegating management responsibilities to the CEO. KT&G's CEO comprehensively oversees the implementation of climate change response strategies approved by the Board of Directors and related management activities.

ESG Management Council Comprising executives from KT&G's business divisions, the ESG Management Council serves as a decision-support body for top management. It discusses strategic directions for climate action and ensures continuous communication on issues that arise during implementation. Key discussions from the ESG Management Council are incorporated into executive decision-making to ensure an integrated enterprise-wide ESG strategy.

General Headquarters The Chief Operating Officer (COO) concurrently serves as the Chief Financial Officer (CFO), overseeing ESG issues alongside financial planning, investments, and budgeting. This dual accountability structure ensures that ESG-related risks and opportunities are effectively integrated into financial decision-making. The COO receives regular reports from the ESG Management Office on major climate strategies and performance, while also monitoring the implementation status of key action items.

Execution Organization To support executive oversight of climate risks and opportunities, KT&G operates the Energy Environment Department under the Manufacturing HQ. This department aggregates and manages the company's climate performance in line with mid- to long-term environmental goals. It also develops and implements detailed strategies, such as transitioning to renewable energy, improving energy efficiency, expanding water reuse, and minimizing waste landfill, all aimed at reducing climate impact. Each organization (headquarters, plants, and regional sales offices) designates an environmental performance officer, who works in coordination with the Energy Environment Department to carry out climate-related tasks.

To systematically manage environmental regulations and compliance, KT&G operates the "Industrial Regulation Compliance Operating System." This system includes legal monitoring and updates, as well as self-audits to ensure regulatory compliance, covering 37 laws and 177 items across five areas related to plant operations, including safety, substance management, environment, and energy.

External Advisory Team The Energy Environment Working Group, a practical consultative body, supports executive oversight of climate-related risks and opportunities. The Working Group is composed of external experts from fields such as consulting, investment analysis, and academia, and is responsible for reviewing transition and physical risk factors based on climate scenario analysis.

(2) Top Management's Use of Control and Procedure

Acquisition of the ISO 14001 and ISO 50001 KT&G first obtained ISO 14001 (Environmental Management System) certification at a domestic plant in 2005 to implement systematic environmental management based on global standards. Six domestic plants maintain the certification as of 2025. We have also been pursuing ISO certification for overseas plants since 2023 to establish a sustainability management system that meets global standards. As of 2025, Indonesia Plant Center 1 and our plants in Türkiye and Russia have achieved ISO certification. In 2026, we are preparing to obtain ISO certification for three new overseas plants—Kazakhstan Plant, Indonesia Plant Center 2, and Indonesia Plant Center 3. Moreover, we obtained ISO 50001 (Energy Management System) in 2021 to establish an energy management framework and drive energy savings. Through follow-up assessments, this certification is currently maintained at five domestic plants—Daejeon, Yeongju, Gwangju, Cheonan, and Gimcheon.

Company-wide Energy Management and Monitoring System KT&G has strengthened monitoring of energy consumption and water withdrawal across all business sites to achieve its environmental vision, "2030 Green Impact." As part of this effort, the company introduced a company-wide energy management and monitoring system in 2022, sharing monthly progress of GHG emissions against targets. This system is tailored to the company's operational characteristics, which include multiple domestic and overseas business sites. Each business unit enters energy and water consumption data monthly into the digital system based on supporting documentation (such as utility bills). Headquarters then verifies the data in advance to ensure timeliness and accuracy. The system enables KT&G to track progress toward site-specific reduction targets, forecast annual emissions while accounting for seasonal fluctuations, and utilize the data as a strategic tool for systematic implementation. In 2023, the system's scope was expanded to include overseas manufacturing plants in Indonesia, Türkiye, and Russia. In 2024, we expanded the implementation scope to the Group level and further advanced the management system.

Factory Energy Management System In 2023, KT&G established a Factory Energy Management System (FEMS) at its Daejeon Plant and has been expanding its implementation ever since. In 2025, we completed the implementation of the system at new overseas plants, including Kazakhstan Plant, Indonesia Plant Center 2, and Indonesia Plant Center 3. We reduce energy consumption by identifying factors causing efficiency deterioration based on data collected through the FEMS, implementing immediate improvements, or identifying reduction projects and linking them to capital investments. Additionally, we manage department-level energy reduction activities in alignment with ISO 50001 (Energy Management System).

ISO 14001

ISO 50001

STRATEGY

1. CLIMATE-RELATED RISKS AND OPPORTUNITIES

(1) Anticipated Climate-related Risks and Opportunities

KT&G and its consolidated subsidiaries utilize climate-related scenario analysis results when identifying climate-related risks and opportunities that are reasonably expected to impact the company's outlook, while also referring to the disclosure topics outlined by the Sustainability Accounting Standards Board (SASB). In the business model, reference was made to the SASB Food & Beverage sector's Tobacco and Processed Foods disclosure topics, while in the value chain, disclosure topics from the SASB Food & Beverage sector's Agricultural Products, as well as the SASB Resource Transformation sector's Containers & Packaging and Chemicals, were referenced.

(2) Impact of Risks and Opportunities by Time Horizon

KT&G conducted a materiality assessment of climate change risks, identifying 21 overall climate change risks. We prioritized them based on the likelihood of occurrence and the magnitude of impact. As a result, eight climate change risks and three climate change opportunity factors, which ranked relatively higher in priority across major areas, were selected.

(3) Definition of Time Horizons and Linkage with Strategic Planning

Linkage with Strategic Planning Time Horizons KT&G's strategic decision-making takes place through the establishment of a business plan (3 years) and the establishment and review of a mid- to long-term vision (5 years). This is based on the market change cycle of the major Group business portfolio, new product R&D cycles, etc. In the process of establishing this plan, climate-related risks and opportunities are considered through external trend analysis and internal situation assessment.

KT&G's Climate-related Time Horizons

Time Horizon	Period Covered	Period Covered for the Current Term
Short-term	1 year	–2025
Mid-term	More than 1 year and up to 5 years	2026–2029
Long-term	More than 5 years	2030–

Category		Risk/Opportunity Factors	Description	Short-term	Mid-term	Long-term
Transition Risks	Policy and Legal	Carbon pricing	• Policies implemented by domestic and overseas governments and international organizations to impose costs on carbon emissions are designed to incentivize GHG reductions. This may increase the cost burden associated with carbon emissions arising from KT&G's manufacturing processes and raw material supply chains. Accordingly, concerns about higher production costs and weakened product price competitiveness are emerging, and similar cost-increasing factors may arise during the production of health functional foods.	Medium	High	High
	Market	Increase in raw material costs	• Due to the strengthening of climate change response policies and regulations, the supply stability of primary raw materials such as leaf tobacco and health functional food ingredients may decline, and procurement costs may increase. This could directly impact production costs, posing a burden on profitability and market competitiveness.	High	High	High
	Reputation	Prejudice against the industry	• As social demands for corporate environmental responsibility related to climate change increase, the negative perception associated with the inherent characteristics of the industry may negatively impact KT&G's corporate image.	Medium	Medium	Medium
		Increase in stakeholder concerns or negative perceptions	• If the response to climate change is perceived as inadequate, it may lead to a decline in trust among key stakeholders such as investors, customers, and regulatory agencies. This could negatively impact the company's reputation and financing in the global market.	Medium	Medium	Medium
Physical Risks	Acute	Typhoon and hurricane	• Strong winds and heavy rainfall caused by extreme weather events may directly impact domestic and overseas business sites and logistics hubs, increasing the likelihood of disruptions in product production and supply chain operations. Particularly, if damage occurs in major tobacco leaf producing regions, disruptions in raw material procurement are anticipated.	Medium	Medium	Medium
		Heavy rainfall and flooding	• Heavy rainfall, resulting in flooding and infrastructure damage, can destabilize production and logistics systems, posing a threat to the continuity of product supply. In particular, disruptions to key storage facilities and transportation networks may escalate into company-wide supply disruptions.	High	High	High
	Chronic	Temperature changes	• The continuous rise in average temperatures affects the agricultural productivity and quality of tobacco leaves, leading to changes in cultivation areas and reduced harvest yields for health functional food ingredients. This not only undermines the stability of raw material supply but also acts as a factor increasing operating costs.	Medium	Medium	High
		Water scarcity	• Changes in precipitation patterns and the increased frequency of droughts due to climate change impose constraints on water resources, affecting water usage in manufacturing and raw material processing. Consequently, this may lead to decreased production efficiency and reduced process stability.	Medium	Medium	High
Opportunities	Products and Services	Consumer preference for eco-friendly, low-carbon products	• As eco-friendly consumption trends continue to grow among consumers, the demand for low-carbon and sustainable products is steadily increasing. In response, initiatives such as developing products that replace plastic filters and adopting eco-friendly packaging materials can strengthen sustainable management capabilities while creating opportunities to tap into new markets.	Medium	High	High
	Resilience	Enhanced core competitiveness through stronger climate change risk response capabilities	• KT&G is enhancing its proactive response capabilities to climate risks, thereby improving the sustainability of its raw material supply chain. Additionally, the company is establishing disaster response systems to ensure a stable business operation foundation. This structure can contribute to the long-term enhancement of corporate value.	Medium	Medium	High
	Resource Efficiency	Reduced operating costs through expanded low-carbon and renewable energy facilities	• Improving energy efficiency and expanding the use of renewable energy not only reduce greenhouse gas (GHG) emissions but also lead to operational cost savings. The adoption of solar power facilities serves as a means of reducing carbon emissions while lowering electricity costs.	Medium	Medium	Medium

2. BUSINESS MODEL AND VALUE CHAIN

(1) Current and Anticipated Impact on the Business Models and Value Chain

KT&G distinguishes its business models according to the nature of the businesses operated by the company and its consolidated subsidiaries. Specifically, it is divided into the Tobacco Business, which manufactures and sells cigarettes and next-generation heat-not-burn (HNB) products; the Health Functional Food Business, which manufactures and sells red ginseng and non-red ginseng health functional foods; the Real Estate Business, which engages in real estate development and leasing; and the Other Business, which conducts R&D, manufacturing, and sales of pharmaceuticals and cosmetics. Each business model's value chain encompasses the interactions, resources, and relationships that KT&G utilizes and relies on, from product planning, distribution, consumption, to end-of-life, in order to produce the company's products or services. In particular, KT&G's tobacco business is in the midst of global expansion. In 2025, we completed the construction of the Kazakhstan Plant, a facility with a site area of approximately 52,000 square meters and an annual production capacity of approximately 4.5 billion conventional cigarettes (CC). In addition, new overseas production sites, including the expansion of Indonesia Plant Center 2 and Indonesia Plant Center 3, have successively commenced operations.

This global business expansion is a major contributor to the increase in the Group's business-as-usual (BAU) emissions. Accordingly, KT&G Group incorporated renewable energy procurement plans, including the use of I-RECs, to coincide with the commencement of operations at new overseas business sites, into the Group's GHG emissions reduction roadmap established in March 2026.

KT&G has identified sustainability-related risks and opportunities in the Tobacco Business and Health Functional Food Business under the "Strategy" section, specifically in "1. Climate-related Risks and Opportunities – (1) Anticipated Climate-related Risks and Opportunities." The business models for the Tobacco Business and Health Functional Food Business include ① product and technology R&D, ② production and manufacturing of outputs, and ③ sales and marketing; and their relevant value chain activities are ① procurement of inputs, including raw materials and other materials, in the upstream, ② distribution and transport of inputs and outputs, and ③ use and disposal of sold products in the downstream.

(A) Transition Risk: Carbon Pricing

If carbon prices surge or stricter and enhanced carbon pricing regulations are implemented, it could lead to significant increases in operating costs associated with GHG emissions. In addition, there may be rising indirect carbon-related costs across the entire value chain, including partner companies, supply networks, and distribution networks. The transition risk associated with carbon pricing mainly impacts the purchase of inputs, including raw materials and other materials, as well as the production and manufacturing stages within KT&G's business model and value chain.

Activity	Current	Anticipated
Purchase of inputs, including raw materials and other materials	Farms, which are a major raw material supply chain, are not directly subject to carbon regulations. Also, only a small percentage of material suppliers, most of which are located in Korea, are directly subject to carbon regulations.	Expansion of carbon emissions regulations is expected to result in the inclusion of carbon emissions costs throughout all value chain processes, including raw materials, production, and distribution, including raw material suppliers. We expect a rise in raw material procurement costs owing to indirect carbon cost increases in the overall value chain, including partner companies, supply chain, and distribution network. In the mid- to long-term, the costs for collecting and managing supplier carbon information may increase with mandatory Scope 3 emissions management.
Production and manufacturing	KT&G is subject to the allocation of GHG emissions allowances and emissions regulations under the Korea Emissions Trading Scheme (K-ETS). We are continually expanding low-carbon facilities and renewable energy facilities.	There is a higher possibility of an increase in allowance prices as a result of strengthened GHG reduction policies in countries where manufacturing business sites are located and the expansion of emissions trading markets. As such, there will likely be an increase in corporate input of resources to transition to a low-carbon production system. There is also a possibility of additional costs from the adoption of the carbon pricing system by countries where overseas manufacturing corporations are located.

(B) Transition Opportunity: Consumer Preference for Eco-Friendly, Low-Carbon Products

Consumers' growing preference for eco-friendly and low-carbon products may pose a potential risk of reduced demand for KT&G. However, it also presents an opportunity to enhance corporate reputation and expand market share through the development of next-generation products and innovations in sustainable packaging. We can strengthen our technological competitiveness by carrying out R&D on new materials that can reduce carbon emissions and securing patents, based on which we can generate additional profits through new product launch and licensing. The adoption of such materials develops new business areas, gives concrete shape to sustainable growth strategies, and contributes to strengthened competitiveness in the global market. Notably, KT&G leverages technological patents and eco-friendly manufacturing capabilities to continuously introduce innovative products and lead the market. Furthermore, in November 2025, we established the "ESG Implementation Framework 3.0," setting a new mid- to long-term target to transition 80% of inner liners to recyclable materials. This is expected to create opportunities to enhance our contribution to the circular economy as our global business expands.

Activity	Current	Anticipated
R&D on products and technologies	We are reducing plastic packaging materials by developing biodegradable filters and eco-friendly packages, while expanding the application of recyclable paper packaging materials. In addition, we are transitioning the inner liners of cigarettes and stick products from aluminum laminate to recyclable materials.	As the market for eco-friendly and low-carbon products expands, product eco-friendliness is expected to become a key factor influencing the company's brand image. Consequently, the importance of developing products and technologies incorporating environmental elements may become even more pronounced.

(C) Physical Risk

An increase in extreme weather events (droughts, floods, heatwaves, etc.) caused by climate change leads to a risk to the stable procurement of leaf tobacco and ginseng—KT&G's key materials—and can also impact manufacturing facilities' water availability and operational continuity.

Activity	Current	Anticipated
Purchase of inputs, including raw materials and other materials	The supply chain of major raw materials, which are leaf tobacco and ginseng, is stable, but the impact of climate change is gradually presenting itself. Ginseng is a plant that grows well in cool weather, and its cultivation areas are steadily moving north due to climate change which may lead to relocation of farmlands and changes in yield. Accordingly, we are carrying out such activities as researching new varieties to respond to the climate disasters and developing sun shading facilities.	Temperature changes impact leaf tobacco growth and can potentially lead to a decrease in yield or changes in geographical locations where cultivation can take place. If climate change accelerates in the mid- to long-term, there may be a rise in major raw material procurement costs or an increased need for investments for alternative producing area development.
Production and manufacturing	Water is a key resource used in several processes within production facilities, such as cooling and cleaning. Reduced water availability poses a risk of lower operating rates due to production disruptions. There is no case of a setback in production activities caused by water availability at KT&G, but we are increasing investments in the water reuse process in preparation for water stress risk and acute drought.	There may be an increase in manufacturing facilities' operation stoppage risk caused by frequent occurrence of extreme weather phenomena in the mid- to long-term. Accordingly, a need may arise to make investments to build emergency water supply facilities.

(2) Areas Where Risks and Opportunities are Concentrated

Areas where climate-related risks and opportunities of KT&G and its subsidiaries are focused are the purchase of inputs, including raw materials and materials, production and manufacturing, and product and technology R&D.

3. STRATEGY AND DECISION-MAKING

(1) Response and Plans for Climate-related Risks and Opportunities

(A) Changes in Resource Allocation for Business Models

Establishment of the Sejong Business Site, an Eco-Friendly Printing Factory

In 2025, KT&G completed the construction of a printing factory on a site spanning 48,583 square meters within the Mirae Industrial Complex located in Sejong Special Self-Governing City. The newly established printing factory produces packaging materials and paper boxes for KT&G's tobacco products and is expected to significantly improve operational efficiency by adopting advanced logistics automation and smart plate-making processes. In particular, to build a future-oriented factory, eco-friendly elements were incorporated throughout the entire process—from architectural design and utility selection to operations. As a result, the factory became the first within KT&G to achieve LEED[1] Gold certification for green building.

[1] Leadership in Energy & Environmental Design: Green building certification program developed by the U.S. Green Building Council (USGBC). It is a globally recognized green building rating system that provides guidelines for environmentally friendly design and construction, taking into account aspects such as water efficiency, energy efficiency, and material reuse. There are four certification levels based on the rating achieved.

KT&G Sejong Plant

Eco-Friendly Technology Applied to Sejong Business Site

Construction	• Selection of eco-friendly materials • Application of windows and interior materials with excellent insulation effects
Energy Efficiency Improvement	• Selection of high-efficiency utilities • Application of waste heat recovery systems • Adoption of Factory Energy Management System (FEMS)
Expansion of Renewable Energy Use	• Installation of rooftop solar power facilities
Reduction of Water Consumption	• Selection of water-saving products • Establishment of infrastructure designed for recycling used water and rainwater

(B) Direct Mitigation and Adaptation Efforts

Category	Content	Mitigation	Adaptation	Current	Anticipated
① Product material replacement	• R&D on alternative materials, including non-plastic and biodegradable materials – Develop cigarette filters with lyocell fibers that can reduce carbon emissions compared to cellulose acetate (CA) – Develop and review paper filter technology in parallel	●		●	●
	• Establishment of an Eco-Design process and guidelines to consider life cycle carbon footprint when developing new products based on LCA results	●		●	●
	• Transition of inner liners (product inserts) from aluminum-laminated materials to recyclable materials - Completed the transition to 100% paper inner liners for domestic cigarette products	●		●	●
② Expansion of renewable energy production and procurement	• Installation of photovoltaic power generation facilities on the roof of manufacturing plants	●		●	●
	• Renewable Energy Certificate (REC) and I-REC spot purchasing	●		●	●
	• Power Purchase Agreement (PPA)				
	• Virtual Power Purchase Agreement (VPPA)	●		●	●
③ Adoption of high-efficiency facilities and transition to EVs	• Participation in the K-EV100 initiative to support the transition of the company fleet to electric vehicles (EVs)	●		●	●
	• Improvement of internal process energy efficiency – Improve steam boiler operation – Apply inverter control to air compressors – Replace with high-efficiency utility facilities – Adopt the FEMS – Transition to energy-saving compressed air dryers	●		●	●
	• Recycling of surplus heat – Directly reuse hot water generated during the cooling process of drying equipment for the equipment component cleaning – Install air preheaters in the boiler system to heat up the incoming air, contributing to improved boiler combustion efficiency – Utilize high-temperature condensate from the process for reusing in the hot water production process	●		●	●
	• Reduction of petroleum-based fuel use and transition to and procurement of renewable energy	●		●	●
	• Installation and replacement of LED lighting at major plants	●		●	●
④ Internal policy	• Incorporation of potential carbon prices into long-term business plans and financial risk evaluations through internal carbon pricing	●			●
	• Implementation of the company-wide energy cost settlement system	●			●
	• Publication of the "Best Practice Casebook for GHG Reduction and Water Saving," summarizing proven energy reduction best practices at domestic plants to promote voluntary benchmarking across domestic and overseas plants and the Group subsidiaries	●	●	●	●
⑤ Personnel adjustment	• Promoting the Energy Environment Technology Team under the Manufacturing HQ to the Energy Environment Department, strengthening its roles, to advance environmental management	●		●	
	• Designating an environmental performance officer in each organization (HQs in head office, plants, regional sales offices, etc.) to implement tasks through organic collaboration with the Energy Environment Department	●		●	
	• Providing outsourced environmental training to employees responsible for ESG at plants and headquarters	●		●	
⑥ Minimization of physical risk damage	• Developing and implementing a standard disaster management manual, including disaster recovery guidelines for natural disasters such as typhoons and floods		●	●	●
	• Conducting regular risk assessments to identify, evaluate, and mitigate risk factors at each business site, enhancing safety and health management to prevent serious disasters		●	●	●
	• Establishing emergency response manuals tailored to specific locations and situations		●	●	●
	• Conducting regular inspections of drainage systems to prevent flood damage		●	●	●
	• Managing an emergency network to communicate the situation in the event of a natural disaster		●	●	●

① Product Material Replacement KT&G conducts continuous research and development (R&D) on environmentally-friendly alternative materials based on non-plastic and biodegradable materials with the aim of reducing the environmental impact of our products and developing more sustainable products. In particular, we have comprehensively evaluated the physical properties, processability, and stability when applied to products of highly biodegradable fiber materials, confirming their technical suitability for incorporation into our product structures. Furthermore, we have secured key intellectual property (IP) rights related to environmentally-friendly materials and strengthened our technological competitiveness by registering patents for the compositions and manufacturing methods of these materials.

KT&G is also conducting R&D on paper filters. By continuously conducting technical evaluations, including assessments of material characteristics, durability, and stability under conditions of use, we are verifying the feasibility of their application to actual products from multiple perspectives. Moving forward, we will continue to advance the functional and technical sophistication of environmentally-friendly materials and strengthen our responsible product development framework and R&D capabilities through environmentally-friendly product design and efforts to identify new technologies.

In addition, KT&G is continuously improving the recyclability of product packaging materials. Under the ESG Implementation Framework 3.0, we have established a new mid- to long-term target of converting 80% of our domestic and overseas inner liners to recyclable materials by 2030. To this end, we plan to expand the application of these materials overseas by first modifying paper inner liner production facilities and concentrating our internal resources and capabilities (R&C). In Korea, we have completed the full conversion of aluminum-laminated inner liners used in the packaging of cigarette products that we develop and manufacture in-house to paper inner liners. As our overseas business and manufacturing sites continue to expand, we are also considering ways to expand their application to products we manufacture directly overseas over the mid- to long-term. In addition, to facilitate recycling at the packaging disposal stage, we prioritize the use of recyclable materials for packaging, including paper and mono-material films made of PP (polypropylene) or PE (polyethylene).

By performing LCA, KT&G is identifying environmental issues of major products and exploring various ways to reduce product carbon emissions. In 2025, we identified whether there existed a carbon emissions-reducing solution that was discovered in the internal development stage and whether the solution was actually applied for major issues that were derived per product, and analyzed environmental improvement effects from applying the solution in case a solution was applied. We plan to use the previously derived solutions to examine applicability and economics in the new product development stage, based on which we will explore ways to enhance eco-friendliness of new products.

Development of Eco-friendly Materials and Application of Eco-friendly Certified Materials

- Develop eco-friendly materials for cigarette filters
- Promote the applications of paper filters
- Use FSC-certified pulp for product packaging paper

2025 Activities to Reduce Product Environmental Impact

Removal of protective film from device adapters – Completed	KT&G provides accessories with its device kits at the time of purchase to enhance user convenience. Protective film was previously applied to adapters to prevent surface scratches, although it does not affect product functionality. As a result, the company has eliminated this film from all adapters. Based on 2025 sales volume, this change is estimated to reduce approximately 5.63 tons[1] of CO_2 emissions.
Conversion of device cable fastening bands to paper – Completed	KT&G has replaced the polypropylene material used for cable fastening bands in device accessories with paper. Based on 2025 device sales, this material change is estimated to reduce approximately 12.28 tons[1] of CO_2 emissions.
Reduction of inner frame basis weight for CCs and sticks – Completed	The basis weight of the inner frame used in packaging for CCs and stick products was reduced by approximately 8% without compromising quality, thereby minimizing material usage. Based on 2025 sales, this reduction is estimated to result in a CO_2 emissions reduction of approximately 282.52 tons[2].
Conversion of NGP stick inner liners from aluminum composite to paper – Completed	To promote recyclable packaging, KT&G converted 100% of the inner liners used in NGP stick products from aluminum composite to paper by 2025. When replaced with recyclable packaging, this transition is expected to reduce at least 4.905 g of CO_2 per pack compared to the current stick products.
Conversion of injection molding material for NGP liquid cartridges – In progress	KT&G plans to switch the material used in P2 liquid cartridges to one with a lower carbon footprint[3] compared to the current material. Once implemented, this change is expected to reduce CO_2 emissions by approximately 11.96 g per cartridge.

[1] Assumed and calculated based on the reduction effect for the total sales volume of devices (domestic and export) in 2025
[2] Assumed and calculated based on the reduction effect for the total sales volume of CCs and sticks (domestic and export) in 2025
[3] Environmental impact assessment of materials based on the Ecoinvent v3.8 and CML-IA non-baseline V3.07/EU25 methodology

② Expansion of Renewable Energy Production and Procurement KT&G is striving to transition to renewable energy over the mid- to long-term to achieve its 80% renewable energy consumption goal by 2030 and reduce GHG emissions. To this end, we are moving forward with the adoption of solar power generation facilities on the rooftops or roofs of domestic factories and SangSang Madang. We have been operating a 3.1 MWp solar power generation system on the roof of the Gwangju Plant since June 2023. Including the commencement of operations at the Sejong Plant (2.4 MWp) in May 2025, KT&G has completed the installation of solar power generation facilities with a total capacity of 10.5 MWp across five domestic plants: Gwangju (3.1 MWp), Yeongju (2.5 MWp), Daejeon Headquarters (2.2 MWp), Gimcheon (0.3 MWp), and Sejong (2.4 MWp). As of the cumulative total in December 2025, the facilities generated 12,041 MWh of electricity, achieving 106.2% of the target.

Status of Solar Power Generation at KT&G's Domestic Manufacturing Plants (Cumulative as of December 2025)

Business Site	Generation Capacity (MWp)	Operation Start Date	Operating Method
Gwangju Plant	3.1	Jun. 27, 2023	Generation control on non-production days (ESS charge reduction applied, through Mar. 2026)
Yeongju Plant	2.5	Jul. 22, 2024	Generation control on non-production days (ESS charge reduction applied, through Mar. 2026)
Daejeon Headquarters	2.2	Oct. 30, 2024	Sale of surplus electricity after self-consumption
Gimcheon Plant	0.3	Jun. 1, 2024	Generation control on non-production days (ESS charge reduction applied, through Mar. 2026)
Sejong Plant	2.4	May 13, 2025	Sale of surplus electricity after self-consumption
Total	**10.5**	-	-

We are also reviewing and implementing other forms of renewable energy adoption. We are purchasing Renewable Energy Certificates (RECs) for continued reduction according to our mid- to long-term GHG reduction roadmap. In 2024, we purchased 15,676 MWh of International Renewable Energy Certificate (I-REC) for the Indonesia Plant, 3,495 MWh of I-REC for the Türkiye Plant, and 7,000 MWh of Green Energy for the Russia Plant. In addition, we signed 20-year long-term Power Purchase Agreements (PPAs) totaling 11.8 MWp in 2024. Since 2025, we have accelerated the execution of multiple long-term PPA contracts, all with 20-year terms. We are also pursuing the adoption of PPAs at the business sites of the Group subsidiaries, including KGC, Yungjin Pharm, COSMOCOS, and Tae-A Industrial, thereby gradually expanding renewable energy procurement across the Group.

As a result of these efforts, KT&G Group's[1] renewable energy use rate increased to 23.0% in 2025 and has grown to 29.9% based on all business sites[2] of KT&G. Moving forward, we will continue to accelerate the Group's transition to renewable energy by expanding PPA applications and activating discussions within the Group-wide consultative body.

[1] Domestic business sites and overseas manufacturing sites of KT&G, and domestic and overseas manufacturing sites of subsidiaries (KGC, Yungjin Pharm, Tae-A Industrial, COSMOCOS, KGCYebon)
[2] Domestic business sites of KT&G and manufacturing sites of its overseas corporations

Renewable Energy Use Rate At Domestic and Overseas Business Sites of KT&G

2020	2023	2024	2025	2030 (Target)
0.1%	19.0%	21.4%	29.9%	80%

③ Changes in Process and Equipment In 2021, KT&G established its mid- to long-term environmental management vision, "KT&G Green Impact," and has been actively managing ESG tasks at its manufacturing plants to achieve a 42% reduction in Scope 1 and 2 GHG emissions and reduce water withdrawal intensity by 20% compared to the 2020 baseline, and achieve a waste recycling rate of 90% by 2030. To identify key tasks for achieving its mid- to long-term environmental targets, the Energy Environment Department has conducted annual on-site assessments at domestic and overseas plants using internal experts since 2022. Based on the assessment results, we identify and implement improvement tasks. In November 2025, in line with the establishment of the ESG Implementation Framework 3.0, we enhanced the implementation framework of this vision by reorganizing it into three pillars: Mitigate climate change impact, Accelerate transition to circular economy, and Manage natural capital and protect biodiversity.

For domestic plants, we are executing tasks focused on direct energy savings, such as transitioning to high-efficiency facilities and recovering waste heat, through continued facility investments and manufacturing process improvements. As a result of these efforts, KT&G received The 7th Korea Solar League Award in 2025 in recognition of its achievements in reducing GHG emissions and expanding the use of renewable energy through the installation of solar power facilities and the adoption of renewable energy through PPAs. The Daejeon Plant received the 2025 Climate Change Response and GHG Reduction Merit Award in recognition of its contributions to reducing GHG emissions through continuous facility investments and manufacturing process improvements. It also received a commendation from the President of the Korea Energy Agency at the 2025 ESP Award for Outstanding Member Activities and Demonstration Cases.

Performance of Key Improvement Tasks in 2025

- Domestic 38 cases + Overseas 9 cases
- Greenhouse Gas: Reduction of approximately 2,625 tons
  - Expansion of renewable energy: Installation of solar power generation facilities at the Sejong Plant
  - Replacement with high-efficiency facilities: Boilers
  - Process improvement: Mist humidification and steam supply improvement at the Daejeon Plant

The Gwangju Plant received a commendation from the President of the Korea Energy Agency at the 2025 Gwangju–Jeonnam Regional Energy Conservation Awards in recognition of its efforts to improve energy efficiency and expand the use of renewable energy. In addition, KT&G introduced FEMS at the Daejeon Plant in 2023 to enhance its energy monitoring and management system. Building on this foundation, we plan to actively expand the adoption of FEMS across all domestic and overseas plants.

For overseas plants, we are strengthening data-driven reduction activities by establishing measurement infrastructure, such as installing meters on major energy- and water-consuming equipment and facilities, including air handling units and dryers. In addition, each plant has selected and is implementing key tasks related to GHG emissions, water, and waste. Going forward, we will continue to enhance the management capabilities of our overseas plants by managing ESG KPI targets, sharing GHG emissions and water reduction best practices of domestic plants, and updating the Energy and Environment Work Guidelines.

Strengthening Overseas Plant Management To advance ESG management at overseas plants, KT&G establishes annual targets for three major KPIs (GHG emissions intensity, water withdrawal intensity, and waste recycling rate) for each plant and holds monthly ESG video conferences to review performance and discuss issues. In addition, non-metric targets are assigned, such as increase in renewable energy ratio and acquisition of global ESG certifications, to reflect ESG performance-based incentives.

We created the Energy Environment Guideline, a work manual for overseas plants, in 2024 and provided it to the Indonesia, Russia, and Türkiye Plants, and established support facility operation standards and the water and air leak inspection system.

Transition of Business Fleets to EVs KT&G joined the K-EV100 initiative organized by the Ministry of Climate, Energy and Environment (MCEE) in 2021, actively promoting the transition of its business fleets to EVs. Starting with the introduction of six EVs at the Yeongdeungpo Integrated Logistics Center in 2021, we have been gradually transitioning to EVs, considering the lease expiration period. As of 2025, approximately 14.4% of our business fleets have been converted to EVs. With the anticipated rollout of various EV models, we plan to accelerate the transition further and aim to convert 100% of business vehicles to electric vehicles by 2030, thereby contributing to KT&G's mid- to long-term GHG reduction goals.

* GHG emissions from business fleets are included in Scope 1 and Scope 2 emissions.

Category	Unit	2025
Proportion of EVs	%	14.4

* Cumulative basis

④ Internal Policy (Operation of Internal Carbon Pricing) In order to respond to climate change proactively, KT&G introduced guidelines for economic analysis of new investments in 2022 and implemented an internal carbon pricing system as a way to encourage decision-making that considers potential carbon costs. Currently, the internal carbon pricing system is utilized when reviewing the payback period for investments at manufacturing plants, where a significant portion of GHG emissions is generated and most reduction activities are implemented. Since its introduction, energy savings and GHG reduction amounts have been identified as having increased compared to prior levels. In addition, since 2023, we have been expanding the scope of the internal carbon pricing system to include overseas plants where securing economic feasibility for investments was relatively challenging due to lower energy costs, thereby accelerating GHG emissions reduction.

KT&G's Internal Carbon Price as of 2025

50,000 KRW/tCO_2eq

KT&G has demonstrated its strong commitment to reducing carbon emissions by setting an internal carbon price at 50,000 KRW/tCO_2eq. This is higher than both the recent emissions trading market prices and the historical peak price of 42,500 KRW/tCO_2eq since the introduction of Korea Emissions Trading Scheme (K-ETS). Through continuous monitoring, we will readjust the internal carbon price if the market price exceeds the current internal carbon price.

(C) Indirect Mitigation and Adaptation Efforts

Category	Content	Mitigation	Adaptation	Current	Anticipated
① Cooperation with outside organizations	• Participating in the Sustainable Tobacco Program (STP), an evaluation platform to assess and conduct due diligence on the social and environmental impact of the tobacco leaf supply chain jointly with major global tobacco manufacturers	●	●	●	●
② Supply chain support	• Supplying fuel reduction devices for driers to farms to improve energy efficiency during leaf tobacco drying – Supplied a cumulative total of 214 devices from 2022 to 2024	●		●	
	• Establishing a Green Impact Alliance with key materials partner companies[1)] – Establishing joint GHG targets with key materials partner companies – Providing training support on climate change response by holding regular ESG workshops and consulting support to establish a foundation for GHG reduction – Providing other support for training and consulting	●		●	●
	• Providing programs that facilitate carbon emissions reduction among logistics partner companies – Improving eco-friendly driving habits: Providing our company's products to drivers who have eco-friendly driving habits (ECO Mileage: a total of 89 vehicles from 5 partner companies participated) – Supporting the replacement of old vehicles (ECO Change: Partner companies with which we have a trade history of 7 years or more, supported the replacement of 10 vehicles over the past 4 years)	●		●	●
	• Diagnosing energy-intensive utility specialist companies and establishing improvement plans	●	●	●	●

[1)] Partner companies that account for approximately 85–90% of the annual purchasing share

① Cooperation with Outside Organizations: Participation in STP Global tobacco manufacturers have developed and operate the Sustainable Tobacco Program (STP) to ensure that leaf tobacco is grown in a sustainable agricultural environment and can be sourced reliably. The eight global manufacturer members participating in STP, including KT&G, conduct annual supplier self-assessments based on country-specific risk analyses across eight areas, including climate change, water, crop, soil health, human rights, livelihoods, and governance. A third-party expert organization also conducts annual In-Depth Assessments (IDAs) in priority countries. In 2025, the STP members sourced 100% of their imported leaf tobacco from suppliers enrolled in STP. As of April 2026, third-party on-site assessments had been conducted for 31 suppliers across 15 countries.

KT&G began the full-scale adoption of STP in December 2022 and has since worked to enhance the integrity of its sustainable leaf tobacco supply chain. Since 2023, we have been advancing supply chain risk analysis tools and on-site due diligence methods through regular virtual and in-person meetings among STP members.

In 2025, we participated in the working group for the 2027–2030 Global STP Mid- to Long-term Roadmap for sustainable leaf tobacco supply chain management, which comprised four manufacturer members, including KT&G, and helped further develop joint initiatives. We also actively participated in finalizing the roadmap and selecting key initiatives through in-person meetings held in 2026. After assuming the role of Vice Chair in August 2025, KT&G took on the role of Chair in the second quarter of 2026 and has since supported the operation of the global STP.

Going forward, we will strive to ensure the effective operation of the global STP by coordinating key agenda items between the independent Secretariat and manufacturer members and overseeing the program's overall operational direction and its administrative and practical implementation framework. We also plan to participate in the Priority Working Group to further develop our supply chain management direction. Over the mid- to long-term, we will align this approach with our ESG strategy while expanding engagement with global suppliers.

② Supply Chain Support: ECO-Cargo Program KT&G has been making continuous efforts to enhance its ESG management capabilities through the ongoing operation of the ECO-Cargo Program (ECO Mileage, ECO Change, ECO Hydrogen Energy) in order to meet societal demands for low-carbon green growth and the transition to an eco-friendly supply chain. Moving forward, we will strive to foster eco-friendly growth and practice win-win management with our partners through various ECO programs.

Operation Status of ECO-Cargo Program

ECO Mileage	• Introduced in 2021, the ECO Mileage program aims to reduce carbon emissions and fuel usage through eco-friendly driving practices. KT&G has applied this program to 89 vehicles from five partner companies under transport contracts. Starting in 2024, KT&G has been operating a DTG (Digital Tacho Graph) monitoring system to measure driving scores. By providing feedback on fuel-efficient driving and encouraging improvements in driving habits, the company contributes to reducing carbon emissions from trucks.
ECO Change	• KT&G reduces the environmental impact of transportation by supporting the replacement of old (over 10 years) trucks for partner companies with over seven years of transaction history with the company, as part of its commitment to practicing eco-friendly and win-win management. For vehicles selected for replacement, KT&G provides support of KRW 10 million for new vehicle replacements and KRW 5 million for used vehicles that are less than three years old. Over the past four years, the program has successfully supported the replacement of 10 vehicles.
ECO Hydrogen Energy	• To create a pleasant air environment and reduce GHG emissions, KT&G has been operating three 11-ton hydrogen fuel cell electric trucks in collaboration with Daehan Express since October 2024. This initiative is expected to reduce annual carbon emissions by 216 tons compared to diesel trucks. KT&G plans to continue expanding the operation of hydrogen fuel cell electric trucks continuously.

Key Climate Change-related Priorities Linked to the Global STP Working Group

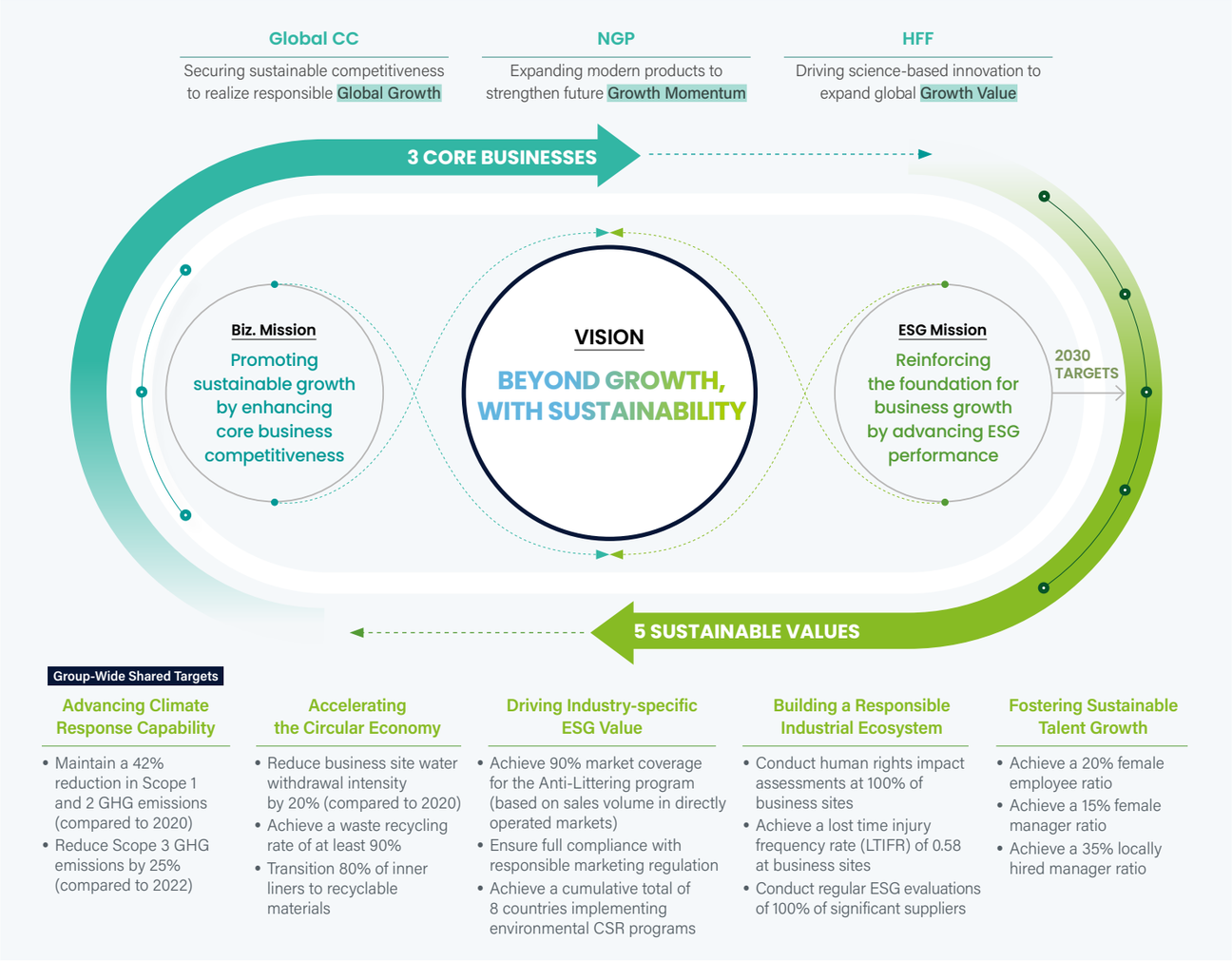
Alignment Approach	Relevant Working Group	Key Applications	Anticipated Effect
Aligning with KT&G's ESG strategy	Enhancing the environmental response framework (forest conversion and SBTi Scope 3)	Incorporating global STP standards and trends, including those related to forest conversion, SBTi Scope 3, and data verification frameworks, into our ESG policies and regulatory response system	Advance KT&G's ESG environment response structure and external regulation response system

(D) Climate-related Transition Plan

KT&G established and is implementing science-based targets that meet global standards to secure consistency with the Paris Agreement, which aims to limit the global temperature rise to below 2°C compared to pre-industrial levels. During the SBTi approval application process in 2022, we raised our reduction targets from well-below 2°C (Scope 1 and 2) and 2°C (Scope 3) scenarios to 1.5°C (Scope 1 and 2) and well-below 2°C (Scope 3) scenarios. In May 2024, we advanced our 2050 net-zero target to 2045 to establish targets aligned with global climate change response standards and achieve sustainable growth. KT&G's 2045 Net-Zero Goal received official approval from SBTi in November 2024, thereby securing international confidence in its climate change response target. Furthermore, in response to the draft version of the 2035 Nationally Determined Contribution (NDC) targets (50%/53%/60% reduction scenarios compared to 2018 levels) released by the Korean government on November 6, 2025, KT&G Group is reviewing the alignment of its own emissions reduction pathway. As of 2025, the Group achieved a 9.2% reduction (13.0% for KT&G on a standalone basis, compared to 2020), staying on track to meet the SBTi-approved reduction pathway. In March 2026, we established a GHG reduction roadmap for the Group affiliates, presenting a pathway to reduce approximately 144.4 thousand tCO_2eq in 2035 compared to the BAU scenario. This roadmap provides a quantitative basis for reviewing additional response measures once the government finalizes the 2035 NDC.

In November 2025, KT&G established the ESG Implementation Framework 3.0 following deliberation and approval by the Sustainability Committee. Under the vision of "Beyond Growth, with Sustainability," the framework defines five Sustainable Values as its core strategic priorities—Advancing climate response capability, Accelerating the circular economy, Driving industry-specific ESG value, Building a responsible industrial ecosystem, and Fostering sustainable talent growth—and systematically aligns quantitative performance indicators with each priority. In particular, "Advancing climate response capability" has been positioned as the highest priority among the five strategic priorities, while maintaining the Group-wide shared targets of reducing Scope 1 and 2 emissions by 42% (compared to 2020) and Scope 3 emissions by 25% (compared to 2022). In addition, we have realigned our strategy to focus on ESG value-driven performance by strengthening performance management based on quantitative indicators, including carbon emissions reduction and RE100 implementation, while enhancing the quality of implementation outcomes.

ESG Implementation Framework 3.0



STRATEGY

Climate-related Major Transition Plan

1. Establishing SBTi-based GHG reduction targets		• 2030 emissions target – Scope 1+2 emissions: 42% reduction compared to 2020 – Scope 3 emissions: 25%[1] reduction compared to 2022 • Aim to achieve net zero Scope 1+2+3 emissions by 2045
2. Setting renewable energy procurement targets that exceed RE100 guidelines		• 2030 renewable energy procurement target: 80% • Diversify renewable energy procurement – Expand internal photovoltaic power generation facilities – Ensure long-term, stable renewable energy procurement through PPAs – Strategically adopt I-RECs in alignment with overseas business site operating plans
3. Optimizing energy use and improving energy efficiency in internal processes		• Diagnose the efficiency of energy-intensive facilities and processes and make improvements • Improve steam boiler operation, apply inverter control to air compressors, replace utility equipment with high-efficiency models, introduce FEMS, etc.
4. Refining the value chain GHG emissions inventory and supporting emissions reduction		• Establish reduction partnerships with partner companies in the value chain • Reduce energy consumption by recovering and reusing heat from leaf tobacco dryers
5. Transitioning business fleets to EVs		• Convert all business fleets to EVs through participation in K-EV100 and expand the charging infrastructure
6. Optimizing water use at business sites		• Reduce water withdrawal intensity at business sites by 20% by 2030 (compared to 2020) – Improve resource and cost efficiency by enhancing water use efficiency for the production of the same products
7. Increasing waste recycling		• Achieve a 90% waste recycling rate by 2030 – Enhance resource efficiency at business sites and contribute to Scope 3 emissions reduction
8. Transitioning to recyclable packaging		• Convert 80% of inner liner materials to recyclable materials by 2030 – Expand resource circularity targets for key materials to overseas business sites and contribute to reducing Scope 3 (Category 1: Purchased goods) emissions

[1] Applicable to Categories 1, 3, and 11

Transition Plan-related Major Assumptions and Dependency Factors

Major Assumptions	Dependency Factors
● Assumptions for projected GHG emissions: KT&G and the Group affiliates' mid- to long-term production plans	● Availability of physical and human resources for transition plan implementation
● Carbon price assumptions: NGFS scenario-specific carbon prices (Net Zero 2050 / NDCs / Delayed Transition), SBTi 4°C scenario prices, and the internal carbon price (reference for capital investment decision-making)	● Emissions trading regulations that may affect carbon price increases
● Annual inflation rates and electricity price increases by country, in Korea and overseas	● Domestic and overseas economic conditions that may affect the financial validity of assumptions, including inflation and electricity price increases
● Renewable energy procurement assumptions, including PPAs and I-RECs: Average PPA price, VPPA price, and REC price in Korea	● Conditions for solar PV installation and PPA agreements across the Group affiliates: Solar PV (availability of domestic sites and Korea Electric Power Corporation grid connections), PPAs (market price stability, supplier operating rates, and timing of contract specification finalization), VPPAs (stability of the VPPA framework and accessibility to overseas markets), and I-RECs (price volatility in REC markets near overseas business sites)
● High-efficiency equipment transition plans	● Equipment investment timing and the pace of advancements in energy efficiency technologies

(E) Climate-related Target Achievement Plans (including GHG emissions targets)

GHG Emissions Targets KT&G Group has established targets to reduce Scope 1 and 2 emissions by 42% by 2030 (compared to 2020) and Scope 3 emissions by 25%[1] (compared to 2022). By 2045, we plan to achieve carbon neutrality across the entire business value chain. Through the establishment of the ESG Implementation Framework 3.0, we expanded the scope of our climate-related transition plan by setting seven new targets, including Accelerating the circular economy (transitioning 80% of inner liners to recyclable materials and reducing business sites water withdrawal intensity by 20%), Driving industry-specific ESG value (achieving 90% market coverage for the Anti-Littering program and expanding environmental CSR programs to eight countries), Building a responsible industrial ecosystem (achieving an LTIFR of 0.58 and conducting regular ESG evaluations of 100% of significant suppliers), and Fostering sustainable talent growth (achieving a 35% locally hired manager ratio).

[1] Applicable to Categories 1, 3, and 11

Major Reduction Measures and Implementation Plan

Category	Action Plans
Expanding internal solar power generation facilities	• Operating solar PV facilities at major business sites starting in 2023, with the goal of achieving 8% of the emissions reduction portfolio by 2030
Transitioning to high-efficiency equipment	• Diagnosing and improving the efficiency of energy-intensive facilities and processes, achieving a cumulative emissions reduction of 46 thousand tCO_2eq by 2030
PPA and I-REC purchasing	• **PPA adoption:** Expanding renewable energy procurement through the active use of PPAs starting in 2023, with a target of achieving a cumulative emissions reduction of approximately 152 thousand tCO_2eq by 2030. Additional emissions reductions will be pursued through VPPAs • **I-REC purchasing:** Implementing I-REC procurement at overseas business sites where external renewable energy credits are readily available
Reduction activities in the supply chain	• **Cooperation with farms:** Collaborating with leaf tobacco farms to improve energy efficiency in the leaf tobacco drying process • **Support for partner companies:** Establishing support measures and a collaboration framework to help material partner companies reduce GHG emissions

(2) Resource Acquisition Plan

KT&G issued green bonds worth a total of KRW 170 billion in April and October 2024 and the funds that were raised are being invested in projects aimed at transitioning to net zero, such as renewable energy (photovoltaic facilities) and eco-friendly building construction projects. In addition, we adopted internal carbon pricing to consider potential carbon costs when making investment decisions and to use it as guidelines for investment activities for climate change response. This is reflected as a criterion of economic analysis when reviewing investment feasibility to facilitate the effect of reducing the payback period of climate change response activities. In addition, we analyze economic feasibility of each reduction measure through marginal abatement cost curve (MACC) analysis and first adopt cost-effective measures, and are establishing annual reduction plans that sequentially apply measures with high reduction potential over the mid- to long term. Furthermore, we additionally hired relevant personnel since 2023 to operate a dedicated climate change organization to effectively implement the reduction plans. This has enabled us to systematically perform such tasks as establishing a GHG reduction plan, reducing emissions, and carrying out monitoring, while continually strengthening our climate change response capabilities.

In addition, KT&G participated in the Energy Efficiency Resource Standard (EERS) by installing high-efficiency transformers and inverters designated by Korea Electric Power Corporation (KEPCO) at the Sejong Plant. Through this initiative, we improved energy efficiency and received a government subsidy of KRW 100 million.

For KT&G SangSang Madang, we are expanding photovoltaic facility investments in a phased manner through the renewable energy dissemination (photovoltaic) support project organized by the Korea Energy Agency. In 2023, a project to install a 68.4 kW solar power system at the SangSang Madang Nonsan Art Building was selected, with a total project cost of KRW 110.49 million, receiving a subsidy of KRW 66.77 million. In 2024, we implemented a project to install a 45.6 kW solar power system at the SangSang Madang Chuncheon Stay Building, securing a subsidy of KRW 39.78 million out of a total project cost of KRW 64.33 million.

(3) Quantitative and Qualitative Information on the Progress of Plans Disclosed in Past Reporting Periods

KT&G aims to achieve a 42% reduction in Scope 1 and 2 emissions by 2030 compared to 2020, a 25% reduction in Scope 3 emissions compared to 2022, and carbon neutrality by 2045. For detailed progress, please refer to "2. Climate-Related Targets – (3) Performance Analysis Against the Targets" under the "Metrics and Targets."

(4) Trade-offs Associated with Climate-related Risks and Opportunities

KT&G is moving forward with phased adoption of renewable energy (photovoltaic, PPA, REC purchasing, etc.) and transition to high-efficiency equipment to achieve its mid- to long-term GHG reduction targets. Each activity provides an opportunity to reduce GHG emissions, while also involving potential risks, including initial investment and operating costs. To reasonably balance the trade-offs between these factors, we determine project priorities based on multiple evaluation criteria, such as cost-benefit analysis, GHG reduction effects, and investment payback period.

For the transition to high-efficiency equipment, the long-term reduction effects are significant. Therefore, an investment plan is established annually, and the feasibility and expected benefits are comprehensively reviewed in consultation with relevant departments before deciding whether to proceed. We also consider both economic and environmental aspects for transitioning to renewable energy. We prioritize the most cost-effective measures based on their GHG reduction effects among various options, such as photovoltaic installation, PPAs, and REC purchasing, and establish and implement an annual execution plan based on an investment plan for each project in a phased manner.

Through such a systematic evaluation and decision-making process, we are minimizing environmental risks while moving forward with sustainable energy transition.

4. FINANCIAL POSITION, FINANCIAL PERFORMANCE, AND CASH FLOW

(1) Financial Impact of Climate Change During Reporting Period (Current)

KT&G internally defined climate-related activities that could have significant impacts on its financial position and financial performance as follows, and analyzed the financial impact pathways for each activity.

Category		Risk/Opportunity	Financial Impact Pathways	Financial Statement Accounts Expected to be Affected
Transition Risks	Policy and Legal	Carbon pricing	Increase in direct and indirect operating costs due to renewable energy procurement, such as transaction fees and network usage fees	Utilities expense
			Costs incurred for purchasing emission allowances to comply with the domestic emissions trading scheme	Taxes and dues
			Increase in infrastructure operating costs to reduce/manage GHG emissions from facilities and business sites	Repairs and maintenance expense Service fees
			Costs incurred for the use of EVs, such as EV charging costs	Vehicle expense
			Increase in property, plant and equipment due to GHG reduction activities such as equipment replacement, EV transition, and solar PV facility installation	Property, plant and equipment Depreciation expense
			Issuance of green bonds for financing investments in GHG reduction and climate change adaptation projects	Borrowings Interest expense
	Reputation	Prejudice against the industry	Costs incurred to reduce the negative perception of tobacco and contribute to mitigating climate change from a product life cycle perspective	Research and development (R&D) expense Taxes and dues Service fees
			Increase in capital expenditures due to the development of low-carbon products and expanded investment in technology	Property, plant and equipment
		Increase in stakeholder concerns or negative perceptions	Costs incurred to enhance the company's external credibility and efficiency in responding to climate change (e.g., certifications, inspections, and external services)	Training expense Service fees
Physical Risks	Acute	Typhoon and hurricane Heavy rainfall and flooding	Costs incurred to prevent damages from natural disasters caused by extreme weather events	Insurance expenses Supplies expenses Repairs and maintenance expense Service fees
			Capital expenditures incurred for the expansion of facilities/systems to prevent natural disasters caused by extreme weather events	Property, plant and equipment
Opportunities	Resource Efficiency	Reduced operating costs through expanded low-carbon and renewable energy facilities	Decrease in energy procurement costs (manufacturing expenses) due to reduced energy consumption through the transition to renewable energy and replacement of existing equipment with high-efficiency equipment	Utilities expense

* The financial figures included in this report have been classified based on an internal assessment of the extent to which the strategies—that are being implemented by the consolidated entities—mitigate climate-related risks or align with climate-related opportunities, referring to the standards established by the Korea Sustainability Standards Board (KSSB). The assessment system is currently being enhanced, and the classification criteria and data estimation methods may be subject to change depending on whether the relevant policies are finalized in the future. This material has been prepared in anticipation of the potential mandatory disclosure requirements, and thus please take this into consideration when referencing its contents.

** According to the result of the risk and opportunity analysis on the aforementioned items, it is judged that they may impact the consolidated financial statements in the short, medium, and long term. However, at this point in time, there are limitations in securing relevant data and estimating investment costs, which pose constraints on quantitatively calculating the financial impact. The consolidated entities plan to systematically manage related risks and opportunities by enhancing the data management system and refining analysis processes in the future to calculate the impact of the relevant items more accurately.

During the reporting period, KT&G defined climate-related activities that could affect its financial position and financial performance by categorizing them into risks and opportunities, and analyzed the financial impact pathways and related financial statement accounts for each activity. Under transition risks, policy and regulatory response activities—including the purchase of emission allowances, renewable energy procurement and the operating costs of GHG reduction infrastructure, and EV charging costs—are reflected in taxes and dues, utilities expense, repairs and maintenance expense, and vehicle expense. Investments in reduction facilities and the issuance of green bonds are reflected in property, plant and equipment (PP&E), depreciation expense, borrowings, and interest expense. Reputation response activities—including investments in low-carbon products and technologies, as well as certifications and external services—are reflected in R&D expense, training expense, service fees, and PP&E. Under physical (acute) risks, costs incurred to prevent natural disasters such as typhoons and floods, as well as capital expenditures for facility expansion, are reflected in insurance expense, repairs and maintenance expense, and PP&E. On the opportunity side, reduced energy consumption resulting from the transition to renewable energy and high-efficiency equipment is expected to reduce energy purchasing costs (utilities expense).

(2) Risks that May Lead to Significant Adjustments to Assets and Liabilities

KT&G has identified the following climate-related risks and opportunities as potential factors that could result in significant adjustments to the carrying amounts of our assets and liabilities in the next fiscal year. However, because the timing, magnitude, and resulting financial impacts of these factors remain uncertain due to external variables, quantitative measurement has been deferred and qualitative information disclosed instead.

Regarding transition risks, the higher proportion of auctioned allowances under the fourth compliance period of the K-ETS may affect the recognition timing and amount of emissions allowance-related liabilities, as well as the treatment of operating expenses, in the next reporting period. With stronger global emissions reduction policies and accelerated internal reduction targets, there may also be a need to reassess the remaining useful lives of certain fossil fuel-based facilities. Furthermore, if the PPA supply timing changes, the timing of recognition of the related contract assets and liabilities may be adjusted during the next reporting period.

From the perspective of physical risks, rising average temperatures and the increasing frequency of extreme weather events—including heatwaves, heavy rainfall, and typhoons—may result in changes to the assumptions applied in impairment assessments of assets at new overseas business sites, such as Indonesia Plants 2 and 3, Kazakhstan Plant, and Türkiye Plant. In addition, the impacts of climate change in major leaf tobacco-producing regions, including Brazil, Malawi, and Zimbabwe, may affect raw material procurement prices and inventory valuation.

(3) Anticipated Financial Impacts of Climate Change

Category		Risk/Opportunity	Financial Impact Pathways	Financial Statement Accounts Expected to be Affected
Transition Risks	Policy and Legal	Carbon pricing	Increase in direct and indirect operating costs due to renewable energy procurement, such as transaction fees and network usage fees	Utilities expense
			Costs incurred for purchasing emission allowances to comply with the domestic emissions trading scheme	Taxes and dues
			Increase in infrastructure operating costs to reduce/manage GHG emissions from facilities and business sites	Service fees
			Costs incurred for the use of EVs, such as EV charging costs	Vehicle expense
			Costs incurred for EV leasing	Lease expense
			Increase in PP&E due to GHG reduction activities such as equipment replacement, EV transition, and solar PV facility installation	Property, plant and equipment Depreciation expense
			Issuance of green bonds for financing investments in GHG reduction and climate change adaptation projects	Borrowings Interest expense
	Reputation	Prejudice against the industry	Increase in capital expenditures due to the development of low-carbon products and expanded investment in technology	Depreciation expense
Opportunities	Resource Efficiency	Reduced operating costs through expanded low-carbon and renewable energy facilities	Decrease in energy procurement costs (manufacturing expenses) due to reduced energy consumption through the transition to renewable energy and replacement of existing equipment with high-efficiency equipment	Utilities expense
			Additional revenue generated through the sale of surplus electricity after on-site consumption of electricity from solar PV and PPAs	Non-operating income

* The financial figures included in this report have been classified based on an internal assessment of the extent to which the strategies—that are being implemented by the consolidated entities—mitigate climate-related risks or align with climate-related opportunities, referring to the standards established by the Korea Sustainability Standards Board (KSSB). The assessment system is currently being enhanced, and the classification criteria and data estimation methods may be subject to change depending on whether the relevant policies are finalized in the future. This material has been prepared in anticipation of the potential mandatory disclosure requirements, and thus please take this into consideration when referencing its contents.

** According to the result of the risk and opportunity analysis on the aforementioned items, it is judged that they may impact the consolidated financial statements in the short, medium, and long term. However, at this point in time, there are limitations in securing relevant data and estimating investment costs, which pose constraints on quantitatively calculating the financial impact. The consolidated entities plan to systematically manage related risks and opportunities by enhancing the data management system and refining analysis processes in the future to calculate the impact of the relevant items more accurately.

KT&G defined climate-related activities that are expected to affect its future financial position and financial performance by categorizing them into risks and opportunities, and analyzed the financial impact pathways and related financial statement accounts for each activity. Under transition risks, policy and regulatory response activities—including direct and indirect operating costs associated with renewable energy procurement, emission allowance purchasing costs, GHG reduction infrastructure operating costs, and EV charging and lease expenses—are expected to result in utilities expense, taxes and dues, service fees, vehicle expense, and lease expense. Investments in GHG reduction facilities, including equipment replacement, EV transition, and solar PV installation, as well as the issuance of green bonds, are expected to result in PP&E, depreciation expense, borrowings, and interest expense. From a reputation perspective, capital expenditures associated with the development of low-carbon products and expanded investment in technology are expected to be reflected in depreciation expense. On the opportunity side, reduced energy consumption resulting from the transition to renewable energy and high-efficiency equipment is expected to reduce energy purchasing costs (utilities expense), while the sale of surplus electricity after on-site use of solar PV and PPAs is expected to generate non-operating income.

Financing Plan by Time Horizons Details regarding financing for strategy execution can be found in the "3. Strategy and Decision-Making – (2) Resource Acquisition Plan" under the "Strategy."

5. CLIMATE RESILIENCE

(1) Implications of Company Assessment on Strategy and Business Model

KT&G conducted a scenario analysis by incorporating plausible climate-related changes, including physical climate changes, policy, socioeconomic, market, and technological changes, based on publicly available climate change scenarios developed by the Intergovernmental Panel on Climate Change (IPCC) and the Network for Greening the Financial System (NGFS).

(A) Scenario Analysis and Impact Assessment of Transition Risks

Scope of Analysis Carbon pricing was analyzed based on KT&G's standalone operations, while energy prices were analyzed for business sites in Korea, Indonesia, and Russia.

Identified Impact: Financial Impact Exposed by Carbon Pricing

(Single-year basis, Unit: KRW billion)

Category	Less than KRW 10 billion	Less than KRW 30 billion	Less than KRW 40 billion	Less than KRW 50 billion	KRW 50 billion or more

Financial impacts due to changes in carbon prices[1)]

Scenario	Time Horizon		
	Short-term (2026)	Medium-term (2030)	Long-term (2035)
Delayed Transition[2)]			
NDCs			
Net Zero			

[1)] KT&G recognizes uncertainties arising from the various factors affecting carbon prices. To control the broad range of assumptions, we estimated the financial impacts of carbon pricing by applying the global carbon prices for each scenario provided by the NGFS. As these estimates are based on scenario analysis, actual carbon prices may differ from the estimated values.

[2)] The financial impacts exposed by carbon pricing were estimated based on total GHG emissions and represent the gross risk exposure without reflecting the financial effects of KT&G's mitigation efforts. Under the Delayed Transition scenario, carbon prices for 2025–2030 are not provided. Therefore, the 2031 scenario price was applied as the medium-term (2030) carbon price.

Among the various transition risks, KT&G selected the risk associated with carbon pricing, considering the feasibility of estimating its financial impact and the materiality of climate change risks, and estimated its financial impact. For the reporting period, the estimate was based on KT&G in Korea, which is subject to the K-ETS. Emissions allowance prices in Korea are highly volatile, resulting in considerable price uncertainty. In particular, as the overall emissions cap is expected to decrease in line with the national carbon neutrality roadmap and policy direction, emissions allowance prices may rise, and the associated potential financial risks are also expected to increase.

Analysis of the NGFS Net Zero 2050 (1.5°C) scenario indicates that carbon prices are expected to rise gradually, which could lead to greater financial impacts. In addition to the direct costs associated with emissions allowance trading, the tobacco industry consumes energy throughout the manufacturing and distribution processes. In particular, carbon prices arising from energy consumption during logistics and transportation across the global supply chain may be passed on to transportation costs. These increases in indirect operating costs may also constitute a financial risk.

To prepare for these potential exposures, KT&G is expanding renewable energy procurement and implementing internal emissions reduction activities, while our emissions allowance volume in 2025 remained at the same level as in 2024. Going forward, our financial risk is expected to remain limited through emissions reduction projects pursued through various pathways. However, if the percentage of auctioned allowances increases to approximately 50% by 2035, the combination with high carbon prices could increase our financial risk. KT&G therefore plans to continue our efforts to address this risk.

KT&G assessed the impact of changes in energy prices under climate change scenarios on the cost burden. The analysis covered electricity costs and LNG fuel costs. The risk of increased electricity costs was assessed based on the potential for additional costs relative to our internal plan due to fluctuations in electricity prices, while the risk of increased LNG costs was assessed based on the potential increase or decrease in fuel costs at our business sites. For both the electricity and LNG analyses, Türkiye and Kazakhstan were excluded because suitable scenario data were unavailable.

The analysis found that, under the Delayed Transition, NDCs, and Net Zero scenarios, the scenario-based electricity costs for Korea and Indonesia exceeded KT&G's internally projected costs. This indicates that these business sites are exposed to the risk of incurring additional costs due to rising electricity prices. By contrast, the scenario-based costs for the business site in Russia were generally lower than our internally projected costs, indicating that the risk of rising electricity costs is limited. However, under the Net Zero scenario, the potential for some additional costs after 2031 was identified, requiring continued monitoring.

Similarly, in the LNG analysis, scenario-based fuel costs were estimated to be lower than our internally projected costs, suggesting that the risk of LNG cost increases relative to our internal plan is limited. Additionally, when current plans for emissions reduction activities, such as the expansion of solar power generation facilities, are taken into account, the electricity cost risk is expected to decline gradually, and the financial impact of rising electricity costs is expected to be mitigated by 2035.

As the level of risk may vary depending on future electricity and LNG consumption, country-specific energy policies, electricity market structures, LNG price volatility, and changes in exchange rates, taxes, and distribution costs, KT&G plans to continuously monitor these factors.

Identified Impact: Financial Impact Exposed by Energy Prices

(Single-year basis, Unit: KRW billion)

Category	Less than KRW 10 billion	Less than KRW 30 billion	Less than KRW 40 billion	Less than KRW 50 billion	KRW 50 billion or more

Financial impacts due to changes in LNG prices[1)]

Scenario	Time Horizon		
	Short-term (2026)	Medium-term (2030)	Long-term (2035)
Delayed Transition			
NDCs			
Net Zero			

[1)] KT&G recognizes uncertainties arising from the various factors affecting LNG prices. To control the broad range of assumptions, we estimated the financial impacts of LNG prices by applying the scenario-specific volatility provided by the NGFS. As these estimates are based on scenario analysis, actual prices may differ from the estimated values. The financial impacts due to changes in LNG costs were estimated based on 2025 consumption and represent the gross risk exposure without reflecting the financial effects of KT&G's mitigation efforts.

Financial impacts due to changes in electricity prices[2)]

Scenario	Time Horizon		
	Short-term (2026)	Medium-term (2030)	Long-term (2035)
Delayed Transition			
NDCs			
Net Zero			

[2)] KT&G recognizes uncertainties arising from the various factors affecting electricity prices. To control the broad range of assumptions, we estimated the financial impacts of electricity prices by applying the scenario-specific volatility of electricity prices provided by the NGFS. As these estimates are based on scenario analysis, actual prices may differ from the estimated values. The financial impacts due to changes in electricity costs were estimated based on 2025 consumption and represent the gross risk exposure without reflecting the financial effects of KT&G's mitigation efforts.

Identified Impact: Assessment of Supply Chain Diesel Use Risk KT&G assessed the impact of diesel price fluctuations under climate change scenarios on the fuel cost burden across its supply chain. The purpose of this analysis was to estimate the additional costs that increases in diesel prices could generate in transportation and logistics processes within the supply chain and to identify the resulting level of exposure to transition risks.

Diesel consumption was estimated based on actual 2025 consumption by continent, while future consumption was projected by applying KT&G's Business As Usual (BAU) growth rate. Diesel prices were assumed to follow the NGFS oil price projections, while refining margins, distribution margins, and taxes were excluded from the unit price calculations. Accordingly, the results can be interpreted as estimates of the impact of changes in diesel fuel costs under climate change scenarios, rather than as values reflecting the overall level of actual market diesel prices.

The analysis indicates that although diesel consumption and prices may fluctuate, their overall impact on our cost structure is considered to be limited. However, the level of risk may vary depending on actual diesel consumption, international oil prices, taxes, distribution costs, and changes in logistics structures. Accordingly, KT&G will continue to monitor the potential transmission of risks associated with rising diesel prices through regular data updates and reviews of NGFS scenarios, while strengthening the supply chain's response capabilities through support activities for farms.

Implications of Company Assessment for Its Strategy and Business Model

1. Response to carbon costs and regulations	• Carbon cost management: As policies supporting the transition to a low-carbon economy become more stringent, strategies are needed to prepare for rising costs resulting from higher carbon prices and stricter related regulations. The company should reduce costs through an efficient carbon management strategy and achieve its carbon emissions reduction targets. • Regulatory change response: There is a need to establish a system that enables prompt responses to new regulations related to GHG emissions. To this end, policy changes should be continuously monitored, and response plans should be established.
2. Market and reputation management	• Reputation risk: Insufficient responses to climate change may lead to the loss of trust among markets and consumers. As such, the company must transparently disclose sustainability-related activities and carry out active climate change response activities to maintain a positive corporate image. • Market change response: As the transition to a low-carbon economy accelerates, there is a high likelihood that market conditions will continue to evolve. The company must establish a business model that can flexibly respond to these changes.
3. Raw material cost management	• Raw material cost fluctuation: There is a need to strengthen the supply chain management strategy in preparation for rising raw material costs associated with the transition to a low-carbon economy. Strategies to address cost increases should be established through the diversification of raw materials and measures for their efficient use.

(B) Scenario Analysis and Impact Assessment of Physical Risks

Scope of Analysis 10 locations, including KT&G's domestic and overseas manufacturing plants, as well as major leaf tobacco cultivation sites in Brazil and India.

Category	Less than 2%	Less than 3%	Less than 4%	Less than 5%	5% or more

Financial Impacts Due to Physical Risks

(Unit: MAAL ratio (%))[1]

Scenario/ Time Horizon	2030s	2040s	2050s
High (SSP5-8.5)			
Mid (SSP2-4.5)			
Low (SSP1-2.6)			

[1] KT&G used S&P's Climanomics® analytical tool to estimate the financial impact of climate change. Climanomics® calculates the Modeled Average Annual Loss (MAAL), which represents the aggregated estimated financial losses that may result from climate change. The results are expressed as a percentage (%) of asset value.

We assessed the potential impacts of physical risks that each facility may face under various climate change scenarios based on the location information of our major production facilities and supply chain. Considering that long-term climate data are typically projected in 10-year intervals, we conducted scenario analysis at 10-year intervals through the 2050s and thus estimated the average annual loss for each asset.

S&P Global's Climanomics® estimates the financial impacts of climate change using Modeled Average Annual Loss (MAAL). MAAL is a metric that represents the projected incremental financial costs associated with changes in climate hazard exposure relative to the baseline period, including increased operating expenses (OpEx), higher capital expenditures (CapEx), and revenue loss. The physical risk assessment covered nine climate hazards, including tropical cyclone, fluvial flooding, pluvial flooding, heatwaves, and wildfire.

KT&G analyzed the financial impacts of physical risks under three climate change scenarios (SSP1-2.6, SSP2-4.5, and SSP5-8.5) from 2020 to 2050. The analysis identified extreme temperature and drought as the most significant risks through 2050. The loss rate and financial impacts are projected to increase over time, affecting both the agricultural supply chain and manufacturing plants.

For manufacturing plant assets, extreme temperature is projected to present the highest loss rate at most business sites beginning in the 2030s, with the level increasing further by the 2050s. Although pluvial flooding shows a lower loss rate than extreme temperature and drought, its increasing trend indicates the need to inspect drainage and flood prevention infrastructure.

Tobacco leaves and ginseng, KT&G's primary raw materials, are agricultural commodities that are directly affected by extreme temperature events, such as extreme heat and abnormal cold, due to the nature of the industry. In particular, for the overseas supply chain, extreme temperature is closely linked to crop yields, quality, and the stability of raw material procurement. The analysis was conducted based on sample assessments of specific regions across four major supply chain countries, and identified a generally high level of extreme heat risk. Among them, the farm in Tanzania showed the highest extreme heat risk among the four locations. In addition, as the farm in India is already located in a region with high water stress, continuous water management will be necessary even if the increase in impacts is limited.

Modeled Average Annual Loss by Climate Risk Type for Major Business Sites

(Unit: MAAL ratio (%))[1]

Category	Less than 1%	Less than 2%	Less than 3%	Less than 4%	Less than 5%	5% or more

Time Horizon	2030s			2040s			2050s		
Risk Type/Region[2]	Extreme temperature	Drought	Pluvial flooding	Extreme temperature	Drought	Pluvial flooding	Extreme temperature	Drought	Pluvial flooding
Sintanjin									
Indonesia									
Russia									
Türkiye									
Kazakhstan									

[1] KT&G used S&P's Climanomics® analytical tool to estimate the financial impact of climate change. Climanomics® calculates the Modeled Average Annual Loss (MAAL), which represents the aggregated estimated financial losses that may result from climate change. The results are expressed as a percentage (%) of asset value. This table presents the estimated MAAL for five KT&G business sites under the High (SSP5-8.5) scenario.

Implications of Company Assessment for Its Strategy and Business Model

1. Disaster response and recovery planning

- Disaster response: Major production facilities should be prepared for production disruptions caused by extreme temperature, drought, and pluvial flooding. To this end, there is a need to review site-specific response manuals, recovery priorities, and alternative supply chain sourcing plans to ensure that operations can be maintained or rapidly restored in the event of heatwaves, water shortages, or heavy rainfall.
- Emergency response system: The roles and procedures for ensuring employee safety, protecting facilities, and minimizing production disruptions in the event of heatwaves, drought, and heavy rainfall should be clearly defined for each major business site. There is a need to review early warning systems and reporting/recovery processes, centered on business sites and supply chain regions exposed to significant climate risks.

2. Facility and infrastructure investment

- Investment in heatwave response facilities: The analysis identified heatwaves as the most significant risk overall. There is a need to invest in improving the efficiency of cooling and HVAC systems at major plants, inspecting equipment vulnerable to high temperatures, improving workplace thermal environments, and enhancing energy efficiency.
- Facility reinforcement: Although the risk of pluvial flooding is relatively lower than that of heatwaves or drought, the scenario analysis indicates potential flooding caused by heavy rainfall at some business sites. There is a need to inspect drainage facilities, stormwater management systems, flood barriers, and flood prevention facilities at major business sites and promote investments to reinforce them.

3. Continuous monitoring and prevention

- Climate change monitoring: As climate risks evolve over time, there is a need for regular reassessments based on long-term time horizons, such as 2030–2050. There is also a need to review whether the analysis results are reflected in future CAPEX plans, business continuity plans, and supply chain strategies.
- Preventive measures: There is a need to establish proactive measures to prevent physical risks and continuously develop measures to minimize the impacts of climate change.

(C) Areas of Significant Uncertainty Considered in the Assessment of Climate Resilience

Category	Definition	Uncertainty
Carbon costs	Country-specific future carbon prices published under the NGFS scenarios	Carbon-related price volatility by country
Electricity prices	Industrial electricity tariffs	Potential increases in electricity prices
Percentage of auctioned allowances	National emissions allowance allocation plan for the planning period	Potential reduction in the percentage of free allowances
Energy prices	Prices of industrial electricity, LPG, LNG, etc.	Price volatility of major energy sources due to electricity tariff adjustments and conflicts or wars arising from global geopolitical risks
Climate models	Climate change projection models developed by the IPCC	Inherent uncertainty regarding climate change pathways and their impacts due to the complexity of the climate system and the limitations of climate projections
Financial loss model	Relationship model between physical risks and financial losses	Potential gaps between actual financial impacts and those estimated through the financial modeling process due to simplifications and assumptions

(D) Capability to Adjust and Adapt Strategies and Business Models to Climate Change over Time Horizons

Availability and Flexibility of Financial Resources and Assets KT&G is enhancing the availability of financial resources through investments in environmentally-friendly facilities and energy efficiency activities at the Sejong Plant. We are reducing water consumption by introducing rainwater and greywater reuse systems and water-saving equipment, and easing the cost burden associated with water and electricity by supplying a portion of the electricity used at the business site with renewable energy through solar power facilities.

Furthermore, improvements in the efficiency of key equipment and reductions in GHG emissions help mitigate cost risks arising from energy price volatility and increasingly stringent environmental regulations. Through these efforts, KT&G is achieving operating cost savings while strengthening the foundation for more stable utilization of the financial resources required for production facility operations and sustainability management.

To achieve our 2045 carbon neutrality goal, we evaluate the economic feasibility of various renewable energy procurement options and secure flexibility in our energy transition by employing multiple implementation measures. We are steadily increasing the share of renewable energy use at our domestic and overseas business sites by entering into PPAs and expanding solar power generation facilities, and the share of renewable energy use reached 29.9% across KT&G's domestic and overseas business sites in 2025. The stability of our energy supply is expected to improve further through the implementation of the plan to expand renewable energy procurement.

In addition, we are maximizing the utilization of existing assets by improving the energy efficiency of production equipment, while also strengthening the climate adaptation capabilities of our assets by applying new high-efficiency technologies based on R&D innovation.

Climate Resilience Assessment KT&G and its consolidated entities are expected to mitigate the financial impacts related to the transition risk of carbon pricing if they implement mitigation measures in line with the Science-Based Targets for GHG reduction guidelines and achieve carbon neutrality goal by 2045. In particular, as a result of pursuing an economic analysis of renewable energy procurement options to adapt to climate-related changes or uncertainties, as well as transitioning to renewable energy using various implementation measures, KT&G and its consolidated entities are deemed to possess strong climate resilience in terms of factors such as reduced electricity costs and decreased carbon allowance purchase expenses.

Current or Planned Investments and Activities

Category	Factors	Detailed Information
Transition risks	Policy and legal	• As a company subject to the emissions trading scheme, KT&G invests in areas such as improving energy efficiency and expanding the use of renewable energy to respond to policy requirements associated with the national carbon neutrality roadmap and to mitigate potential financial risks arising from higher allowance prices due to future reductions in permitted emissions. • Discuss reducing GHG emissions through collaboration with supply chain partners
	Market	• Expand sustainable management practices, such as improving facility efficiency during procurement, reducing carbon footprint, and improving water efficiency, through close cooperation with farms and suppliers • Establish a cooperation system with key material partner companies and participate in and utilize the Sustainable Tobacco Program (STP), a tobacco industry initiative
	Energy sources	• Expand renewable energy procurement through various methods, including expanding photovoltaic power generation facilities at business sites, signing PPAs, and purchasing RECs
Physical risks	Heavy precipitation	• Invest in flood prevention facilities, flood barriers, and drainage system enhancements to protect production facilities in case of heavy rain and flooding near business sites • Secure employee safety and business site operational continuity through an emergency response plan that includes a prompt evacuation plan in the event of a disaster, alternative production plan, and emergency response training
	Temperature change	• Conduct continued, periodic monitoring of changes in water resource stress levels at major business sites and energy usage patterns resulting from temperature changes
	Water scarcity	• To proactively address water scarcity issues, participate in key initiatives that promote sustainable practices, continuous monitoring, and a virtuous cycle of improvement, thereby ensuring sustainability from a mid- to long-term perspective

(2) Climate-related Scenario Analysis Method

(A) Information on the Inputs Used by the Company

Scenario		Definition	Reason for Decision	Time Horizon	Source	Business Scope
Transition Risk Analysis	Net Zero 2050	Scenario in which the global energy sector achieves net-zero CO_2 emissions by 2050.	KT&G determined that the NGFS Net Zero 2050 scenario is the most appropriate for comparing the 1.5°C transition pathway with KT&G's net-zero emissions pathway. In addition, the NDCs scenario, which reflects government emissions reduction targets, and the Delayed Transition scenario, which enables the assessment of transition risks associated with delayed emissions reductions, were also selected.	~2035	NGFS Scenario Explorer Documentation	Carbon pricing: KT&G on a standalone basis Energy prices: Business sites in Korea, Indonesia, and Russia
	Nationally Determined Contributions (NDCs)	Scenario that assumes all climate commitments made by governments worldwide, including nationally determined contributions (NDCs) and long-term net-zero targets, are fully met on time.				
	Delayed Transition	Scenario that assumes climate policy strengthening is delayed until 2030, after which rapid emissions reduction policies are introduced to achieve temperature goals.				
Physical Risk Analysis	SSP1-2.6	Scenario that assumes GHG reductions through strong climate policies and the widespread adoption of renewable energy. Under this scenario, the global community cooperates to actively address climate change, limiting the global temperature increase to 2°C or below by 2100.	IPCC is a globally recognized organization for climate change research, and the Shared Socioeconomic Pathways (SSPs) scenarios have been developed through extensive scientific research and verification. These scenarios are based on the latest climate models and data and provide scientific validity and credibility. Therefore, KT&G determined that the SSP scenarios are the most appropriate basis for its climate change scenario analysis.	~2050	IPCC	10 locations, including KT&G's domestic and overseas manufacturing plants and major tobacco leaf cultivation sites in Brazil and India
	SSP2-4.5	Scenario in which current policy trends are maintained and moderate GHG reduction efforts are reflected. Under this scenario, some renewable energy is adopted, while fossil fuels continue to be used, resulting in a global temperature increase exceeding 2°C.				
	SSP5-8.5	Scenario in which GHG emissions increase sharply, and the continued use of fossil fuels and limited climate change response lead to a global temperature increase exceeding 4°C.				

(B) Key Assumptions Used by the Company in the Analysis

Key assumptions used in the climate change scenario analysis were applied across various areas, including policy, energy, legal issues, technology, market, and reputation. Major parameters included global carbon prices, power generation costs, and the unit costs of renewable energy sources.

Detailed assumptions of each scenario are as follows:

TRANSITION RISK ANALYSIS SCENARIOS AND METHODOLOGY

The NGFS scenarios provide a framework for assessing policy, technology, and market risks that may arise during the transition to a low-carbon economy from a long-term perspective through 2100. They comprise seven scenarios grouped under four categories: Orderly, Disorderly, Hot house world, and Too little, too late. Among these, three scenarios were selected for the transition risk analysis.

Net Zero 2050 It is a scenario in which global net CO_2 emissions reach net zero around 2050 through stringent climate policies and technological innovation, limiting the increase in global average temperature to 1.5°C (with a 50% probability) by the end of the century, and represents an Orderly transition pathway where the policy reaction is immediate and smooth.

NDCs It is a scenario that assumes all current policies and NDCs of each country are fully implemented, including targets that are not yet supported by effective policies, and projects a global average temperature increase of approximately 2.3°C by the end of the century.

Delayed Transition This scenario assumes a pathway in which stronger climate policies are delayed until 2030, after which stringent emissions reduction policies are introduced to achieve net-zero targets. In the short term, fossil fuel use and emissions reductions proceed gradually; however, as transition risks intensify after 2030, carbon prices rise and fossil fuel demand adjusts rapidly. From the mid-2030s, energy transition costs become concentrated, potentially placing a significantly greater financial burden on companies.

PHYSICAL RISK ANALYSIS SCENARIOS AND METHODOLOGY

The S&P Climanomics® program used for the physical risk analysis is based on the Coupled Model Intercomparison Project Phase 6 (CMIP6)[1] framework and applies scenarios that combine the Shared Socioeconomic Pathway (SSP)[2] and Representative Concentration Pathway (RCP)[3]. For this analysis, three scenarios—SSP1-2.6, SSP2-4.5, and SSP5-8.5—were selected based on the level of GHG emissions mitigation.

SSP1-2.6 It is an ambitious mitigation scenario in which total GHG emissions reach net zero by 2050 and the increase in global average temperature is limited to 1.3–2.4°C by 2100. It is aligned with the goals of the Paris Agreement.

SSP2-4.5 It is a scenario in which total GHG emissions stabilize at the current level until 2050 and then gradually decline through 2100. Under this scenario, the global average temperature is projected to increase by 2.1–3.5°C by 2100.

SSP5-8.5 It is a high-emissions scenario with no mitigation efforts, in which total GHG emissions increase to approximately three times the current level by 2075. Under this scenario, the global average temperature is projected to increase by 3.3–5.7°C by 2100.

[1] The Coupled Model Intercomparison Project (CMIP) is a collaborative initiative involving international climate modeling groups that provides climate projections in support of the Intergovernmental Panel on Climate Change (IPCC). CMIP6 is the sixth phase of the CMIP initiative and was the latest version available at the time this report was published.

[2] Shared Socioeconomic Pathway (SSP) is a scenario framework focusing on future socioeconomic development, which provides qualitative projections for key factors such as land use, energy use, population, and emissions, and describes alternative pathways for future socioeconomic development.

[3] Representative Concentration Pathway (RCP) is a scenario that describes four standardized pathways for GHG emissions, atmospheric concentrations, air pollutants, and land use.

(C) Reporting Period for Climate-related Scenario Analysis

KT&G utilized the results of the scenario analysis conducted in 2025 for its resilience assessment for the reporting period.

RISK MANAGEMENT

1. CLIMATE-RELATED RISK AND OPPORTUNITY MANAGEMENT PROCESS

(1) Inputs and Parameters

The scope of scenario analysis includes the locations of KT&G's major domestic and overseas business sites and key supply chains.

Category	Item	Contents
Inputs	Financial information of business sites	Book value of assets by business site, etc.
	Locations of business sites	10 locations, including domestic and overseas manufacturing plants and major leaf tobacco cultivation sites
	GHG emissions (Scope 1, 2) and energy consumption	* For detailed information, refer to "Metrics and Targets: Greenhouse Gas"
Parameters	Business expansion strategy	Mid- to long-term growth strategies and other corporate management strategies
	Climate-related strategy of the company	* For detailed information, refer to "Strategy: Strategy and Decision-Making"
	Net Zero 2050, NDCs, Delayed Transition scenario data	NGFS Scenario Explorer
	SSP1-2.6, SSP2-4.5, SSP5-8.5 scenario data	IPCC
	Trends in laws and regulations related to domestic GHG emissions	Ministry of Climate, Energy and Environment and Ministry of Trade, Industry and Resources

(2) Identification of Climate-related Risks and Opportunities

KT&G uses climate-related scenario analysis in the process of identifying climate-related risks and opportunities. Scenario analysis includes potential, diverse future change factors, through which we can identify and evaluate how these factors affect the company. Based on the SSP1-2.6, SSP2-4.5, and SSP5-8.5 scenarios presented in the IPCC Sixth Assessment Report (AR6), we confirmed environmental changes, including changes in average temperature, sea level rise, and precipitation patterns, over different time horizons. We also considered socio-economic changes, such as changes in low-carbon-related regulations and changes in demand, over different time horizons based on the NGFS Net Zero 2050, NDCs, and Delayed Transition scenarios. In addition, by comprehensively considering the geographical characteristics of each business site's location and asset value, we identified the connection between each risk and opportunity and the company to identify and evaluate climate-related risks and opportunities relevant to KT&G.

(3) Assessment of Climate-related Risks and Opportunities

When assessing climate-related risks and opportunities, we break down and categorize them into transition risks (policy and legal, market, reputation), physical risks (acute, chronic), and opportunities (products and services, resource efficiency, resilience) according to the characteristics of each risk and opportunity. Since 2024, we have been determining materiality by developing criteria that can quantitatively evaluate the likelihood and impact of each risk and opportunity. For physical and transition risks, we estimate the financial impact under each scenario from a short-, medium-, and long-term perspective, based on which we establish response strategies to manage risks and enhance resilience. In addition, the analysis is enhanced by incorporating the insights derived from external expert panels comprising investment analysts, professors, and consultants, as well as internal evaluations conducted by employees.

Assessment Method	Details
Qualitative assessment	• Assessment of sensitivity and exposure related to risks/opportunities Assess the sensitivity and exposure of KT&G's business and management activities to climate-related risks and opportunities based on climate change scenarios developed by the NGFS and IPCC
Quantitative assessment	• Assessment of materiality related to risks/opportunities Assess the materiality of climate-related risks and opportunities using quantitative criteria that classify their likelihood and impact into low, medium, and high (1) Likelihood: Assess the anticipated timing at which climate-related risks and opportunities are expected to occur, categorized as short-term, medium-term, or long-term (2) Impact: Assess the financial impact (average annual monetary value of revenue, costs, etc.) and the strategic impact on management (budget, workforce, production activities, etc.) separately. • Financial impact assessment of physical risks Assess the financial impact caused by physical climate changes using S&P's Climanomics® methodology • Financial impact assessment of transition risks Assess the financial impact of carbon pricing based on scenarios developed by the NGFS

(4) Prioritization of Climate-related Risks and Opportunities

KT&G categorizes risk factors into financial impacts and non-financial risk factors when identifying and assessing company-wide risks, and applies assessment criteria that comprehensively consider the likelihood and impact of each risk. The 2024 assessment results indicated that the impact and likelihood of climate risks were low. However, recognizing the possibility that the scope and frequency of transition and physical risks associated with climate change could intensify or accelerate, they were categorized as potential risks. We monitor risk factors and impacts such as potential damage to leaf tobacco cultivation areas, reduction in raw material production, and increased procurement costs due to climate change, and establish and implement mitigation plans accordingly.

(5) Monitoring of Climate-related Risks and Opportunities

The ESG Management Office closely monitors significant internal and external changes through regular processes for identifying and assessing climate-related risks and opportunities. To this end, we continuously assess the validity of risks and opportunities by comprehensively considering the direction and implementation levels of climate and energy policies, GHG emissions trends, and carbon pricing. Additionally, we monitor climate-related risks and opportunities by incorporating climate-related KPIs into the compensation systems of the CEO, relevant division executives, and the organization. This allows us to assess the level of strategy implementation and progress toward goals related to climate risks and opportunities. For detailed information on the compensation system and the monitoring of progress toward goals, please refer to the "Metrics and Targets." Based on the monitoring results, we report relevant issues and corresponding response status to the Sustainability Committee and management on a regular basis, according to the importance of the matters. Through this process, we have established and are operating a reporting system that ensures key monitoring outcomes are included in the oversight of ESG and climate-related risks and opportunities.

(6) Changes in the Risk Management Process

Change	Content
Addition of identification and assessment methods	Conducting materiality assessment of climate-related risks and opportunities

2. INTEGRATION WITH THE ENTERPRISE RISK MANAGEMENT SYSTEM

KT&G operates the climate-related risk and opportunity identification, assessment, priority-setting, and monitoring process by integrating it into the company-wide risk management system. Climate-related risks and opportunities have characteristics that are distinctive from those of other risks in several aspects, including long-term impact, possibility of regulatory changes, and reputation, and therefore require analysis from various perspectives. Accordingly, we conduct an additional analysis by performing a double materiality assessment when identifying and evaluating non-financial material issues. Internally, we evaluate the financial impact and likelihood of climate-related risks and opportunities through climate scenario analysis. Externally, we identify climate issues' social and environmental impacts and stakeholder interest through stakeholder surveys. We combine internal analysis and external survey results to calculate the materiality score of each sustainability issue, including climate, based on which we determine priorities. Our double materiality assessment is integrated with the company-wide risk management system, and the assessment results may be used for the company's strategy development and major decision-making processes. In consideration of the assessment's importance, we enhance the credibility of the assessment by obtaining verification from an independent third-party organization to ensure the objectivity of the assessment process and the validity and reliability of the results.

We identify potential risk factors that may arise across our management practices and conduct reviews of these risk factors at least twice a year to proactively prevent them. In addition to enterprise-wide risk monitoring through systems, such as the Controller System, we are establishing an integrated management framework to address both financial and non-financial risks.

Additionally, KT&G monitors the status of enterprise risk management through the Audit Committee, which consists entirely of independent directors, and has conducted independent internal audits on ESG management initiatives through the Audit Office under the Audit Committee. The results of internal audits are reported to the Audit Committee and management, and within one month after the notification of audit results, the relevant department submits an improvement plan addressing the audit findings to the Audit Office. The Audit Office periodically checks the execution status of actions taken on audit findings and reports the results to the Audit Committee annually. The selection of internal audit topics and the determination of the audit scope are carried out through the Audit Office's own risk assessment during the annual audit planning process, comprehensively considering opportunities, risks, and regulatory changes.

METRICS AND TARGETS

1. CLIMATE-RELATED METRICS

(1) Greenhouse Gas

(A) Absolute Total Emissions (Market-based)[1),2)] (Unit: tCO_2eq)

Category	2023	2024	2025
Scope 1[3)]	72,087	68,330	68,435
Scope 2[3)]	113,585	114,088	110,332
Scope 3[4)]	516,237	780,502	502,551
Total	701,909	962,920	681,318

[1)] Verification status: Third-party verification completed for the reporting boundary (based on the processes for GHG data management and collection, emissions calculation, and reporting)
[2)] Verification principles: ISO 14064-1:2018, 14064-3:2019 (WRI/WBCSD GHG Protocol:2004, Corporate Value Chain (Scope 3) Accounting and Reporting Standard)
[3)] Reporting boundary: All KT&G domestic business sites (129 buildings, including Daejeon Plants 1 and 2, Yeongju Plant, Gwangju Plant, leased office buildings, regional headquarters, and branch offices), overseas manufacturing sites, and domestic and overseas manufacturing sites of subsidiaries
[4)] Reporting boundary: KT&G and the Group subsidiaries (KGC, Yungjin Pharm, COSMOCOS, Tae-A Industrial, and KGCYebon)

Scope 3 GHG Emissions (Unit: tCO_2eq)

Category	2023	2024	2025
Scope 3[1)]	516,237	780,502[2)]	502,551
C1 Purchased goods and services	224,444	215,456	242,083
C2 Capital goods	103,537	36,826	21,965
C3 Fuel- and energy-related activities	23,423	28,078	30,306
C4 Upstream transportation and distribution	19,190	19,225	18,282
C5 Waste generated in operations	4,602	3,933	4,034
C6 Business travel	3,453	3,896	3,724
C7 Employee commuting	11,822	11,913	12,563
C8 Upstream leased assets	696	333	386
C9 Downstream transportation and distribution	10,903	5,890	12,056
C10 Processing of sold products	1,069	1,080	886
C11 Use of sold products	57,830	370,835	70,246
C12 End-of-life treatment of sold products	40,275	56,864	38,197
C13 Downstream leased assets	1,347	1,175	1,348
C14 Franchises	3,687	3,680	3,665
C15 Investments	9,961	21,318	42,812

[1)] Reporting boundary: KT&G and the Group subsidiaries (KGC, Yungjin Pharm, COSMOCOS, Tae-A Industrial, and KGCYebon)
[2)] Emissions from Category 11 (Use of sold products) and Category 12 (End-of-life treatment of sold products) temporarily increased due to the sale of buildings in the Real Estate Business, where GHG emissions are highly volatile. Scope 3 emissions decreased in 2025.

(B) Approach Used for Measuring GHG Emissions

KT&G is subject to the Korea Emissions Trading Scheme (K-ETS) under the Act on the Allocation and Trading of Greenhouse-Gas Emission Permits. For domestic operations, we applied the "Guidelines on Emission Reporting and Certification under the Greenhouse Gas Emissions Trading Scheme" and ISO 14064-1:2018 and ISO 14064-3:2019 when measuring Scope 1 and 2 emissions in accordance with the Act. For Scope 1 and 2 emissions from overseas business sites and Scope 3 emissions, we applied the GHG Protocol.

METRICS AND TARGETS

We referred to the method for determining organizational boundaries set out in Appendix 4 of the Guidelines on Emission Reporting and Certification under the Greenhouse Gas Emissions Trading Scheme and used the operational control approach at the business site level as our measurement approach. Accordingly, we did not disclose emissions from associates and joint ventures, excluding subsidiaries.

Guidelines for Emissions Calculation

Category	Guidelines
Scope 1, 2	• Greenhouse Gas Target Management System (Korea) • ISO 14064-1:2018 • Greenhouse Gas Protocol: A Corporate Accounting and Reporting Standard (Revised Edition) • IPCC Guidelines for National Greenhouse Gas Inventories
Scope 3	• ISO 14064-1:2018 • Greenhouse Gas Protocol: Scope 3 Guidance • Corporate Value Chain (Scope 3) Accounting and Reporting Standard • Methodology for External Projects by the Ministry of Climate, Energy and Environment

Inputs and Major Assumptions

Scope 1, 2

Category	Inputs				Key Assumptions
	Activity Data		Emission Factor		
	Content	Type[1)]	Content	Source	
Scope 1	Fuel consumption	Primary	Emission factor by GHG type	(Electricity) IEA (Non-electricity) IPCC	-
Scope 2	Electricity or heat (steam) consumption	Primary	Article 15 of the Guidelines on Reporting and Certification of Emissions under the Greenhouse Gas Emissions Trading Scheme	(Electricity) IEA (Non-electricity) IPCC	-

[1)] Primary data refers to data provided by suppliers or other companies related to specific activities in the value chain (e.g., metered data, supplier invoices, or other data obtained through methods representing specific activities within the value chain). Secondary data refers to industry-average data provided by third-party data providers (e.g., published databases, government statistics, literature, studies, and industry association data).

Scope 3

Category	Inputs				Key Assumptions
	Activity Data		Emission Factor		
	Content	Type[1)]	Content	Source	
C1 Purchased goods and services (KT&G)	Service	Secondary	Emission factor by industry	US EPA EEIO, Korea Energy Agency	Estimate emissions based on investments in intangible assets under CAPEX
	Partner companies' fuel consumption and KT&G's share	Primary	Emission factor by fuel	Greenhouse Gas Target Management System (Korea), IEA emission factors by country	Estimate emissions by applying the proportion of deliveries to KT&G to major partner companies' GHG emissions
	(Domestic) Leaf tobacco cultivation area	Primary	Emission factor when cultivating leaf tobacco	Common Guidelines for Calculating Greenhouse Gas Emissions from Agricultural Products	Calculate emissions based on the consumption of fertilizers, crop protection agents, and energy by domestic tobacco leaf farms
	(Domestic) Leaf tobacco cultivation area	Primary	Emission factor when drying leaf tobacco	Directly measure emission factors for domestic tobacco leaf cultivation and curing	Calculate emissions based on energy consumption for drying domestic tobacco leaves
	(Overseas) Leaf tobacco purchase amount	Primary	Emission factor for imported leaf tobacco	Directly measure emission factors for overseas tobacco leaf cultivation and curing	Estimate emissions by conducting cultivation and drying LCA per amount of overseas tobacco leaves purchased

[1)] Primary data refers to data provided by suppliers or other companies related to specific activities in the value chain (e.g., metered data, supplier invoices, or other data obtained through methods representing specific activities within the value chain). Secondary data refers to industry-average data provided by third-party data providers (e.g., published databases, government statistics, literature, studies, and industry association data).

METRICS AND TARGETS

Scope 3

Category	Inputs				Key Assumptions
	Activity Data		Emission Factor		
	Content	Type[1)]	Content	Source	
C1 Purchased goods and services (KGC)	Fresh ginseng purchase amount (including 4- and 5-year-old fresh ginseng)	Primary	Emission factor for six-year-old fresh ginseng	Ecoinvent, LCI DB of the Ministry of Climate, Energy and Environment (MCEE)	Estimate emissions by conducting LCA for cultivating 6-year-old fresh ginseng
	Herbal medicine purchase amount	Primary	Emission factor by industry	US EPA EEIO	Estimate emissions by applying industry-specific emission factors based on the purchase value of medicinal herbs
	Fuel consumption by material suppliers	Secondary	Emission factor by fuel	Greenhouse Gas Target Management System (Korea)	Estimate emissions by applying the proportion of deliveries to KT&G to major partner companies' GHG emissions
	Additive purchase amount	Secondary	Emission factor by industry	US EPA EEIO, Korea Energy Agency	Estimate emissions by applying industry-specific emission factors based on the purchase value of additives for each partner company
	Fuel consumption by OEMs	Primary	Emission factor by fuel	Greenhouse Gas Target Management System (Korea)	Estimate KGC's share of OEMs' emissions based on major OEMs' fuel consumption and the proportion of deliveries to KGC
C1 Purchased goods and services (Subsidiaries other than KGC)	Product and service purchase amount	Secondary	Emission factor by industry	US EPA EEIO, Korea Energy Agency	Estimate emissions by applying industry-specific emission factors based on the purchase value of products and services
C2 Capital goods (KT&G and its subsidiaries)	(KT&G) Capital expenditure (Subsidiary) Capital goods purchase amount	Primary	Emission factor by industry	US EPA EEIO, Korea Energy Agency	Estimate emissions by applying industry-specific emission factors based on actual capital expenditure
C3 Fuel- and energy-related activities (KT&G and its subsidiaries)	Fuel consumption	Primary	Emission factor by fuel	(Domestic fuel) LCI DB of the MCEE (Domestic electricity) National Institute of Environmental Research (Overseas) UK GOV Conversion Factor	Calculate emissions by applying domestic electricity upstream and generation-stage emission factors and emission factors under the Emissions Trading Scheme Guidelines
C4 Upstream transportation and distribution (KT&G and its subsidiaries)	Mode of transport, transport distance, and number of trips	Primary	Emission factor by mode of transport	LCI DB of the MCEE, WRI Emission Factor	Calculate emissions based on transportation costs when data on mode of transport, transport distance, and number of trips are difficult to obtain
	Transportation costs	Secondary			
C5 Waste generated in operations (KT&G and its subsidiaries)	Waste treatment method and amount	Primary	Emission factor by waste type and treatment method	LCI DB of the MCEE	Calculate emissions using emission factors by waste type and treatment method
C6 Business travel (KT&G and its subsidiaries)	Mode of transport and transport distance	Primary	Emission factor by mode of transport	MCEE's Low-Carbon Green Event Guidelines	Calculate emissions by considering travel distance, mode of transport, and number of people on business trips

[1)] Primary data refers to data provided by suppliers or other companies related to specific activities in the value chain (e.g., metered data, supplier invoices, or other data obtained through methods representing specific activities within the value chain). Secondary data refers to industry-average data provided by third-party data providers (e.g., published databases, government statistics, literature, studies, and industry association data).

METRICS AND TARGETS

Scope 3

Category	Inputs				Key Assumptions
	Activity Data		Emission Factor		
	Content	Type[1]	Content	Source	
C7 Employee commuting (KT&G and its subsidiaries)	Number of employees	Primary	Emission factor by mode of transport	(Domestic) National transportation DB, Korea Energy Agency's Report on GHG Emissions in the Transportation Sector, MCEE's Low-Carbon Green Event Guidelines (Overseas) UNESCAP, Statista, MCEE's Low-Carbon Green Event Guidelines	Estimate distance by mode of transport based on statistical data on average commuting distance and the proportion of each mode of transport, considering the number of employees and annual working days of consolidated subsidiaries
	Average daily commuting distance	Secondary			
	Portion of each mode of transport	Secondary			
	Annual working days	Primary			
C8 Upstream leased assets (Subsidiaries)	Fuel consumption by type in leased assets	Primary	Emission factor by fuel	Greenhouse Gas Target Management System (Korea)	Calculate emissions based on total floor area when data on fuel consumption by fuel type in leased assets are difficult to obtain
	Area of leased assets	Secondary	Total floor area of leased assets	Estimation and characteristics of GHG emissions in the building sector based on national energy statistics from the Architectural Institute of Korea	
C9 Downstream transportation and distribution (KT&G and its subsidiaries)	Mode of transport, transport distance, and number of trips	Primary	Emission factor by mode of transport	LCI DB of the MCEE, WRI Emission Factor	Calculate emissions based on transportation costs when data on mode of transport, transport distance, and number of trips are difficult to obtain
	Transportation costs	Secondary			
C10 Processing of sold products (Subsidiaries)	Customer revenue and cost of sales	Secondary	Emission factor by industry	Korea Energy Agency	Apply industry-average revenue when revenue data are difficult to obtain, and calculate the average cost-of-sales ratio based on the cost of sales of companies in the same industry when cost-of-sales data are difficult to obtain
C11 Use of sold products (KT&G and KGC)	(Device charging) Average electricity consumption per charge	Primary	Domestic electricity emission factor	Greenhouse Gas Target Management System (Korea)	Estimate the total number of charges by dividing NGP stick sales volume by the average electricity consumption per charge
	(Device charging) NGP stick sales volume	Primary			
	(Lighter combustion) Average number of uses and butane capacity per lighter	Secondary	Emission factor by fuel	Greenhouse Gas Target Management System (Korea)	Estimate total butane consumption by dividing CC sales volume by the average number of uses per lighter
	(Cigarette combustion) CC sales volume	Primary			
	(Cigarette combustion) Data on CC sales volume and raw material use for cigarette rods	Primary	Emission factor from combustion by ingredient	Greenhouse Gas Target Management System (Korea), LCI DB of the MCEE	Calculate emissions by assuming combustion of the entire cigarette except the cigarette butt
	(Real estate) Year of completion and unit sales completion, and total floor area of newly developed real estate assets based on unit sales completion or disposal	Primary	Emission factor based on total floor area by building type	Estimation and characteristics of GHG emissions in the building sector based on national energy statistics from the Architectural Institute of Korea	Estimate emissions generated over the lifetime of real estate assets for which unit sales have been completed
	(KGC's processed food) Product sales volume	Primary	Electricity emission factor	Greenhouse Gas Target Management System (Korea)	Calculate emissions based on the cooking method (electricity consumption) for each product sold

[1] Primary data refers to data provided by suppliers or other companies related to specific activities in the value chain (e.g., metered data, supplier invoices, or other data obtained through methods representing specific activities within the value chain). Secondary data refers to industry-average data provided by third-party data providers (e.g., published databases, government statistics, literature, studies, and industry association data).

METRICS AND TARGETS

Scope 3

Category	Inputs				Key Assumptions
	Activity Data		Emission Factor		
	Content	Type[1)]	Content	Source	
C12 End-of-life treatment of sold products (KT&G)	(CC) Annual sales volume, average length of cigarette butts	Secondary	Emission factor by waste type and treatment method	LCI DB of the MCEE	(CC) Estimate waste weight by applying the average ratio of cigarette butt length to total cigarette length to the weight of products sold
	(CC) Weight of filters and tobacco parts	Primary			
	(NGP) Annual sales volume	Primary			(NGP) Estimate NGP waste weight by applying the standard weight per NGP to annual sales volume
	(NGP) Products' standard weight	Primary			
	(Real estate) Amount of construction materials used for real estate assets sold through unit sales or disposal	Secondary			Estimate the input quantities of materials during construction based on the amount of concrete used
C12 End-of-life treatment of sold products (Subsidiaries)	Materials and weight of sold products	Primary	Emission factor by waste type and treatment method	LCI DB of the MCEE	Apply the average proportions by material and treatment method based on national waste generation and treatment data
C13 Downstream leased assets (KT&G and its subsidiaries)	Fuel consumption by fuel type in leased assets	Primary	Emission factor by fuel	Greenhouse Gas Target Management System (Korea)	Calculate emissions based on fuel consumption in leased assets
C13 Downstream leased assets (KGC)	Fuel costs for leased assets	Secondary			Estimate emissions based on the amount and cost of fuel used in leased assets
C14 Franchises (KT&G and its subsidiaries)	Total floor area by distribution channel	Secondary	Emission factor based on total floor area by building type	Construction Technology Digital Library system	Apply a guide area uniformly because information on the area of individual stores is difficult to obtain
C15 Investments (KT&G)	(Subsidiaries) Owned share and total floor area (Associates and joint ventures) Owned share and revenue	Secondary	Emission factor based on total floor area by building type; and Emission factor by industry	Estimation and characteristics of GHG emissions in the building sector based on national energy statistics from the Architectural Institute of Korea, US EPA EEIO	Estimate emissions by determining the annual emissions per unit area of subsidiaries and associates and applying the ownership percentage; in other cases, estimate emissions by applying industry-specific emission factors based on revenue

[1)] Primary data refers to data provided by suppliers or other companies related to specific activities in the value chain (e.g., metered data, supplier invoices, or other data obtained through methods representing specific activities within the value chain). Secondary data refers to industry-average data provided by third-party data providers (e.g., published databases, government statistics, literature, studies, and industry association data).

(C) Information on Contractual Instruments Related to Scope 2 GHG Emissions

Market-based and Location-based Scope 2 Emissions (Unit: tCO_2eq)

Category	2023	2024	2025
Market-based Scope 2[1]	113,585	114,088	110,332
Location-based Scope 2[1]	134,709	135,535	142,942

[1] Reporting boundary: All KT&G domestic business sites (129 buildings, including Daejeon Plants 1 and 2, Yeongju Plant, Gwangju Plant, leased office buildings, regional headquarters, and branch offices), overseas manufacturing sites, and domestic and overseas manufacturing sites of subsidiaries

Information on Contracted Products Related to Scope 2 GHG Emissions

Contract Method	Energy Source	Consumption (MWh)[1]	Contract Period
I-REC (Indonesia 1)	Geothermal	18,198	Jan. 1, 2025 – Dec. 31, 2025
I-REC (Indonesia 3)	Geothermal	4,879	Jan. 1, 2025 – Dec. 31, 2025
I-REC (Türkiye)	Geothermal	6,200	Jan. 1, 2025 – Dec. 31, 2025
I-REC (Kazakhstan)	Wind power	5,762	Jan. 1, 2025 – Dec. 31, 2025
Green Energy (Russia)	Wind power	7,333	Jan. 1, 2025 – Dec. 31, 2025
Direct PPA (SK E&S)	Solar power	3,438	Jan. 1, 2025 – Dec. 31, 2025
Direct PPA (ENlighten)	Solar power	5,014	Jan. 1, 2025 – Dec. 31, 2025
Direct PPA (Hanwha Solutions)	Solar power	2,519	Jan. 1, 2025 – Dec. 31, 2025

[1] Including RECs secured through surplus power generation

(2) Climate-related Transition Risks

KT&G's carbon emission intensity is not high compared to other industries owing to business characteristics, but the domestic tobacco business sites are subject to K-ETS. Therefore, there is a possibility of exposure to risks stemming from changes in policies and regulations related to K-ETS. Furthermore, considering the direction of regulatory tightening, such as the Korean government's enhancement of the 2035 Nationally Determined Contribution (NDC), we expect potential cost increase risks stemming from allowance price increases in the mid- to long-term. Accordingly, we are making diverse efforts to enhance energy efficiency and reduce GHG emissions across our business sites. We are increasing investments in energy-saving facilities and reducing GHG emissions intensity by improving process efficiency. Our mid- to long-term plan is to raise the proportion of electricity use in production processes and increase the share of renewable energy generation. These efforts will help us respond to potential regulatory changes and contribute to establishing a foundation for sustainability management.

Business Activities Vulnerable to Climate-related Transition Risks

Category	Sales (KRW million)[1]	Percentage (%)[2]
Sales of business sites subject to K-ETS	4,145,475	63.0

[1] Based on the separate financial statements of the target business site (company)
[2] Percentage compared to the figure based on the consolidated financial statements

(3) Climate-related Physical Risks

KT&G used S&P's Climanomics® analysis tool to analyze the level of physical risk from climate change, targeting major business sites. Analysis results indicate that the Russia business site, among overseas business sites, has a relatively high physical risk compared to other business sites of KT&G. The region has been analyzed to face increased physical risk levels after the 2030s, driven by increased climate stress due to extreme heat caused by climate change. However, as of now, no direct damage cases caused by abnormal weather conditions have been reported at the Russia business site.

Business Activities Vulnerable to Climate-related Physical Risks

Category	Sales (KRW million)[1]	Percentage (%)[2]
Sales of KT&G Russia Corporation	243,840	3.7

[1] Based on the separate financial statements of the target business site (company)
[2] Percentage compared to the figure based on the consolidated financial statements

(4) Climate-related Opportunities

KT&G categorizes economic activities that qualify as environmentally sustainable activities under the EU Taxonomy (Taxonomy-aligned) as assets and business activities aligned with climate-related opportunities. In 2025, KT&G had no such activities.

(5) Capital Allocation

KT&G categorizes capital expenditures for economic activities that qualify as environmentally sustainable activities under the EU Taxonomy (Taxonomy-aligned) as capital allocation for climate-related risks and opportunities.

Climate-related Capital Expenditure (Unit: KRW million)

Content	2025
Solar power generation using photovoltaic technology	4,352
Installation, maintenance, and repair of equipment and devices for measuring, regulating, and controlling the energy performance of buildings	439
Infrastructure enabling low-carbon road transport and public transport	156

METRICS AND TARGETS

(6) Internal Carbon Pricing

KT&G's internal carbon price was set as KRW 50,000/tCO_2eq. The calculation method and key assumptions, as well as how the internal carbon price is applied in decision-making, are as follows:

Category	KT&G Status
Whether and how it is applied to decision-making	• Investment decision-making: When a GHG reduction investment is needed, the payback period based on the internal carbon price is calculated and used to determine the appropriateness and timing of the investment. • Others: Identifying the investment's potential vulnerability (stress test) • To support the company's response to changes in climate-related regulations, internal carbon pricing is applied to conduct stress tests based on financial impact scenarios (e.g., rising carbon allowance prices). • Reflecting potential carbon prices in long-term business plans and financial risk evaluations through internal carbon pricing.
Detailed application scope	• All business sites (including overseas) • Internal carbon pricing is currently applied to Scope 1 and Scope 2 emissions, with plans under consideration to extend its application to Scope 3 (indirect emissions such as those from the supply chain) in the future.
Key assumptions and calculation methodology	• We anticipated a reduction in free allocation and a resulting increase in allowance prices, and set the internal carbon price at KRW 50,000 per ton of CO_2 to consider potential carbon costs in investment decisions. • In the context of utilizing offsets for future carbon neutrality implementation, the offset budget will be set based on internal carbon pricing, which will also serve as a benchmark for assessing economic feasibility.
Methods for encouraging the implementation of climate-related policies and targets	• The internal carbon price is used as a basis for cost-benefit analysis, allowing potential carbon costs to be considered in advance when making investment decisions. This enhances the viability of investments aimed at addressing climate change and encourages related investments. The internal carbon price is reflected in the calculation of the payback period, taking into account the expected cost savings and emission reductions from climate-related investments. • When we developed a plan to install rooftop photovoltaic power generation facilities at domestic manufacturing sites in 2022, the internal carbon price was applied to calculate the benefits and alternative effects, encouraging cost savings to be invested in renewable energy facilities. Specifically, assuming an annual emissions reduction of approximately 1,690 tons from the installation of photovoltaic facilities, it was estimated that applying the internal carbon price would result in an annual economic benefit of approximately KRW 85 million. • Additionally, through the internal carbon price, the calculation method for the payback period has been changed to "investment cost/(energy saving cost + internal carbon price)," which was previously based on "investment cost/energy saving cost." This has enabled us to shorten the payback period for investments in climate change response activities. • As described above, the internal carbon price helps support favorable decisions in internal investment policies and decision-making processes for various emission reduction activities. It also serves as a key guideline for prioritizing reduction activities by comparing the financial impacts of potential emission reductions. • Internal carbon pricing is also being reviewed for its potential application in prioritizing emission reductions in the upstream supply chain (e.g., logistics, raw material procurement). • When identifying potential low-carbon technologies and business opportunities, feasibility is assessed through profitability analysis based on internal carbon pricing. • Internal carbon pricing serves to enhance corporate awareness of climate issues and to promote the integration of climate-related factors into management decision-making processes.

(7) Compensation

KT&G operates performance evaluation indicators that incorporate the performance of ESG tasks, including those related to climate change, in the remuneration of C-level executives of each division and HQ, including top management. In April 2024, the weight of ESG indicators was increased from 5% to 10% when setting the CEO's short-term management goals. Furthermore, the compensation system was restructured for long-term management goals to more directly reflect the performance of achieving GHG reduction targets as part of the Group's low-carbon transition strategy, thereby enabling the creation of tangible climate change response outcomes. Major climate-related KPIs incorporated into the performance evaluation of the CEO, executives of relevant HQs, and organizations in 2025 are as follows:

Climate-related KPIs and Compensation Ratio for the CEO and Executives in 2025

Category	Key KPIs	Percentage of Executive Compensation Tied to Climate KPIs in 2025
CEO	• Development of differentiated competitiveness in business-specific areas and ESG target achievement rate • Evaluation ratings from three organizations—CDP Climate/Water, MSCI, and KCGS—among others	10%
Top management, managers in charge, and employees	• Total Scope 1+2 GHG emissions • Renewable energy adoption ratio • Cumulative EV transition rate • Implementation of improvement tasks linked to energy diagnosis results • Purchase and use of renewable electricity in leased buildings	4%

(8) Industry-based Metrics

KT&G's main business, the manufacturing and sale of tobacco, falls under the Tobacco industry in the Sustainable Industry Classification System (SICS). As of the report's publication date, there are no industry-based metrics related to this industry in the Industry-based Guidance on Implementing IFRS S2.

2. CLIMATE-RELATED TARGETS

(1) Information Related to Metrics Used to Set the Targets (Target Metric, Objective, Application Scope, etc.)

As described in the "Strategy" section above, KT&G maintains its SBTi-approved targets of reducing Scope 1+2 emissions by 42% by 2030 and achieving net-zero emissions by 2045. These targets exceed the 2030 Nationally Determined Contribution (NDC) target for the industrial sector announced by the Korean government. The targets were reaffirmed as Group-wide shared targets when the ESG Implementation Framework 3.0 was established in November 2025, with advancing climate response capability designated as the top priority among the five Sustainable Values, further strengthening its strategic importance.

(2) Method of Monitoring Progress toward the Targets

(A) Whether the Set Target was Validated by a Third Party

KT&G has established mid- to long-term GHG reduction targets in accordance with the SBTi guidelines, a global initiative for science-based emission reduction goals, and officially received approval for these targets from SBTi in November 2024.

(B) Target Review Process

KT&G sets and reviews targets to address climate-related risks and opportunities through the Sustainability Committee, and the Committee regularly monitors the established targets, thereby managing progress and outcomes. For details on the monitoring process, please refer to the "1. Governance Body – (5) Management/Oversight of Goal Setting and Progress" and "2. Top Management – (2) Top Management's Use of Control and Procedure" under the "Governance."

(C) Monitoring Metric for Progress in Achieving the Targets

KT&G monitors the following metrics in relation to the progress in achieving climate-related targets.

Target Metrics	Progress Monitoring Metrics	Mid- to Long-term Target		Final Target	
		Target	Year of achievement	Target	Year of achievement
Total Scope 1, 2 emissions	Scope 1, 2 emissions reduction rate	42%	2030	100%	2045
Scope 3 emissions	Scope 3 emissions reduction rate	25%	2030	100%	2045
Renewable energy usage rate	Renewable energy transition rate	80%	2030	-	-

Climate Targets

Target Metric	Objective	Scope	Target Type	Baseline (Base year)	Interim target (2030)	Final target (2045)
Total Scope 1, 2 emissions	Climate mitigation	Company-wide	Absolute quantity target	197,029 tCO_2eq (2020)	42% reduction	100% reduction[2]
Scope 3 emissions	Climate mitigation	Company-wide	Absolute quantity target	857,279 tCO_2eq (2022)	25% reduction[1]	
Renewable energy usage rate	Establishment of an eco-friendly energy system	Company-wide	Absolute quantity target	0.1% (2020)	80%	-

[1] Scope 3 interim reduction targets: Category 1, 3, 11
[2] In accordance with the SBTi guidelines, achieve net zero through 90% absolute reduction of GHG emissions and 10% offset

(3) Performance Analysis against the Targets

In 2025, KT&G Group's Scope 1+2 GHG emissions are 178,767 tCO_2eq, representing a projected reduction of approximately 9.2% from the 2020 base year (197,029 tCO_2eq), with an achievement rate of 22.0% toward the 2030 interim target (42% reduction).

Performance for the Reporting Year Against Targets

Metrics for Monitoring Targets and Progress		2024 Performance	2025 Performance	Mid- to Long-term Target (2030)		Final Target (2045)	
				Target	Achievement rate for the reporting year	Target	Achievement rate for the reporting year
Scope 1, 2 (Market-based)	Emissions (Unit: tCO_2eq)	182,418	178,767	114,276	22.0%	0	9.2%
	Reduction rate compared to the base year	7.4%	9.2%	42%		100%	
Scope 3[1]	Emissions (Unit: tCO_2eq)	780,502	502,551	642,959	165%	0	41.3%
	Reduction rate compared to the base year	8.9%	41.3%	25%[2]		100%	
Renewable energy transition rate		15.5%	23.0%	80%	28.8%	-	-

[1] Due to the reduction in emissions from the Real Estate Business, where GHG emissions are highly volatile, Scope 3 emissions for 2025 changed significantly.
[2] Applicable to Categories 1, 3, and 11

Direct Emissions (Scope 1) Reduction GHG directly emitted by KT&G arises mainly from process gases and LNG fuel used in manufacturing processes. To reduce direct emissions, we are switching utility facilities to high-efficiency facilities and recovering waste heat generated during processes to reduce fuel consumption. In addition, since joining the K-EV100 initiative led by the Ministry of Climate, Energy and Environment in 2021, we have transitioned approximately 14.4% of the company-wide fleet to EVs as of 2025 and plan to achieve a 100% transition by 2030. Meanwhile, as an entity subject to the K-ETS, KT&G significantly reduced its emissions allowance purchases in 2024 to 544 tons (down 87% year-on-year), with the total purchase amount decreasing to KRW 4.6 million (down 88% year-on-year). This was a direct result of reduced emissions driven by the expanded adoption of renewable energy, including on-site solar power generation, PPAs, and RECs.

Indirect Emissions (Scope 2) Reduction KT&G supports the global initiative RE100 and seeks to achieve a business site renewable electricity usage rate of 80% by 2030. In addition to the solar power generation facilities at the five domestic plants described above, we are gradually expanding renewable energy procurement across the Group by signing long-term direct PPAs, beginning with 11.8 MWp in 2024, followed by additional 20-year PPAs totaling approximately 26 MWp with ENlighten, Hanwha Solutions, Hyundai E&C, and others since 2025. We have also been purchasing domestic and overseas RECs since 2022 to reduce Scope 2 emissions and increase the proportion of renewable energy usage.

Value Chain Emissions (Scope 3) Reduction In 2024, KT&G obtained approval for its net-zero target from SBTi and established a systematic implementation strategy to reduce Scope 3 emissions, in addition to Scope 1 and 2 emissions. As part of these efforts, we have been conducting research to analyze the effectiveness of biochar[1] in reducing GHG emissions from leaf tobacco farms, suppliers of key raw materials. Building on this analysis, we plan to explore various GHG reduction methods for leaf tobacco farms and actively support their practical application. We also provide direct and indirect support to material suppliers for GHG reduction, such as assistance with high-efficiency equipment and environmental management consulting. Moving forward, we will pursue various approaches to reducing GHG emissions, including support for ISO certification and GHG management systems.

(4) Information on GHG Emissions Reduction Targets

(A) Types of GHG Included in the Target

KT&G set a reduction target for Scope 1 and 2 emissions. The scope of emissions includes six types of GHG (CO_2, CH_4, N_2O, HFCs, PFCs, SF_6), of which three types of GHG (CO_2, CH_4, N_2O) have been identified in Scope 1 and 2 emissions on a KT&G standalone basis.

Types of GHG Included in the Emission Reduction Targets

Scope	GHG Type					
	CO_2	CH_4	N_2O	HFCs	PFCs	SF_6
Scope 1	○	○	○	X	X	X
Scope 2	○	○	○	X	X	X
Scope 3	○	○	○	X	X	X

(B) Target Type, Decarbonization Approach, and Use of Carbon Credits

KT&G obtained approval from SBTi in 2024 for its "2030 Greenhouse Gas Reduction Targets" and "2045 Net-Zero Goal." Our GHG reduction targets are aligned with the 1.5°C (Scope 1 and 2) and Well-below 2°C (Scope 3) scenarios. The 2030 targets are set on a gross emissions basis and do not include external offsetting activities such as carbon credits. Accordingly, we plan to reduce gross Scope 1+2 emissions by 42% compared to 2020 levels by 2030 and decrease Scope 3 emissions by at least 25% compared to 2022 levels. The 2045 Net-Zero Goal is set on a net emissions basis, under which we aim to achieve "zero" net emissions by achieving a 90% absolute reduction in GHG emissions compared to 2020 levels and offsetting the remaining 10% through carbon credits and other measures, including absorption and removal.

[1] Biochar is a material produced by pyrolyzing biomass such as wood, crop residues, and plant-based materials. It lowers GHG concentrations by storing carbon in the soil and contributes to improving soil health. As such, it is gaining attention as a method of carbon capture, utilization, and storage (CCUS), or carbon capture and storage (CCS), in the agricultural sector.


KT&G