GLASS LEWIS

2019

PROXY PAPER™

GUIDELINES

AN OVERVIEW OF THE GLASS LEWIS APPROACH TO PROXY ADVICE

KOREA

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Guidelines Introduction

GOVERNANCE CODES AND REGULATIONS

Korean corporate governance is primarily centered upon the Commercial Act[1], the Capital Market and Financial Investment Business Act, and the Stock Market Listing Regulations (the "Listing Regulations"). Corporate governance is further based on the Code of Best Practices for Corporate Governance (the "Code"), which includes recommended guidelines recently updated and released by the Korea Corporate Governance Service in July 2016.

KOREA STEWARDSHIP CODE

In December 2016, the Korea Stewardship Code Council published the "Principles on the Stewardship Responsibilities of Institutional Investors ("Stewardship Code") with the goal of enhancing the mid- to long-term value and sustainable growth of investee companies and further the mid- to long-term interests of their clients and ultimate beneficiaries.

The Stewardship Code is a positive step for corporate governance in Korea, as it is expected to help diminish the so-called "Korea discount", lower valuations compared with many of their global peers. The Stewardship Code is not legally binding. Institutional investors are encouraged to publicly endorse the principles and apply them on a "comply or explain" basis. Over 45 institutional investors, including the National Pension Service, have announced their intentions to adopt the Stewardship Code in early 2018. In July 2018, Glass Lewis adopted the Stewardship Code, which we believe is consistent with our principles of assisting investors as a proxy research service provider.[2] The following is the list of the seven stewardship principles:

1. Institutional investors, as a steward of assets entrusted by their clients, beneficiaries, etc, to take care of and manage, should formulate and publicly disclose a clear policy to faithfully implement their responsibilities.

2. Institutional investors should formulate and publicly disclose an effective and clear policy as to how to resolve actual or potential problems arising from conflicts of interest in the course of their stewardship activities.

3. Institutional investors should regularly monitor investee companies in order to enhance investee companies' mid- to long-term value and thereby protect and raise their investment value.

4. While institutional investors should aim to form a consensus with investee companies, where necessary, they should formulate internal guidelines on the timeline, procedures, and methods for stewardship activities.

5. Institutional investors should formulate and publicly disclose a voting policy that includes guidelines, procedures, and detailed standards for exercising votes in a faithful manner, and publicly disclose voting records and the reasons for each vote so as to allow the verification of the appropriateness of their voting activities.

1 The Commercial Act is a law that regulates the existence and relationships of profit-making enterprises.

2 Glass Lewis' Korea Stewardship Code Statement is available at http://www.glasslewis.com/stewardship/.

6. Institutional investors should regularly report their voting and stewardship activities to their clients or beneficiaries.

7. Institutional investors should have the capabilities and expertise required to implement stewardship responsibilities in an active and effective manner.

SUMMARY OF CHANGES FOR THE 2019 KOREA POLICY GUIDELINES

Glass Lewis evaluates these guidelines on an ongoing basis and formally updates them on an annual basis. This year we've made noteworthy revisions in the following area, which is summarized below but discussed in greater detail in the relevant section of this document:

AUDIT COMMITTEE INDEPENDENCE POLICY

Glass Lewis recognizes the importance of adherence by the companies to the relevant laws and regulations. Therefore, we have updated our guidelines to reflect that going forward we will evaluate the independence of audit committees of government-owned companies with the basis of being able to have a non-executive full-time audit committee member on the audit committee.

A Board of Directors that Serves the Interests of Shareholders

STRUCTURE OF BOARD OF DIRECTORS

Pursuant to the Commercial Act, Korean companies are required to, based on asset size, adopt either a two-tier board (i.e. a board of directors and a board of corporate auditors) or a one-tier board with an audit committee. Large listed companies (i.e., those with assets of more than KRW 2 trillion) are required to have the one-tier board and small listed companies (i.e. those with assets of less than KRW 2 trillion) are allowed to choose either of the two board structures. Companies with a one-tier board must establish an audit committee whose members are elected by shareholders.[3] The board of directors typically comprises executives and independent directors with some non-executive affiliates. Most chaebol[4] groups are family-controlled firms in a cross-shareholding structure, although the controlling family may hold just a fraction of shares.

BUNDLED AND DE-BUNDLED PROPOSALS

While Korean companies usually provide for the election of directors and audit committee members individually in separate proposals, non-Korean shareholders are sometimes only able to vote on director nominees and/or audit committee member nominees as a slate. This is a result of the extended delivery process of proxy forms from companies to shareholders through the Korea Securities Depository and local and global custodians. To accommodate these potential ballot differences, Glass Lewis provides both slate and individual recommendations for the election of directors and audit committee members. We may recommend voting against an entire slate, even though there are concerns with only one nominee, if the issues are significant enough.

ELECTIONS FOR GOVERNMENT-OWNED COMPANIES

ELECTION OF CEO/DIRECTORS

In accordance with applicable laws, listed government-owned companies are required to obtain shareholder approval to appoint: (i) a CEO from a selection of nominees; and/or (ii) a certain number of director nominees from a group of nominees.

In general, the disclosure of CEO or director nominee information is comprised of the following: (i) nationality; (ii) name of school he/she obtained his/her bachelor, master or doctorate degrees, with the major specified; (iii) his/her current job position with the name of the employer; and (iv) names of entities and titles he/she used to work with in the recent past.

We understand that this level of disclosure is common practice for Korean companies. However, when there are more director nominees than seats available on a board, we believe that there should be more information available regarding the proposed nominees. Such information may include but is not limited to: (i) an objective assessment of the nominees and their requisite background; and (ii) the nominees' concrete strategies and development plans for the company's growth and increasing shareholder value.

3 Article 415-2 of the Commercial Act.

4 The Korean term for a conglomerate of many companies clustered beneath one parent firm.

Despite the common disclosure practices in Korea, absent the additional above information, we do not believe there would be sufficient information on the CEO/director nominees for shareholders to make informed decisions. While we generally recommend that shareholders abstain from voting when the company has not provided sufficient information, since abstaining may not be a voting option for shareholders of Korean companies, we will usually recommend shareholders vote against all CEO/director nominees in the absence of the additional disclosures.

AUDIT COMMITTEE

Under relevant Korean laws and regulations,[5] a government-owned company may appoint a standing director to become an audit committee member, who shall be appointed either by the President of South Korea or the Minister of Ministry of Strategy and Finance. Therefore, given the government-owned companies' unique position, we may refrain from withholding non-executive full-time audit committee members for independence reasons if the director meets the following criteria: (i) prior to the proposed appointment, he/she is considered independent from the Company and its related parties; (ii) there is at least one financial expert on the audit committee; and (iii) there is no significant concern regarding the director/nominee, the board and/or the audit committee.

VOTING RIGHTS REGARDING DIRECTORS

In accordance with the Commercial Act[6], the appointment of a director shall be made effective by affirmative votes of a majority of the voting rights of shareholders present at a general meeting, which must equal at least one-fourth of the total outstanding shares, unless otherwise provided by a company's articles of incorporation. The removal of a director requires affirmative votes of at least two-thirds of the voting shares represented at the general meeting, which must equal at least one-third of the total outstanding shares.[7]

When voting to elect audit committee members, shareholders who own more than 3% of a company's voting rights are not entitled to voting rights of greater than 3%. The recently revised Commercial Act clarifies that the dismissal of audit committee members shall be determined by shareholders, and audit committee members shall be further approved by shareholders among the elected directors.

If a company convenes a general shareholder meeting to elect two or more directors, shareholders who hold no less than 3% of the total outstanding voting rights may ask the company to elect its directors through a cumulative vote, except as otherwise provided by a company's articles of incorporation.[8]

BOARD OF DIRECTORS

Glass Lewis looks for talented boards with a proven record of protecting shareholders and delivering value over the medium- and long-term. We believe that boards working to protect and enhance the best interests of shareholders typically possess the following three characteristics: (i) independence; (ii) a track record of performance; and (iii) a breadth and depth of experience.

INDEPENDENCE OF DIRECTORS

We look at each individual on the board and examine his or her relationships with the company, the company's executives and other board members. The purpose of this inquiry is to determine whether pre-existing personal, familial or financial relationships (apart from compensation as a director) are likely to impact a board member's decisions. We believe the existence of these types of relationships make it difficult for a board member to put the interests of the shareholders whom he/she is elected to serve above his/her own interest, or those of the related party.

5 Article 542-10 of the Commercial Act.

6 Article 368-1 of the Commercial Act.

7 Article 385 of the Commercial Act.

8 Article 382-2 of the Commercial Act.

To that end, we classify directors in three categories based on the type of relationships they have with the company:

Independent Director — A director is independent if he/she has no material[9] financial, familial[10] or other current relationships[11] with the company,[12] its executives or other board members, except for service on the board and the standard fees paid for that service. In determining the appropriate look-back period, we will consider the size of a company and nature of transaction to establish either a three-year or five-year look-back period.

Affiliated Director[13] — A director is affiliated if he/she has a material financial, familial or other relationship with the company or its executives, but is not an employee of the company. This includes directors whose employers have a material financial relationship with the company. This also includes a director who owns or controls 10% or more of the company's voting stock[14], or who has a special relationship with the largest shareholder.

Insider — An insider is a director who simultaneously serves as a director and employee of a company. This category may include a chair of the board who acts as an employee of the company or is paid as an employee of the company.

Voting Recommendations on the Basis of Independence

Glass Lewis believes that a board will most effectively perform the oversight necessary to protect the interests of shareholders if it is independent. In accordance with the Commercial Act[15] and the Listing Regulations, the board of a listed corporation shall be composed of a number of independent directors equaling not less than 25% of all directors.[16] Further, large companies (with assets over KRW 2 trillion) shall have at least 3 independent directors, totaling at least half of the board. As such, based upon the size of the company, we will evaluate board independence in the following manner: (i) for small companies, the board must have at least two independent directors that comprise a minimum of one-third of the board's membership; or (ii) for large companies, the board must have at least three independent directors that comprise a majority of the board's membership. If a board does not meet these independent thresholds, we typically recommend voting against some of the inside and/or affiliated directors in order to satisfy our independence recommendation.

In addition, we typically recommend that shareholders hold the nomination committee chair responsible for the lack of board independence. However, in cases where the nomination committee is not established, we will recommend to vote against the chair of the board. In case the company disclosure does not indicate the board chair, we will recommend to vote against the representative director for this matter.

For a board that has adopted a one-tier board with committees structure, in accordance with the Commercial Act,[17] the audit committee must consist of minimum three members and at least two-thirds independent directors including its chair.

9 "Material" as used herein means a relationship for: (i) a service they have agreed to perform for the company or the group, outside their service as a director, including professional or other services; and (ii) those directors employed by a professional services firm, such as a law firm, investment bank, accounting firm or consulting firm and the company pays the firm, not the individual, for services.

10 "Familial" as used herein includes a person's spouse, parents, children, siblings, grandparents, uncles, aunts, cousins, nieces and nephews, in-laws, and anyone (other than domestic employees) who share such person's home.

11 This includes an important business relationship, a competitive relationship or a cooperative relationship.

12 "Company" includes any parent or subsidiary in a consolidated group with the company or any entity that merged with, was acquired by, or acquired the company.

13 In every instance in which a company classifies one of its directors as non-executive, that director will be classified as an affiliate by Glass Lewis.

14 Pursuant to the Article 542-8 of the Commercial Act, major shareholders of a Company (those who hold 10% or more of the company's voting stocks) or that person's spouse and lineal ascendants and descendants may not serve as an independent director.

15 Article 542-8 of the Commercial Act.

16 Pursuant to Article 383 of the Commercial Act, the board must consist of at least three directors. However, the number of directors at a company where the total capital is less than KRW 500 million won may be one or two.

17 Article 415-2 of the Commercial Act.

Further, the Code[18] recommends for both the audit and compensation committees to be composed entirely of independent directors. In line with the Code's recommendations, we strongly believe that both committees should consist solely of independent directors and will recommend shareholders vote against any affiliated or inside directors serving on these committees. In addition, we believe a majority of the independent director candidate nominating committee ("nomination committee")[19] should be independent.

PERFORMANCE OF DIRECTORS

The purpose of Glass Lewis' proxy research and advice is to facilitate shareholder voting in favor of governance structures that will drive performance and create shareholder value. The most crucial test of a board's commitment to the company and its shareholders lies in the actions of the board and its members. The Code states that a board shall be operated efficiently and rationally so that the best course for management can be decided in the interests of the corporation and shareholders. We look at the performance of these individuals in their capacity as board members and executives of the company, and in their roles at other companies where they may have served.

Voting Recommendations on the Basis of Performance

We disfavor directors who have a track record of poor performance in fulfilling their responsibilities to shareholders at any company where they have held a board or executive position.

We recommend voting against the following board members under the following circumstances:

- **Poor attendance**: We disfavor directors who have a record of not fulfilling their responsibilities to attend meetings held by the board or its committees and recommend voting against any director who fails to attend a minimum of 75% of the board meetings. In addition, where we find a nominee has failed to attend 75% of their applicable meetings in the past two consecutive fiscal years, we will recommend voting against the chair of the nomination committee. Likewise, where a nominee failed to attend any meetings in the past fiscal year, unless his/her attendance was inhibited by health-related matters, we will recommend voting against the chair of the nomination committee. We note that existing Korean laws and regulations only require companies to disclose board meeting attendance for independent directors, while companies are not obligated to report on the attendance of executive directors and non-independent non-executive directors. As such, given the lack of disclosure we generally are only able to make voting recommendations based on poor attendance for independent directors.

- **Number of board meetings**: The Code[20] provides that a board of a public company shall meet periodically, in principle, at least once every quarter. Thus, we recommend voting against the chair of a board in case the board held less than four meetings during the last fiscal year. We believe that the board should be accountable for holding board meetings frequently enough to review all essential matters and make well-informed decisions by the board members. While the appropriate number of board meetings necessary for a company may vary depending on the complexity of the company and other factors, we believe that four times a year should be the minimum.

- **Financial performance**: We recommend voting against certain members of the board, where a company's performance has been consistently lower than its peers and the board has not taken reasonable steps to address the poor performance.

18 Article 5.2 of the Code.

19 In Korea, the nominating committee is usually called the "Independent Director Candidate Nominating Committee", and only responsible for the nomination of independent directors. In general, the board of directors in its entirety is responsible for the nomination of executive and non-executive non-independent members.

20 Article 5.1 of the Code.

- **Director misconduct**:[21] In case a director was convicted, depending on the type and level of issues, we will look into: (i) if the board has taken any action to remove such problematic director; (ii) if the board has re-nominated the director for re-election despite his/her wrongdoings; (iii) if the board has taken any steps to enhance its internal control regarding the issue; or (iv) if any of the incumbent directors has served on the board during the incidents. Based on our research, we may recommend voting against: (i) the problematic director if he/she is up for re-election; and/or (ii) other directors to be in question if the board fails to take appropriate steps to address the issue and prevent it from recurring.

EXPERIENCE OF DIRECTORS

We believe that a director's past conduct is often indicative of future conduct and performance. We often find directors with a history of overpaying executives, or of serving on boards where avoidable disasters have occurred, serving at other companies with similar concerns. Glass Lewis has a proprietary database that tracks the performance of directors across companies worldwide. We also believe that the board shall include at least one non-executive director with core industry experience.

Voting Recommendations on the Basis of Experience

We will typically recommend that shareholders vote against directors who have served on boards or as executives of companies with a track record of poor performance, over-compensation, audit- or accounting-related issues and/or other indicators of mismanagement or other actions against the interests of shareholders.

Similarly, we carefully look at the backgrounds of those who serve on the key committees of boards to ensure that they have the required skills and diverse backgrounds to make informed and well-reasoned judgments about the subject matter for which the committee is responsible.

DIRECTOR COMMITMENTS

We believe that directors should have the necessary time to fulfill their duties to shareholders. In our view, an overcommitted director can pose a material risk to a company's shareholders, particularly during periods of crisis. We believe this limits the number of boards on which directors and statutory auditors can effectively serve, especially executives at other companies.

Voting Recommendations on the Basis of Director Commitments

We will generally recommend that shareholders vote against a director who serves as an executive officer of any public company while serving on more than two public company boards and any other director who serves on more than five public company boards. However, for independent directors we will apply a threshold of up to two public company board pursuant to the requirement of the Commercial Act.[22] We will also count individuals who serve as board chair of boards in select other non-Asian markets, per our global policies, as two board seats given the time commitment of directorship in those markets.

Because we believe that executives will primarily devote their attention to executive duties, we generally will not recommend that shareholders vote against overcommitted directors at the companies where they serve as an executive.

When determining whether a director's service on an excessive number of boards may limit the ability of the director to devote sufficient time to board duties, we may consider relevant factors such as the size and location of the other companies where the director serves on the board, the director's board roles at the companies in question, whether the director serves on the board of any large privately-held companies, the director's tenure on the boards in question, and the director's attendance record at all companies.

21 The recently updated Code recommends not to appoint a director who has damaged company value or infringed upon shareholder rights. For example, a director with a record of significant legal violation.

22 Article 34 of the Enforcement Decree of the Commercial Act and Article 542-8 of the Commercial Act.

We may also refrain from recommending against certain directors if the company provides sufficient rationale for their continued board service. The rationale should allow shareholders to evaluate the scope of the directors' other commitments as well as their contributions to the board, including specialized knowledge of the company's industry, strategy or key markets, the diversity of skills, perspective and background they provide, and other relevant factors. We will also generally refrain from recommending to vote against a director who serves on an excessive number of boards within a consolidated group of companies or a director that represents a firm whose sole purpose is to manage a portfolio of investments which include the company.

CONFLICT OF INTEREST

In addition to the key characteristics — independence, performance, experience and director commitments — which we use to evaluate board members, we consider conflict-of-interest issues in making voting recommendations.

Irrespective of the overall presence of independent directors on the board, we believe that a board should be wholly free of people who have identifiable conflicts of interest. Accordingly, we recommend shareholders vote against the following types of affiliated or inside directors in nearly all circumstances:

Voting Recommendations on the Basis of Conflict of Interest

We recommend voting against the following board members under the following circumstances:

- **Professional Services and Business Transactions**: We do not believe that a director who has provided material professional services, or a director who is an immediate family member of whom has provided such services, at any time during the past three years, should serve on the board. Material professional services may include legal, consulting or financial services to the company. Also a director who engages — or has a family member of whom engages — in business contracts with the company such as purchase or sales agreement will have to make unnecessarily complicated decisions that may pit their interests against those of the shareholders they serve. We will recommend voting against a director if his/her direct/indirect related party transactions exceed any of the following thresholds: (i) US$50,000 or no disclosure for personal direct transactions; (ii) US$100,000 for indirect transactions with an entity in which a director holds more than 50% interest; (iii) US$100,000 for indirect professional services transactions with a professional services firm in which a director works for; or (iv) 1% of a company's consolidated gross revenue for indirect transactions with an entity in which a director serves as an executive.

BOARD SIZE

While we do not believe there is a universally applicable optimum board size, we believe boards should have at least five directors to ensure sufficient diversity in decision-making and to enable the formation of key board committees with independent directors. Conversely, we believe that boards with more than 20 members will typically suffer under the weight of "too many cooks in the kitchen" and have difficulty reaching consensus and making timely decisions. Sometimes the presence of too many voices can make it difficult to draw on the wisdom and experience in the room by virtue of the need to limit the discussion so that each voice may be heard.

To that end, we typically recommend voting against the representative director if a board has: (i) fewer than five directors; or (ii) more than 20 directors.

SEPARATION OF THE ROLES OF CHAIR AND CHIEF EXECUTIVE

While the law is silent on the position and titles of the board chair, the Commercial Act recognizes the title and position of a representative director who is elected by the board among the directors and represents the company. A representative director implements the decisions of the board and/or shareholders and runs the company's day-to-day operations. Given these duties, the representative director can be a close equivalent to the position of CEO in other countries; however, in practice, the representative director usually serves as the chair of the board. The law provides no clear separation or combination of the roles of board chair and representative director.

The functions of chair and CEO are not separate at most Korean listed companies. The Code recommends the separation of CEO/representative director and a board chairperson or the appointment of a senior independent director in such cases where the roles are not separated. Glass Lewis believes that separating the roles of corporate officers and the chair of the board is typically a better governance structure than a combined executive/chair position. The role of executives is to manage the business on the basis of the course charted by the board. Executives should be in the position of reporting and answering to the board for their performance in achieving the goals set out by the directors. This task becomes much more complicated when a member of management chairs the board.

It can become difficult for a board to fulfill its role of overseer and policy-setter when the chief executive/chair controls the agenda and discussion in the boardroom. This situation can engender chief executives with leverage to entrench their position, leading to longer-than-optimal terms, fewer checks on management, less scrutiny of business operations and more limitations on independent, shareholder focused goal-setting by the board.

We view an independent chair as better able to oversee the executives of the company and set a pro-shareholder agenda without the management conflicts that executive insiders often face. This, in turn, leads to a more proactive and effective board of directors that is looking out for the interests of shareholders above all else.

We do not recommend that shareholders vote against chief executives who serve on or chair a board. However, we do typically encourage our clients to support a separation between the roles of chair and chief executive, whenever that question is posed in a proxy.

DECLASSIFIED BOARDS

Glass Lewis favors the repeal of staggered boards and the annual election of directors. We believe staggered boards are less accountable to shareholders than boards that are elected annually. Furthermore, we feel an annual election of directors encourages board members to focus on shareholder interests. Moreover, empirical studies have shown: (i) staggered boards reduce a firm's value; and (ii) in the context of hostile takeovers, staggered boards operate as a takeover defense, which entrenches management, discourages potential acquirers and delivers a lower return to target shareholders.

Given the above empirical evidence against staggered boards and the increasing shareholder opposition to such a structure, Glass Lewis supports the declassification of boards and the annual election of directors.

BOARD EVALUATION AND REFRESHMENT

Glass Lewis strongly supports routine director evaluation, including independent external reviews, and periodic board refreshment to foster the sharing of diverse perspectives in the boardroom and the generation of new ideas and business strategies. Further, we believe the board should evaluate the need for changes to board composition based on an analysis of skills and experience necessary for the company, as well as the results of the director evaluations, as opposed to relying solely on age or tenure limits. When necessary, shareholders can address concerns regarding proper board composition through director elections.

In our view, a director's experience can be a valuable asset to shareholders because of the complex, critical issues that boards face. This said, we recognize that in rare circumstances, a lack of refreshment can contribute to a lack of board responsiveness to poor company performance.

On occasion, age or term limits can be used as a means to remove a director for boards that are unwilling to police their membership and enforce turnover. Some shareholders support term limits as a way to force change in such circumstances.

While we understand that age limits can aid board succession planning, the long-term impact of age limits restricts experienced and potentially valuable board members from service through an arbitrary means. We believe that shareholders are better off monitoring the board's overall composition, including its diversity of skillsets, the alignment of the board's areas of expertise with a company's strategy, the board's approach to corporate governance, and its stewardship of company performance, rather than imposing inflexible rules that don't necessarily correlate with returns or benefits for shareholders.

However, if a board adopts term/age limits, it should follow through and not waive such limits. If the board waives its term/age limits, Glass Lewis will consider recommending shareholders vote against the nominating and/or governance committees, unless the rule was waived with sufficient explanation, such as consummation of a corporate transaction like a merger.

We note that in the context of Korea, the Commercial Act restricts directors' terms to no longer than three years.[23] The vast majority of Korean companies disclose the term limit on each of their proposed nominees in meeting notices when submitting election of director proposals. While the vast majority of Korean companies have three-year terms for all directors, some companies provide different terms for directors. Where there is a difference, we usually find companies setting a shorter term period of one or two years for its non-executive directors.

BOARD COMMITTEES

In accordance with the Commercial Act[24], all large companies must establish both an audit committee and a nomination committee. If the board of a large company has not formed an audit and a nomination committee, we will generally recommend voting against the chair of the board on this basis.

With limited exceptions, Glass Lewis believes that both audit and compensation committees should consist solely of independent directors and at least three members should serve on these committees. Nomination committees should be comprised of a majority of independent directors.[25]

AUDIT COMMITTEE PERFORMANCE

In assessing an audit committee's performance, we are aware that an audit committee does not prepare financial statements, is not responsible for making the key judgments and assumptions that affect the financial statements, and does not audit the numbers or the disclosures provided to investors. Rather, an audit committee monitors and oversees the process and procedures that management and independent auditors perform. The audit committee should assist the board and the independent auditors to: (i) monitor the integrity of the financial information provided by the company; (ii) review annually and quarterly the internal control and risk management systems, with a view to ensuring that the main risks are properly identified, managed and disclosed; (iii) ensure the effectiveness of the internal audit function; (iv) monitor the external auditor's independence and objectivity; and (v) review the effectiveness of the external audit process[26].

For an audit committee to function effectively on investors' behalf, it must include members with sufficient knowledge to diligently carry out their responsibilities. Taking into consideration the importance of the audit committee, we believe that the members of the audit committee should, collectively, have a recent and relevant background in and experience of finance and accounting for listed companies appropriate to the company's activities.

We are skeptical of audit committees that have members who lack expertise in finance and accounting or in other equivalent or similar areas of expertise. At least one of the members should have sufficient relevant expertise and experience in order to carry out their duties in a proper way under the Commercial Act.[27]

23 Article 383 of the Commercial Act.

24 Articles 542-8 and 542-11 of the Commercial Act.

25 Exception: Government-owned companies.

26 Commission Recommendation of 15 February 2005 on the role of non-executive or supervisory directors of listed companies and on the committees of the (supervisory) board, Annex 1, article 4.

27 Article 542-11 of the Commercial Act.

Glass Lewis generally assesses audit committees against the decisions they make with respect to their oversight and monitoring role. Shareholders should be provided with reasonable assurance that the financial statements are materially free from errors based on: (i) the quality and integrity of the financial statements and earnings reports; (ii) the completeness of disclosures necessary for investors to make informed decisions; and (iii) the effectiveness of the internal controls. The independence of the external auditors and the results of their work all provide useful information for assessing the audit committee.

When assessing the decisions and actions of the audit committee, we typically defer to its judgment and recommend voting in favor of its members; however, we will usually recommend voting against the following members under the following circumstances[28]:

- Any audit committee member who is not considered independent based on our research;[29]
- The audit committee chair, if the audit committee does not have a financial expert or the committee's financial expert does not have a demonstrable financial background sufficient to understand the financial issues unique to public companies;
- The audit committee chair, if the audit committee did not meet at least four times during the year;
- The audit committee chair, if the committee has less than three members;
- The audit committee chair, if the company failed to disclose the audited financial statements in the meeting circular or the auditor's report of the previous fiscal year before the publication of our Proxy Report.
- All members of an audit committee who are up for election and who served on the committee at the time of the audit, if the company and the board failed to provide adequate financial information to the independent auditor;
- All members of an audit committee who served during the relevant time period, when material accounting fraud occurred at the company or annual financial statements had to be restated;
- All members of the audit committee who served during the relevant time period, when there is any disagreement with the auditor and the auditor resigns or is dismissed; or
- The chair of the board, if the company has not established an audit committee despite the legal requirement.

COMPENSATION COMMITTEE PERFORMANCE

The majority of Korean companies do not have separate compensation committees; instead, this function is performed by the board as a whole. However, when compensation committees are established, they have the final say in determining the compensation of executives. This includes deciding the bases on which compensation is determined, as well as the amounts and types of compensation to be paid. This process begins with the hiring and initial establishment of employment agreements, including the terms for items such as pay, pensions and severance arrangements. It is important that, in establishing compensation arrangements, compensation be consistent with, and based on, the long-term performance of a business's shareholders returns.

Compensation committees are also responsible for the oversight of the transparency of compensation. This oversight includes the disclosure of compensation arrangements, the matrix used in assessing pay for performance and the use of pay consultants. It is important for investors to have clear and complete disclosure of all the significant terms of compensation arrangements.

28 If our recommendation is to vote against the committee chair and the chair is not up for election, we do not recommend voting against any members of the committee who are up for election; rather, we will simply express our concern regarding the committee chair. In the absence of an audit committee, we will recommend voting against the chair of the board.

29 Exception: Government-owned companies.

Finally, compensation committees are responsible for the oversight of internal controls in the executive compensation process. This includes controls over gathering information used to determine compensation, the establishment of equity award plans and the granting of equity awards.

We evaluate compensation committee members on the basis of their performance while serving on the committee in question, not for actions taken by prior committee members who are no longer on the committee.

When assessing the performance of compensation committees, we will recommend voting against the following members under the following circumstances:[30]

- Any compensation committee member who is not considered independent based on our research;

- The compensation committee chair, if the compensation committee did not meet during the year;

- The compensation committee chair, if the committee has less than three members; or

- All members of the compensation committee who served during the relevant time period, if: (i) the company entered into excessive employment agreements and/or severance agreements; (ii) performance goals were lowered when employees failed or were unlikely to meet original goals, or performance-based compensation was paid despite goals not being attained; (iii) excessive employee perquisites and benefits were allowed; or (iv) we have identified other egregious policies or practices.

NOMINATION COMMITTEE PERFORMANCE

The nomination committee, as an agent for shareholders, is responsible and accountable for the selection of objective and competent board members, especially independent directors.

Pursuant to the Act on Corporate Governance of Financial Companies,[31] all financial firms are required to establish the committee for recommendation of candidates for executive officers ("executive nomination committee").[32] The executive nomination committee is responsible for nominating candidates for independent directors, representative directors, representative executive officers and audit committee members.[33] We note that all of our policies relevant to the nomination committee for non-financial firms are equally applied to the executive nomination committee for financial companies.

We will recommend voting against the following members under the following circumstances[34]:

- The nomination committee chair, if the committee did not hold any meeting during the previous fiscal year;

- The nomination committee chair, if the committee has less than three members;

- The nomination committee chair who is not considered independent based on our research;

- Any nomination committee member who is an insider;

- Any nomination committee member who is not considered independent based on our research, when the committee is not majority independent;

30 If our recommendation is to vote against the committee chair and the chair is not up for election, we do not recommend voting against any members of the committee who are up for election; rather, we will simply express our concern regarding the committee chair. In the absence of an audit committee, we will recommend voting against the chair of the board.

31 The Act on Corporate Governance of Financial Companies regulates and provides foundational principles for corporate governance of financial firms.

32 Article 16 of the Act on Corporate Governance of Financial Companies.

33 Article 17 of the Act on Corporate Governance of Financial Companies.

34 *Ibid.*

- All members of the nomination committee: (i) when the committee nominated a candidate as an independent director who had a significant conflict of interest or whose past actions demonstrated a lack of independence or integrity or an inability to represent shareholder interests[35];

- The nomination committee chair (or the board chair in the absence of nomination committee), if the board fails any of the following independence thresholds: (i) at least two independent directors that comprise at least one-third of the board's membership for small companies; and (ii) at least three independent directors that comprise a majority of the board's membership for large companies;

- The chair of the board, if the company is a large company and has not established a nomination committee.

ENVIRONMENTAL AND SOCIAL RISK OVERSIGHT

Glass Lewis understands the importance of ensuring the sustainability of companies' operations. We believe that an inattention to material environmental and social issues can present direct legal, financial, regulatory and reputational risks that could serve to harm shareholder interests. Therefore, we believe that these issues should be carefully monitored and managed by companies, and that companies should have an appropriate oversight structure in place to ensure that they are mitigating attendant risks and capitalizing on related opportunities to the best extent possible.

Glass Lewis believes that companies should ensure appropriate board-level oversight of material risks to their operations, including those that are environmental and social in nature. Accordingly, for large cap companies and in instances where we identify material oversight issues, Glass Lewis will review a company's overall governance practices and identify which directors or board-level committees have been charged with oversight of environmental and/or social issues. Glass Lewis will also note instances where such oversight has not been clearly defined by companies in their governance documents.

Where it is clear that a company has not properly managed or mitigated environmental or social risks to the detriment of shareholder value, or when such mismanagement has threatened shareholder value, Glass Lewis may consider recommending that shareholders vote against members of the board who are responsible for oversight of environmental and social risks. In the absence of explicit board oversight of environmental and social issues, Glass Lewis may recommend that shareholders vote against members of the audit and/or risk committee responsible for overseeing risk exposure. In making these determinations, Glass Lewis will carefully review the situation at hand, its effect on shareholder value, as well as any corrective action or other response made by the company.

35 In Korea, the nomination committee is responsible only for the nomination of independent directors.

Corporate Auditor that Serves Shareholder Interests

ELECTION OF CORPORATE AUDITORS

As stated earlier, small companies – and certain other types of firms that also are exempt from committee requirements — are usually governed by two-tier boards. Pursuant to the law[36], any stock-listed corporation with assets of more than KRW 100 billion should appoint one or more corporate auditors[37]. The function of corporate auditors is similar to that of the audit committee, in that they oversee the financial reporting of a company.

The Code states that corporate auditors should be independent from a company's management and controlling shareholders. While there is currently no clear independence requirement for the board of corporate auditors under Korean law and regulations, given the average number of corporate auditors per a small company and the importance of their roles in place of audit committees, we believe that the board of corporate auditors should be fully independent.

In addition, under the Commercial Act, if a person falls within any of the following categories, he or she should not serve as a corporate auditor for a listed company: (i) a person who was discharged or dismissed from a stock-listed corporation, and two years has not elapsed since the date of such discharge or dismissal; (ii) a major stockholder of the company; (iii) a full-time officer or employee of the company, or a person who has been a full-time officer or employee thereof in the last two years; and (iv) a person who is capable of having influence on management, such as spouses and family members of major stockholders and executives of the company and former and current executives and employees of affiliated entities.

Besides the aforementioned disqualifications, we will recommend voting against the corporate auditors under the following circumstances:

- When the proposed board of corporate auditors does not contain a financial expert with accounting expertise derived from either education or professional experiences, such as public accountant, auditor, principal financial, accounting officer, financial controller, or a position performing similar functions;
- When none of the auditors are full-time corporate auditors;
- When financial statements had to be restated due to negligence or fraud;
- When the company has repeatedly failed to file its financial reports in a timely fashion;
- When the company has failed to report or to have its auditors report material weaknesses in internal controls;
- When the company has aggressive accounting policies;
- When the company has poor disclosure or a lack of transparency in financial statements; or
- When there are other relationships or issues of concern with the corporate auditor that might indicate a conflict between the interests of the corporate auditor and those of shareholders.

36 Commercial Act and Capital Market and Financial Investment Business Act.

37 Under the Commercial Act, it is called a standing auditor.

Transparency and Integrity in Financial Reporting

ACCOUNTS AND ALLOCATION OF PROFITS/DIVIDENDS

As a routine matter, Korean law requires that shareholders approve a company's annual financial statements and business report within three months following the close of the fiscal year in order for them to be valid. The financial statements proposed to shareholders at the annual general meetings consist of: (i) the balance sheet; (ii) a profit and loss statement; and (iii) the statements of appropriation of earned surplus, or statements of disposition of deficit (the "statement of appropriation").

With respect to financial statements and dividend distribution, we will recommend shareholders vote against proposals in the following situations:

- When the financial statements have not been made available;
- When a company does not clearly state the completion of audit of the financial statements presented in a meeting circular; or
- When a company does not disclose its auditor report before our publication.

In Korea, the notice and circular for convocation of a general meeting are dispatched in writing or electronically to shareholder at least 14 days prior to the meeting date, as mandated by the Commercial Act.[38] Meanwhile, the Commercial Act[39] separately states a listed company shall make public notice of its audited financial statements at least seven days prior to the annual general meeting. Due to a discrepancy between these two separate mandates regarding the disclosure period, in case the meeting disclosure does not include audited financial statements and the voting date is set earlier than a week before the annual meeting date, shareholders may not be able to review audited financial statements prior to exercising their voting rights for annual general meetings.

We find it is not uncommon to see unaudited financial statements in Korean companies' meeting disclosures due to the aforementioned legal requirements. Nevertheless, we believe that it is imperative that the board of directors provide shareholders with transparent and accurate financial statements in a timely manner, especially before they need to cast their votes on this matter. The auditor opinion is crucial as it provides investors with reasonable assurance that the financial statements are presented fairly, in all material respects, and give a true and accurate view in accordance with the financial reporting framework. Without objective independent examination and verification of the financial statements, shareholders face challenges to understand the company's true financial condition and bear potential risk regarding any false information, such as errors or omissions in the financial statements, which may directly affect their investment decisions.

Therefore, given our concerns, unless we find that a company clearly states the completion of audit in its AGM circular or has disclosed its auditor's report before our publication, we will recommend shareholders oppose the adoption of the company's financial statements. We do not believe financial statements contained in meeting circulars are sufficient enough to determine whether these accounts have been properly prepared in accordance with prevailing Korean laws and the generally accepted accounting principles in Korea.

38 Article 363 of the Commercial Act.

39 Article 579-3 of the Commercial Act.

We generally recommend supporting a company's policy when it comes to the payment of dividends (or the absence thereof). We believe, in most cases, the board is in the best position to determine whether a company has sufficient resources to distribute a dividend or if the company would be better served by forgoing a dividend to conserve resources for future opportunities or needs. As such, we will only recommend that shareholders refrain from supporting dividend proposals in exceptional cases.

We support plans that provide shareholders with the choice of receiving dividends in shares instead of cash. Scrip dividends allow the company to retain cash that it would otherwise distribute as a normal dividend. For shareholders, a dividend reinvestment plan offers a less expensive way to acquire additional shares without paying brokers' commissions or potentially incurring unfavorable tax treatment.

Compensation

DIRECTOR AND CORPORATE AUDITOR COMPENSATION

Glass Lewis believes that directors and corporate auditors should receive compensation for the time and effort they spend serving on a board and its committees. In particular, we will consider supporting compensation plans that include option grants or other equity-based awards that help to align the interests of outside directors with those of shareholders. Director and corporate auditor fees should be reasonable in order to retain and attract qualified individuals. However, excessive fees represent a financial cost to the company and can threaten to compromise the objectivity and independence of non-employee directors and corporate auditors. Therefore, a balance is required.

In Korea, shareholders are allowed to approve the aggregate amount of fees to be granted to directors and corporate auditors as compensation for their services. The board then has full discretionary authority to allocate among the members within the approved limit approved by the shareholders. The proposed compensation may consist of annual fees and any other remuneration for executive directors, such as bonuses, performance incentives, equity-based compensation and other benefits.

It is common among Korean companies to provide limited disclosure as to the elements of compensation that may be paid to directors and/or corporate auditors. Instead, Korean companies are only required to disclose: (i) the proposed amount of the aggregate amount of fees payable to directors and/or corporate auditors for the next fiscal year in the meeting notices for shareholder approval; and (ii) the aggregate amount of compensation paid to directors and/or corporate auditors during the last fiscal year in the annual and quarterly reports. Due to the lack of complete disclosure surrounding the compensation of directors and/or corporate auditors, shareholders are unable to make a fully informed decision on one or more elements of a director's or corporate auditor's compensation.

In general, our standard seeks to determine whether the proposed compensation is within a reasonable range relative to a company's peers with similar asset size in the same country to help inform its judgments on this issue.

RETIREMENT BENEFITS FOR DIRECTORS

We will typically recommend voting against proposals to grant retirement benefits to non-executive directors. Such extended payments can impair the objectivity and independence of these board members. Directors should receive adequate compensation for their board service through initial and annual fees.

EQUITY-BASED COMPENSATION PLANS

Glass Lewis believes that equity compensation awards are a useful tool, when not abused, for retaining and incentivizing employees to engage in conduct that will improve the performance of the company.

Stock options are a common form of compensation for executives and employees in Korea.[40] Non-executives may also receive such benefits. The Commercial Act[41] allows for the exercise of options if the grantee has been in the service of the company for two years or more from the date when shareholders voted on the option

40 Pursuant to the Article 340-4 of the Commercial Act, a stock option may be exercised only when the option grantee has been in the service of the company for two years or more from the date when matters relating to the stock option were determined by the resolution of a general shareholders' meeting.
41 Article 542-3 of the Commercial Act.

grant. In general, stock options shall not be transferable to another person, provided that, in the case of the death of the grantees entitled to exercise the stock option, their heirs may exercise it.[42]

Options are an important component of compensation packages to attract and retain experienced executives and other key employees. Tying a portion of compensation to the performance of the company also provides executives and employees with an excellent incentive to maximize share value. We recognize that equity-based compensation programs have important differences from cash compensation plans and bonus programs. Accordingly, our analysis accounts for factors such as: (i) the administration of the plan; (ii) the method and terms of exercise; (iii) the company's re-pricing history and the express or implied rights to re-price; (iv) the presence of evergreen provisions; and (v) other factors that could allow for excessive compensation to be paid.

Our analysis is both quantitative and qualitative. In particular, we examine the potential dilution to shareholders, the company's grant history and compliance with best practice recommendations.

In general, we evaluate equity-based compensation plans and will make our voting recommendations based on these overarching principles:

- Companies should seek more shares only when necessary.

- Plans should not support the granting of stock options to those other than employees and/or executives of the company or its group.

- The annual net share count and voting power dilution should be limited.

- The annual cost of the plan should be reasonable as a percentage of financial results and in line with the peer group, especially if the cost is not shown on the income statement.

- The expected annual cost of the plan should be proportional to the value of the business.

- The intrinsic value received by option grantees in the past should be reasonable compared with the financial results of the business.

- The plan should deliver value on a per-employee basis when compared with programs at peer companies.

- Plans should not permit the re-pricing of stock options.

- Plans should not contain excessively liberal administrative or payment terms.

- The totality of the vesting period should not be less than two years.

- The equity-based compensation plans should not include the acceleration of vesting of awards upon an offer being made on a company's shares without the transaction needing to be completed, along with a further event such as termination of employment of the grantee.

Furthermore, when evaluating equity-based compensation proposals, we will look for companies to provide complete disclosure surrounding the proposed equity grants. In the absence of complete disclosure, we may recommend shareholders oppose either the adoption of an equity-based compensation plan or the granting of equity grants where:

- The number of share options or shares to be granted has not been disclosed by the company.

- The exercise price or discount rate of stock options is not disclosed or is determined at the discretion of the plan administrator.

42 Article 340-4 of the Commercial Act.

Governance Structure and the Shareholder Franchise

AMENDMENTS TO THE ARTICLES OF INCORPORATION

In Korea, amendments to a company's articles require affirmative votes of two-thirds of shares represented at the general meeting and of no less than one-third of the total outstanding shares as a special resolution[43].

We will evaluate proposed amendments to a company's articles of incorporation on a case-by-case basis. We are opposed to the practice of bundling several amendments under a single proposal because such a method prevents shareholders from an independent determination on each amendment. In such cases, we will analyse each change separately and will usually recommend voting for the proposal only when we believe that all of the amendments are either in the best interests of shareholders or are inconsequential.

One of the provisions of the Commercial Act[44] allows a company to approve its financial statements by board resolution instead of shareholder resolution, if there is full consent by the audit committee (the corporate auditor in case of a two-tier board) and an unqualified opinion of an independent auditor of the company. We believe that the implementation of this particular provision in the company's article negatively limits shareholder rights. Thus, we recommend shareholders vote against the resolution of such amendments to articles as a whole.

CAPITAL STRUCTURE

Glass Lewis believes that adequate capital stock is important to a company's operation. When analyzing a request for additional shares, we typically review four common reasons why a company might need additional capital stock:

STOCK SPLIT

We typically consider three metrics when evaluating whether we think a stock split is likely or necessary: (i) the historical stock pre-split price, if any; (ii) the current price relative to the company's most common trading price over the past 52 weeks; and (iii) some absolute limits on stock price that, in our view, either always make a stock split appropriate if desired by management or would almost never be a reasonable price at which to split a stock.

ISSUANCE OF SHARES AND/OR CONVERTIBLE SECURITIES

In Korea, the board has the authority to issue shares and other securities using its discretion, without shareholder approval. In general, we believe that the board is in the best position to determine the capital structure of the company within context of its business, absent a showing of egregious or illegal conduct that might threaten shareholder value. In addition, board authority to issue shares or other securities may benefit shareholders by providing the Company with the flexibility to finance operations and future business opportunities. However, issuing an excessive amount of additional shares and/or convertible securities can adversely affect voting

43 Article 433-1 of the Commercial Act.

44 Article 449-2 of the Commercial Act.

power and financial interests of common shareholders. Further, the board's decision may not be in line with the best interests of shareholders. Accordingly, where we find any significant issues in the company's issuance practices, we may recommend voting against board members to be held accountable on the issues when they face reelection.

While we think that having adequate shares to allow management to make quick decisions and effectively operate the business is critical, we prefer that, for significant transactions, management come to shareholders to justify the use of additional shares rather than providing a blank check in the form of a large pool of unallocated shares available for any purpose.

In our view, any authorization to issue shares and/or convertible securities without preemptive rights should not exceed 20% of the company's total share capital. Likewise, we believe the discount rate for the new issue should not exceed 15% of the average market price.

ISSUANCE OF DEBT INSTRUMENTS

In Korea, a board has the authority to issue and/or trade in non-convertible, convertible and/or exchangeable debt obligations, at any time, in accordance to the country's legal standards. Generally, the board is granted the authority to establish a fixed or variable interest rate, and more globally, to establish all other aspects of the debt instruments.

SUPERMAJORITY VOTE REQUIREMENTS

Glass Lewis believes that supermajority vote requirements act as impediments to shareholder action on ballot items that are critical to their interests. One key example is in the takeover context, where a supermajority vote requirement can strongly limit the voice of shareholders in deciding whether to sell the business. We will generally recommend shareholders reject the adoption or extension of supermajority voting provisions and support proposals to eliminate such provisions.

RIGHT OF SHAREHOLDERS TO CALL A SPECIAL MEETING

Pursuant to the Commercial Act[45], shareholders who hold no less than 3% of the total outstanding shares may demand the convocation of a special meeting.

Glass Lewis strongly supports the right of shareholders to call special meetings. However, in order to prevent abuse and waste of corporate resources by a very small minority of shareholders we believe that such rights should be limited to an appropriate ownership threshold of the shareholders requesting such a meeting. A low threshold may leave companies subject to meetings whose effect might be the disruption of normal business operations in order to focus on the interests of only a small minority of owners.

45 Article 363-2 of the Commercial Act.

Shareholder Initiatives

Although uncommon in Korea, should a shareholder proposal arise, we will evaluate it on a case-by-case basis. We generally favor proposals that are likely to increase shareholder value and/or promote and protect shareholder rights. We typically prefer to leave decisions regarding day-to-day management of the business and policy decisions such as those related to political, social or environmental issues to management and the board except when there is a clear and direct link between the proposal and an economic or financial risk for the company. We feel strongly that shareholders should not attempt to micromanage the business or its executives through the initiative process. Rather, shareholders should use their influence to push for governance structures that protect shareholders, including through director elections, and promote the composition of a board they can trust to make informed and careful decisions that are in the best interests of the business and its owners. We believe that shareholders should hold directors accountable for management and policy decisions through the election of directors.

ENVIRONMENTAL, SOCIAL & GOVERNANCE INITIATIVES

For a detailed review of our policies concerning compensation, environmental, social and governance shareholder initiatives, please refer to our comprehensive *Proxy Paper Guidelines for Shareholder Initiatives*, available at www.glasslewis.com.

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