

# KT&G TCFD Alignment & Plan

Version 1.0



Alignment & Plan

2021. 03. 08

## Disclaimer

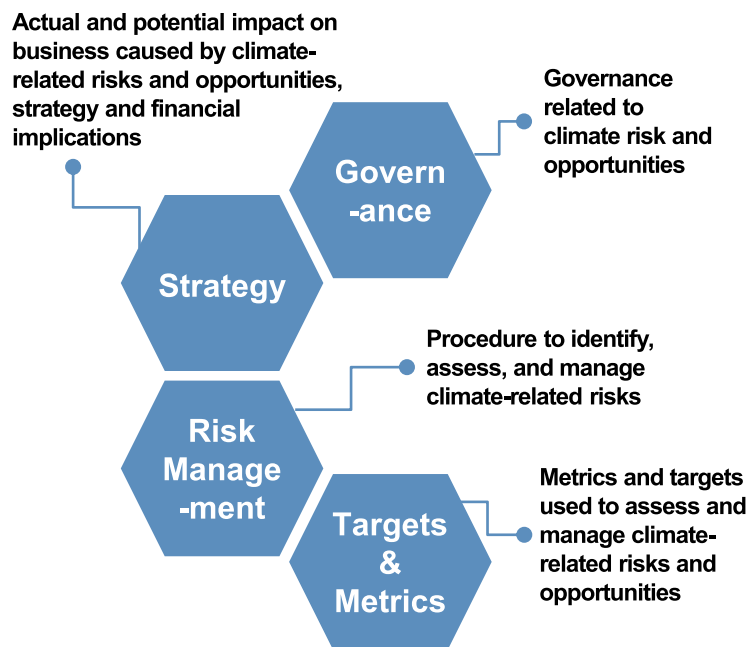
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This data includes predictive information on risk analysis and financial impact according to our business operations. It contains uncertainties that is premised on the analysis of internal and external business environmental changes, which might occur near in the future. In addition, as this material is based on preceding or reliable data source, we do not guarantee the accuracy or completeness of the material and its contents. Please be noted that this data cannot be used as evidence of legal responsibility for the investment result of investors under any circumstances.

## TCFD Alignment Approach

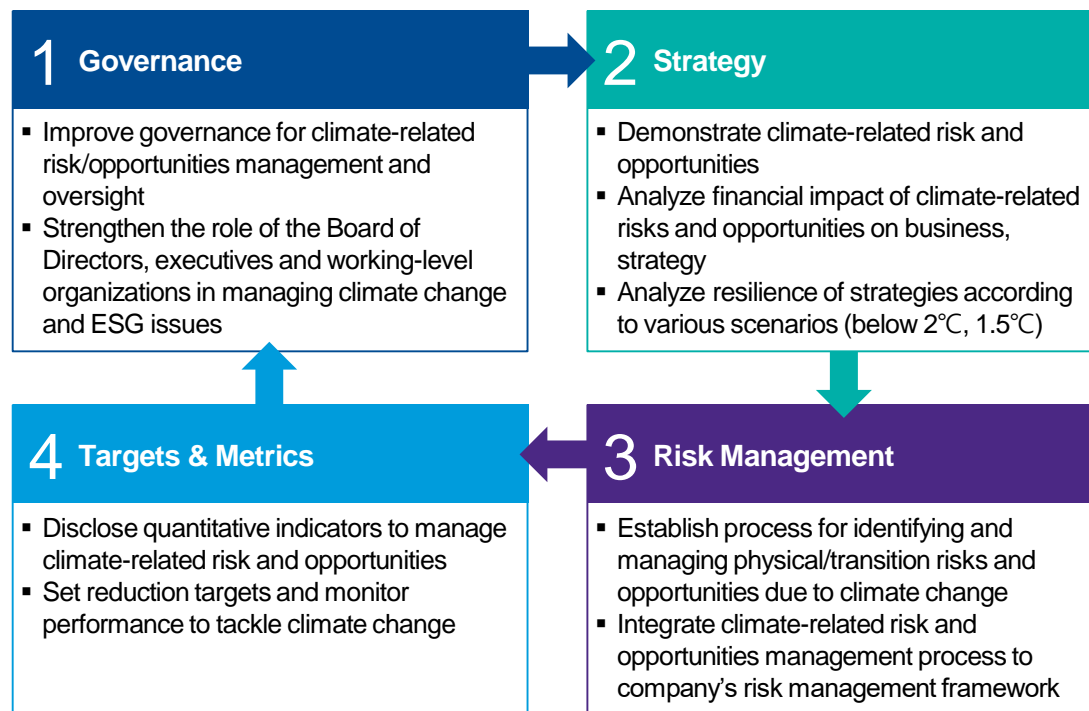
After becoming TCFD supporter in 2020, we aim to fully engage in disclosing actual and potential financial impact caused by climate change, complying with regulations, and setting reduction target.

### TCFD Recommendations



TCFD is an organization established by the International Financial Stability Board (FSB) that recommends companies to identify risks and opportunities related to climate change and disclose their financial impact.

### TCFD Alignment Approach

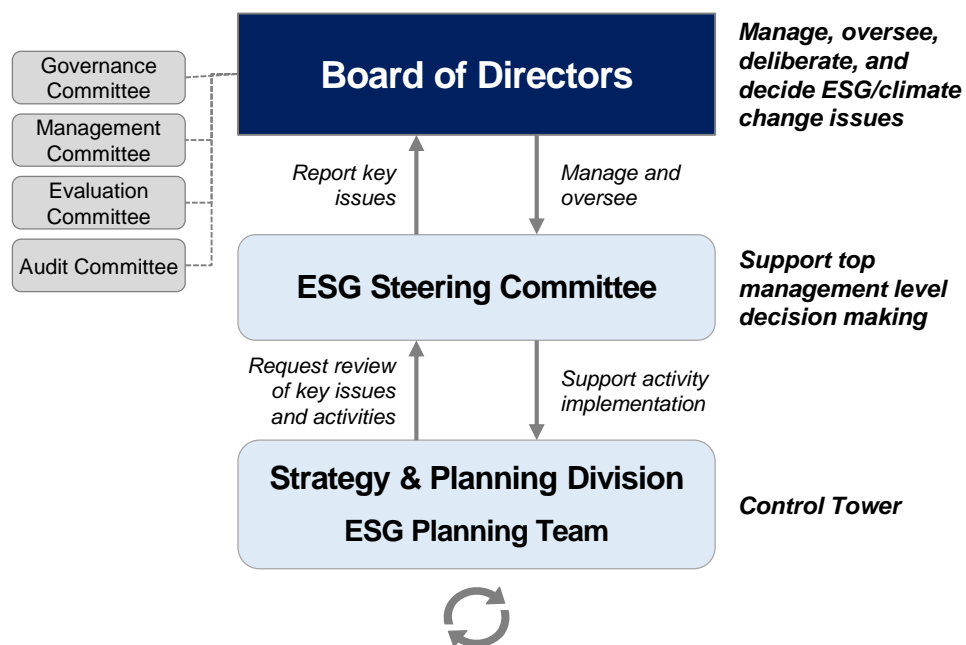


To respond to growing demand of international stakeholders, KT&G is actively participating in tackling climate change. Also, we are committed to increasing disclosure on how we are addressing the effects of climate change by establishing management system that complies with TCFD recommendations. We will continue updating TCFD alignment status to effectively communicate with internal and external stakeholders.

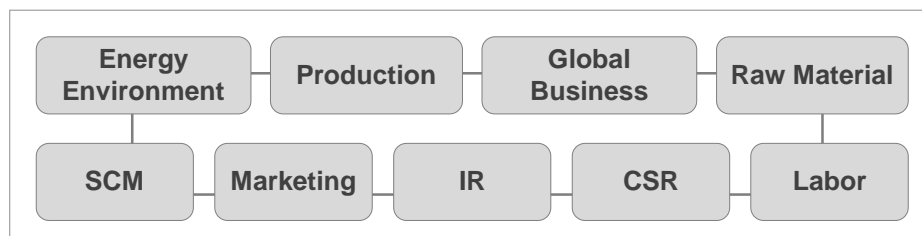
## (1) Governance

KT&G has reorganized governance structure to take action against mid- to long-term climate-related risks and established ESG Planning Team under the Strategy & Planning Division as a Control Tower to discuss ESG issues comprehensively within the company.

### Climate Change Organization and R&R



#### 【ESG/Environment Task Force】



#### Board of Directors

In September 2020, we granted the authority of making decisions on ESG issues to the Board. The Board is responsible for reviewing the mid- to long-term climate change strategies according to KT&G's ESG approach. Also, it approves major ESG activities, manages and oversees their implementation.

#### ESG Steering Committee

ESG Management Committee, which consist of chiefs from all business fields, supports top management's decision making. It reviews major ESG/ environmental issues regularly and reports to the Board.

#### ESG Planning Team

The ESG Planning Team, newly composed as the ESG Control Tower under the CFO, is responsible for establishing an ESG/environmental management system that meets global standards.

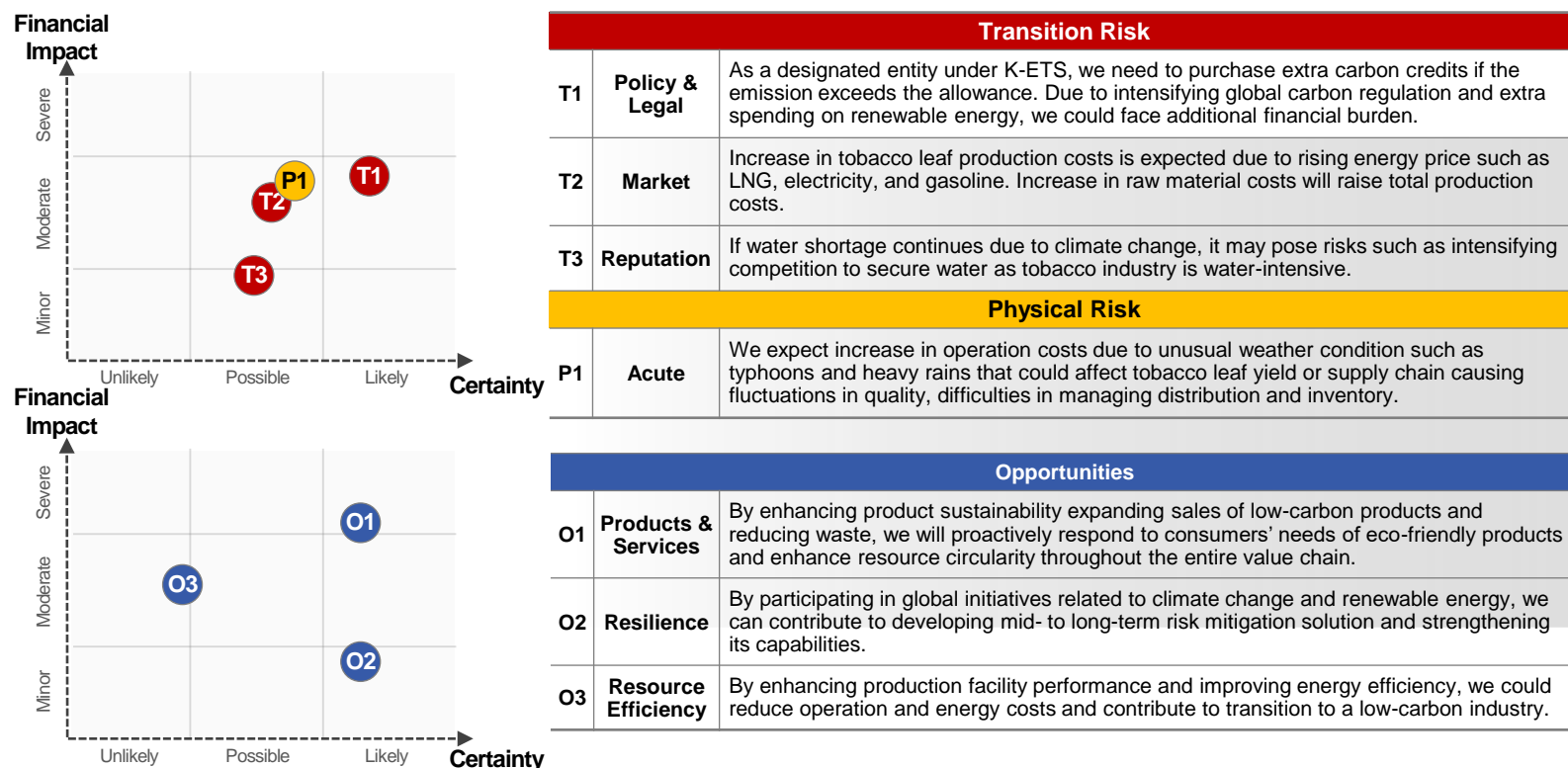
#### ESG/Environment Task Force

The Task Force, which is composed of working level consultative body from all business fields, holds meetings for major ESG issues to review implementation status of activities such as GHG reduction.

## (2) Strategy

KT&G plans to comprehensively analyze the impact of climate change risks and opportunities on business and discloses our mitigation strategies based on identified risks and opportunities.

### Analysis on Climate Change Risks/Opportunities and Strategies



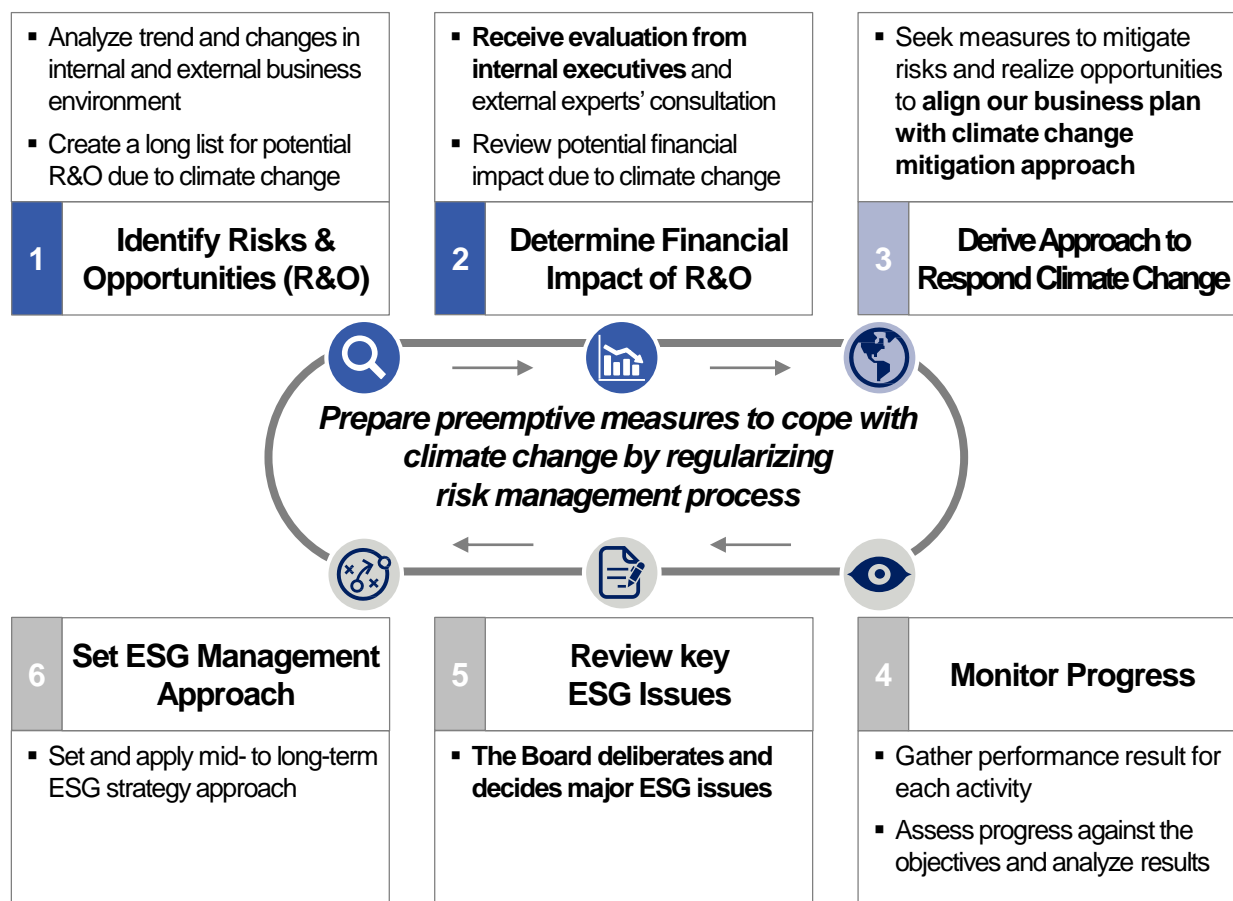
*Implement activities by considering climate-related risks and opportunities*

KT&G intends to establish sustainable environmental management strategies to create shared values for its own and stakeholders. We identify transition and physical risks and opportunities that may occur from climate change within the company. Also, we evaluate them based on probability of occurrence and financial impact on business. We have prioritized risks and opportunities that we should manage by discussing comprehensively within the company and receiving consultation from external experts.

### (3) Risk Management

KT&G has established climate change risk management process to cope with climate change. We plan to improve the risk management process by integrating it with the corporate business strategy.

#### Climate Change Risk Management Process



■ : Identify Risks & Opportunities   ■ : Manage and Respond   ■ : Monitor and Evaluate

#### Identify Risks & Opportunities

KT&G annually conducts climate change risk management process to ensure that climate change issues are considered in all management decisions. We create a long list for climate change risks and opportunities to establish short, medium and long-term approach through internal evaluation, executive review and external consultation.

#### Manage and Respond

The executive reviews the climate change risks and opportunities approach and their linkage to company's business strategy. By reviewing the necessary mid- to long-term investment expenditures or financial resources, the executive will consider them in the overall business plan.

#### Monitor and Evaluate

To efficiently manage the impact of climate change risks and opportunities, we are considering to establish monitoring and evaluation system. Also, we will include those in KPIs and organizational management performance.

## (4) Targets & Metrics

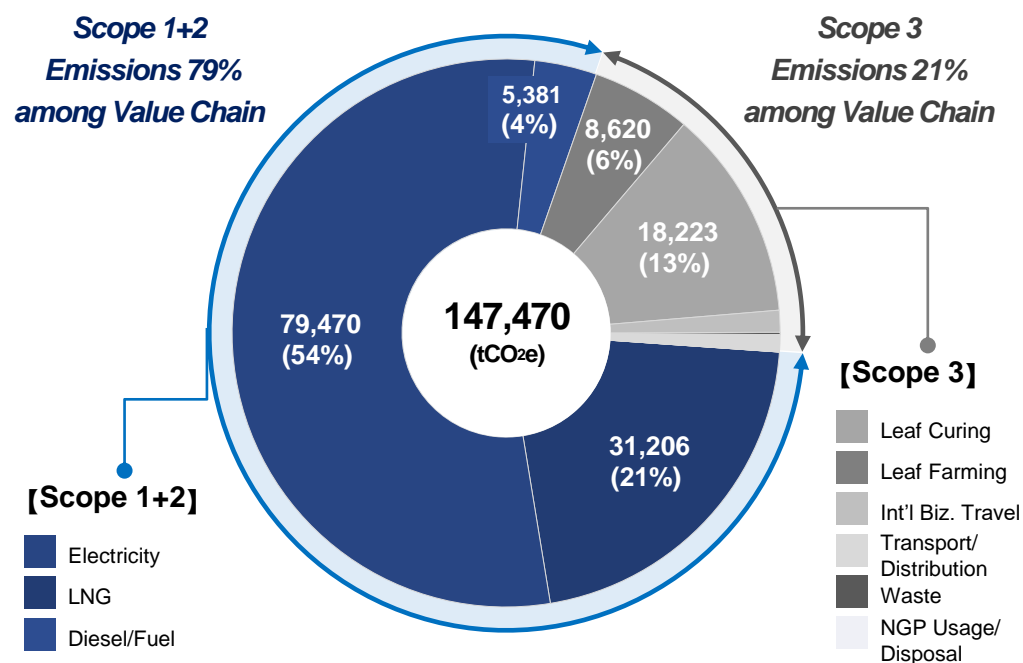
We intend to establish Greenhouse Gas (GHG) reduction target based on Science Based Target (SBT) to actively response to climate change, and GHG emissions for each scope are transparently monitored.

### Mid- to Long-term GHG Reduction Target



KT&G intends to set the SBT according to the Paris Agreement, which aims to curb average global temperature increase below 2°C and limit to 1.5°C compared to the pre-industrial level. We are considering to develop detailed implementation measures to reduce GHG emissions.

### Value Chain GHG Emissions\* (2019)



We aim to strengthen our responsibility for direct and indirect GHG emissions caused by our business activities. In order to accurately manage scope 3 emissions including raw material procurement to final consumer use and emissions from offices to factories, we plan to gradually advance the data management system.

\* Scope 3 emission could be re-calculated after advancing data management system, and the figures are not officially verified.

## Next Step

**KT&G will disclose implementation status for TCFD recommendations on our sustainability report or official website and update them frequently to communicate with our stakeholders more transparently.**

### Next Step for Each TCFD Pillars

1

#### Governance

- Consider organizing climate change issue management and decision-making consultative body above C-level
- Advance internal risk management process within the Board

2

#### Strategy

- Establish strategy based on climate change risk and opportunity analysis result
- Conduct a detailed analysis of the financial impact by applying various climate change scenarios

3

#### Risk Management

- Develop standards for performance evaluation of implemented activities to strengthen ESG/Environmental management
- Internalize climate-related risks and opportunities into performance evaluation and decision-making process

4

#### Targets & Metrics

- Set reduction target according to SBT and develop a detailed implementation roadmap
- Obtain data to calculate scope 3 emissions within reportable range