

Climate-Related Risk and Opportunity Analysis in DS Division

Identification of Key Risks and Opportunities

We constructed a pool of climate-related risks and opportunities related to our business by reviewing global climate change trends, industry responses, and the climate-related risks and opportunities presented in the Task Force on Climate-related Financial Disclosures (TCFD) recommendations and by the Carbon Disclosure Project (CDP). We also identified key risks and opportunities through climate-related scenario analysis, internal and external stakeholder surveys, and expert and departmental roundtable discussions. Identified physical risks were mainly chronic, affecting all short-, medium-, and long-term periods. Transition risks and opportunities primarily impacted the medium- and long-term.

Key Risks and Opportunities

| Type | Risks and Opportunities | | | | |
|------------------|-------------------------|--|--------------|----------------|--------------------|
| Physical Risks | Acute | Typhoon | Flood | Wildfire | Hail, Thunderstorm |
| | Chronic | Drought | Extreme heat | Heavy rainfall | Extreme cold |
| Transition Risks | Policy and Legal | Increase in cost of purchasing carbon credits | | | |
| | Market | Insufficient alignment with customer demand for low-carbon products | | | |
| | | Increase in production cost due to changing energy prices | | | |
| | Technology | Increase in R&D cost for low-carbon products and services | | | |
| | | Transition to low-carbon production processes | | | |
| | Reputation | Stakeholder concerns and negative media coverage related to climate change | | | |
| | Market | Use of renewable energy | | | |
| | | Increase in demand for low-carbon products and services | | | |
| Opportunities | Technology | Use of low-carbon production processes | | | |
| | | Reduction in water use and consumption | | | |
| | | Enhancing our company's resilience to climate change | | | |
| | Resilience | Enhancing the supply chain's resilience to climate change | | | |

Financial Impact Assessment

The DS Division analyzed the potential financial impacts of identified key risks and opportunities through both quantitative and qualitative assessments, taking into consideration various climate-related scenarios in alignment with international climate change agreements.

Climate-Related Scenario Selection

| Type | Source | Scenario | Definition |
|------------------------------------|--------------------|----------------------------|---|
| Physical Risks | IPCC ¹⁾ | SSP ⁴⁾ 1-2.6 | Assumes net zero emissions by 2075 (Low-carbon emission scenario) |
| | | SSP2-4.5 | Assumes current levels of carbon emission until 2050, net zero carbon emission not achieved by 2100 |
| | | SSP5-8.5 | Assumes fossil fuel-based development (High-carbon emission scenario) |
| Transition Risks and Opportunities | IEA ²⁾ | Net Zero Emissions by 2050 | Assumes net zero emissions in the energy sector by 2050 |
| | | Announced Pledges | Assumes full implementation of all national climate commitments worldwide |
| | | Stated Policies | Assumes maintenance and implementation of current policies |
| | NGFS ³⁾ | Net Zero 2050 | Assumes global net zero emissions by 2050 |
| | | NDCs ⁵⁾ | Assumes full implementation of currently pledged Nationally Determined Contributions worldwide |
| | | Current Policies | Assumes maintenance and implementation of current policies |

1) Intergovernmental Panel on Climate Change
2) International Energy Agency
3) Network for Greening the Financial System
4) Shared Socio-economic Pathway
5) Nationally Determined Contributions

1. Physical Risks

We analyzed hazard exposure levels and financial impacts of identified major physical risks at all our sites by scenario¹⁾ and time period²⁾ using a global analysis tool incorporating IPCC scenarios, climate modeling data, and location information. As a result, under the SSP5-8.5 scenario, extreme heat exposure at Korean sites increases in the long term, relative to the short and medium terms. From a financial impact perspective, droughts and typhoons emerged as the key physical risks across all climate-related scenarios. Of these, the financial impacts of droughts are as follows.

- 1) Scenarios widely recognized by major global institutions were used. Scenarios may inherently contain uncertainties and differ from actual future situations.
- 2) Short term: ≤ 1 year (2025), Mid-term: 1 ~ 5 years (2026~2029), Long-term: > 5 years (2030~2050)

Drought

We assessed drought exposure levels by analyzing the balance between water demand and supply in each DS site location, then calculated financial impacts based on potential future water prices¹⁾. Our analysis shows water prices aren't expected to rise dramatically overall compared to current levels, but facilities expecting increased demand will likely experience relatively greater financial impacts.

1) Shadow price of water: Value of water based on water stress indices and population data in the Corporate Bonds Water Credit Risk Tool

2. Transition Risks and Opportunities

We conducted a literature review and consulted external experts to develop an assessment methodology for financial impacts of risks and opportunities associated with the transition to a net zero society. Based on this, we assessed the financial impacts by utilizing internal strategies—including carbon reduction roadmaps aimed at achieving net zero by 2050—and external outlook data from the IEA and NGFS. The result showed that the increase in production cost due to changing energy prices, as well as the increase in cost of purchasing carbon credits, represent key transition risks. Meanwhile, the use of renewable energy and the reduction in water use and consumption were identified as key opportunities. The below explains how some of these factors influence our operation as risk or opportunity.

Increase in Cost of Purchasing Carbon Credits

Carbon credit prices are expected to increase due to strengthening GHG regulations and policies, potentially reaching USD 250 per tonne¹⁾ by 2050 according to the IEA's Net Zero Emissions by 2050 scenario. Our Korean sites are subject to South Korea's Emissions Trading System (ETS), being responsible for additional costs corresponding to any potential GHG emissions beyond nationally allocated quotas. Furthermore, should the carbon credit prices increase due to national GHG reduction targets and carbon neutrality policies, the cost of purchasing carbon credits is expected to increase.

1) Prices based on advanced economies with net zero emissions pledges

Reduction in Water Use and Consumption

We are expanding investments in and operations of facilities to enhance water reuse rates as part of our response to climate change. Financial impact analyses revealed that cost savings from reduced water purchases significantly outweigh facility investment and operational costs over the short-, medium-, and long-term. This is expected to have positive impacts by offsetting potential losses from physical risks such as droughts.

Assessment of Financial Impact Levels from Drought

*Average anticipated financial impact was calculated across climate-related scenarios (SSP1-2.6, SSP2-4.5, SSP5-8.5) and time periods (short-, medium-, long-term) to comparatively analyze financial impacts for each site

Resilience Assessment

A quantitative and qualitative evaluation was conducted on key risks and opportunities having financial impacts to assess our capacity to respond, recover and adapt. Representative examples of the results are as follows.

Drought

We are actively implementing measures to minimize financial impacts resulting from droughts. By diversifying water sources and collaborating with suppliers, we established an emergency water supply system that enables stable operation of our sites even during periods of water scarcity. In addition, as the semiconductor industry is a national strategic industry in Korea, it benefits from diverse policy support from the government regarding the stable water supply. It serves as a critical foundation for strengthening our resilience.

Increase in Cost of Purchasing Carbon Credits

We mitigate financial impacts from rising carbon credit prices by pursuing our net zero Scope 1 and 2 emissions target under the New Environmental Strategy. We reduce direct emissions through large-scale integrated process gas treatment facilities (RCS, Regenerative Catalytic System) and waste heat recovery systems. For indirect emissions, we reduce power usage in the production process while simultaneously transitioning to renewable energy. This helps mitigate vulnerabilities to fluctuations in energy cost and emission-related policies, enabling a reduction in carbon credit costs at our sites subject to the Korean emissions trading system.

Reduction in Water Use and Consumption

We set goals for water reuse rates and systematically manage related facility investment and operational costs. This approach not only mitigates water risks due to climate change but also creates financial opportunities by enhancing operational efficiency and reducing costs, thereby strengthening our climate resilience.