



Korea Exchange: **004800**

ISIN: **KR7004800009**

MEETING DATE: 17 MARCH 2017

RECORD DATE: 31 DECEMBER 2016

PUBLISH DATE: 01 MARCH 2017

INDEX MEMBERSHIP: KOSPI 200; KOSPI 100

SECTOR: MATERIALS

INDUSTRY: CHEMICALS

COMPANY DESCRIPTION

Hyosung Corporation operates in the textiles, chemicals, industrial materials, power and industrial systems, construction, trading, and information and communication sectors worldwide.

COUNTRY OF TRADE: KOREA, REPUBLIC OF

COUNTRY OF INCORPORATION: KOREA, REPUBLIC OF

VOTING IMPEDIMENT: NONE

DISCLOSURES: NONE



OWNERSHIP	ESG PROFILE	PREVIOUS BOARD	VOTE RESULTS	APPENDIX
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2017 ANNUAL MEETING

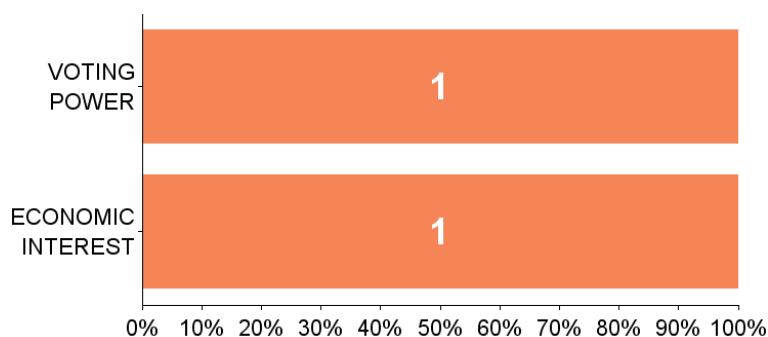
PROPOSAL	ISSUE	BOARD	GLASS LEWIS	CONCERNS
1.00	Accounts and Allocation of Profits/Dividends	FOR	AGAINST	<ul style="list-style-type: none"> • Unaudited financial statements
2.00	Election of Directors (Slate)	FOR	AGAINST	<ul style="list-style-type: none"> • Unaudited financial statements • Related party transaction • Attendance • Board independence • Affiliate/Insider on a committee
2.01	Elect KIM Gyu Young	FOR	FOR	
2.02	Elect KIM Sang Hee	FOR	AGAINST	<ul style="list-style-type: none"> • Unaudited financial statements • No financial expert
2.03	Elect HAN Min Koo	FOR	FOR	
2.04	Elect SON Byeong Du	FOR	AGAINST	<ul style="list-style-type: none"> • Attendance
2.05	Elect LEE Byeong Ju	FOR	AGAINST	<ul style="list-style-type: none"> • Committee independence • Board independence • Professional services relationship
2.06	Elect PARK Tae Ho	FOR	FOR	
3.00	Election of Audit Committee Members (Slate)	FOR	AGAINST	<ul style="list-style-type: none"> • Unaudited financial statements • Related party transaction • Board independence • Affiliate/Insider on a committee • Lack of financial expert
3.01	Election of Audit Committee Member: KIM Sang Hee	FOR	AGAINST	<ul style="list-style-type: none"> • Unaudited financial statements • Lack of financial expert
3.02	Election of Audit Committee Member: HAN Min Koo	FOR	FOR	
3.03	Election of Audit Committee Member: LEE Byeong Ju	FOR	AGAINST	<ul style="list-style-type: none"> • Related party transaction • Affiliate/Insider on a committee • Board independence
4.00	Directors' Fees	FOR	FOR	

SHARE OWNERSHIP PROFILE

SHARE BREAKDOWN

	1
SHARE CLASS	Common Stock
SHARES OUTSTANDING	33.3 M
VOTES PER SHARE	1
INSIDE OWNERSHIP	39.00%
STRATEGIC OWNERS**	39.00%
FREE FLOAT	61.00%

SOURCE CAPITAL IQ AND GLASS LEWIS. AS OF 05-JAN-2017



TOP 20 SHAREHOLDERS

	HOLDER	OWNED*	COUNTRY	INVESTOR TYPE
1.	Cho, Hyun-Joon	14.57%	N/A	Individuals/Insiders
2.	Cho, Hyun-Sang	12.89%	N/A	Individuals/Insiders
3.	National Pension Service	11.71%	South Korea	Government Pension Plan Sponsor
4.	Cho, Suk-Rae	10.79%	N/A	Individuals/Insiders
5.	BlackRock, Inc.	1.56%	United States	Traditional Investment Manager
6.	The Vanguard Group, Inc.	1.37%	United States	Traditional Investment Manager
7.	Norges Bank Investment Management	1.27%	Norway	Government Pension Plan Sponsor
8.	Dimensional Fund Advisors LP	1.25%	United States	Traditional Investment Manager
9.	Song, Gwang-Ja	0.78%	N/A	Individuals/Insiders
10.	Samsung Asset Management Co. Ltd.	0.76%	South Korea	Traditional Investment Manager
11.	Assetplus Investment Management Co., Ltd.	0.68%	South Korea	Traditional Investment Manager
12.	Quoniam Asset Management GmbH	0.31%	Germany	Traditional Investment Manager
13.	AP Fonden 2	0.30%	Sweden	Government Pension Plan Sponsor
14.	Principal Global Investors, LLC	0.24%	United States	Traditional Investment Manager
15.	Causeway Capital Management LLC	0.22%	United States	Traditional Investment Manager
16.	State Street Global Advisors, Inc.	0.21%	United States	Traditional Investment Manager
17.	Mirae Asset Global Investments Co., Ltd	0.20%	South Korea	Traditional Investment Manager
18.	UBS Asset Management	0.20%	Switzerland	Traditional Investment Manager
19.	Caisse de dépôt et placement du Québec	0.19%	Canada	Traditional Investment Manager
20.	Allianz Asset Management AG	0.17%	Germany	Traditional Investment Manager

*COMMON STOCK EQUIVALENTS (AGGREGATE ECONOMIC INTEREST) SOURCE: CAPITAL IQ. AS OF 05-JAN-2017

**CAPITAL IQ DEFINES STRATEGIC SHAREHOLDER AS A PUBLIC OR PRIVATE CORPORATION, INDIVIDUAL/INSIDER, COMPANY CONTROLLED FOUNDATION, ESOP OR STATE OWNED SHARES OR ANY HEDGE FUND MANAGERS, VC/PE FIRMS OR SOVEREIGN WEALTH FUNDS WITH A STAKE GREATER THAN 5%.

SHAREHOLDER RIGHTS

	MARKET THRESHOLD	COMPANY THRESHOLD ¹
VOTING POWER REQUIRED TO CALL A SPECIAL MEETING	3.0%	3.0%
VOTING POWER REQUIRED TO ADD AGENDA ITEM	1.0%	1.0%

¹N/A INDICATES THAT THE COMPANY DOES NOT PROVIDE THE CORRESPONDING SHAREHOLDER RIGHT.

PROPOSAL REQUEST:	Accounts and allocation of profits	RECOMMENDATIONS & CONCERNS:
PRIOR YEAR VOTE RESULT (FOR):	N/A	AGAINST- Unaudited financial statements
BINDING/ADVISORY:	Binding	
REQUIRED TO APPROVE:	Majority	

SUMMARY

In KRW per share	FY 2016	FY 2015
Interim Dividend	0	0
Final Dividend	5,000	3,500
TOTAL DIVIDENDS FOR THE YEAR	5,000	3,500
DIVIDEND PAYOUT RATIO	30.9%	36.6%

GLASS LEWIS ANALYSIS

DIVIDEND

With limited exceptions, Glass Lewis will generally support the dividend policy proposed by a company. Here, we do not see any cause for concern in terms of the board's process in making this determination.

MARKET REGULATIONS AND PRACTICES

In accordance with Korean regulations, the legal deadlines of certain disclosures related to an annual general meeting ("AGM") and financial statements by a Korean company are as follows: (a) meeting notice and meeting circular - 14 days prior to the AGM; (b) auditor's report - 7 days prior to the AGM; and (c) annual report, which should include audited financial statements approved by shareholders at the AGM – between the AGM and 90 days after the last day of the previous fiscal year. As a result, companies may include unaudited financial statements in their AGM circulars with or without a note regarding the status of audit.

Given the lack of mandatory disclosure of audited financial statements, unless a company clearly states that its financial statements presented in the meeting disclosures are fully audited or it discloses its auditor's report around the announcement date of AGM circular, it is difficult for shareholders to determine whether they received audited financial statements in the meeting circulars.

GLASS LEWIS POLICY WITH REGARD TO FINANCIAL STATEMENTS

Even though it is not uncommon to see unaudited financial statements in Korean companies' meeting disclosures due to the aforementioned legal requirements, we nevertheless 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.

Given our concerns, unless we find that a company clearly affirms the completion of audit in its meeting circular or has disclosed its auditor's report before our publication, we cannot determine whether these accounts have been properly prepared in accordance with the generally accepted accounting principles in Korea and therefore cannot recommend shareholders approve the company's financial statements.

RECOMMENDATION

In this case, the Company states that its financial statements provided in the meeting circular have not been audited. Given our concerns discussed above, we do not believe shareholders can support this proposal at this time.

We recommend that shareholders vote **AGAINST** this proposal.

PROPOSAL REQUEST: Election of six directors	RECOMMENDATIONS & CONCERNS:	
ELECTION METHOD: Majority	AGAINST- SON Byeong Du LEE Byeong Ju	Less than 75% Attendance Insufficient audit committee independence, Board is not sufficiently independent, Professional Services Relationship No financial expert, Unaudited financial statements
	KIM Sang Hee	
	FOR- KIM Gyu Young PARK Tae Ho HAN Min Koo	
	NOT UP- CHO Hyun Joon CHO Hyun Sang CHOI Joong Kyung LEE Sang Woon	Nominated a director w/ concerning issues, Nominating committee chair not independent, Responsible for lack of board independence
	CHO Suk Rae	

PROPOSAL SUMMARY

If elected, the term of office of the proposed candidates will be two years.

In addition, audit committee members are separately proposed as follows: KIM Sang Hee; HAN Min Koo; and LEE Byeong Ju.

BOARD OF DIRECTORS

UP	NAME	AGE	GENDER	GLASS LEWIS CLASSIFICATION	COMPANY CLASSIFICATION	OWNERSHIP**	COMMITTEES		TERM END
							AUDIT	NOM	
✓	KIM Gyu Young*	69	M	Insider 1	Insider	No			-
	CHO Hyun Joon*	49	M	Insider 2	Insider	14%			2018
	CHO Hyun Sang*	46	M	Insider 3	Insider	12%			2018
	LEE Sang Woon*	65	M	Insider 4	Insider	Yes		C	2018
	CHO Suk Rae* -Chair	82	M	Insider 5	Insider	10%			2018
☐	✓ LEE Byeong Ju	66	M	Affiliated 6	Independent	No	✓		2017
☐	✓ SON Byeong Du	76	M	Independent	Independent	No			2017
	✓ PARK Tae Ho	65	M	Independent	Independent	No			2017
	CHOI Joong Kyung	61	M	Independent	Independent	No			2018
	✓ HAN Min Koo	69	M	Independent	Independent	No	✓	✓	2017
☐	✓ KIM Sang Hee	66	M	Independent	Independent	No	✓	✓	2017

C = Chair, * = Public Company Executive, ☐ = Withhold or Against Recommendation

1. President.
2. President. Executive director, non-executive director, and auditor of affiliated entities. Son of CHO Suk Rae and brother of CHO Hyun Sang.
3. Vice president. Director and corporate auditor of affiliated entities. Son of CHO Suk Rae and brother of CHO Hyun Joon.
4. Executive vice chairman, COO and co-representative director. Director and corporate auditor of affiliated entities.
5. Executive chairman and co-representative director. Father of CHO Hyun Joon and CHO Hyun Sang.
6. Advisor of Bae, Kim and Lee, LLC., a law firm which has provided legal services to the Company.

** Percentages displayed for ownership above 1%, when available

NAME	ATTENDED AT LEAST 75% OF MEETINGS	PUBLIC COMPANY EXECUTIVE	ADDITIONAL PUBLIC COMPANY DIRECTORSHIPS
KIM Gyu Young	N/A	Yes	None
CHO Hyun Joon	N/A	Yes	(1) HYOSUNG ITX. CO., LTD
CHO Hyun Sang	N/A	Yes	None
LEE Sang Woon	N/A	Yes	(1) Shinwha Intertek Corp
CHO Suk Rae	N/A	Yes	None
LEE Byeong Ju	Yes	No	(1) Hyundai Mobis Co., Ltd
SON Byeong Du	No	No	None
PARK Tae Ho	Yes	No	(1) Korea Aerospace Industries, Ltd.
CHOI Joong Kyung	Yes	No	None
HAN Min Koo	Yes	No	(1) Samsung Electro-Mechanics Co
KIM Sang Hee	Yes	No	None

MARKET PRACTICE

INDEPENDENCE AND COMPOSITION	004800*	REQUIREMENT	BEST PRACTICE
Independent Chair	No	N/A ¹	N/A ¹
Board Independence	45%	Majority; One-fourth ²	Majority; One-fourth ⁴
Audit Committee Independence	67%	Two-thirds ³	100% ⁵
Compensation Committee Independence	N/A	Majority ³	100% ⁵
Nominating Committee Independence	67%	Majority ³	Majority ⁵
Percentage of women on board	0%	N/A ¹	N/A ¹
Directors' biographies	Meeting Notice and Page 234 through 243 of 2016 3Q Report		

* Based on Glass Lewis Classification

1. N/A
2. Commercial Act. For companies with assets exceeding KRW 2 trillion, majority independent.
3. Commercial Act.
4. Code of Best Practices for Corporate Governance. For companies with assets exceeding KRW 1 trillion, majority independent.
5. Code of Best Practices for Corporate Governance.

Pursuant to the Commercial Act in Korea, a listed company with assets over KRW 2 trillion ("large company") is required to appoint at least three independent directors to the board and the independent directors should comprise a majority of a board. For a listed company with assets below KRW 2 trillion ("small company"), independent directors must comprise at least 25% of a board of directors.

In accordance with the Commercial Act, large companies are required to establish an audit committee and an independent director candidate nominating committee ("nominating committee"), which is responsible for nominating independent director candidates. The nomination committee should comprise a majority of independent directors and should be chaired by an independent director. According to the Code of Best Practices for Corporate Governance (the "Code"), a listed company should have two or more independent members on the board and both the audit committee and the compensation committee should consist solely of independent non-executive directors.

While most Korean companies allow shareholders to elect directors on an individual basis, shareholders are sometimes limited to voting only on the entire slate of directors due to the extended delivery process of proxy forms. To accommodate this, Glass Lewis provides recommendations for the election of directors both as a slate and individually.

We note that Korean laws and regulations require public companies to disclose only independent directors' attendance at board meetings. In this case, the Company satisfies the minimum disclosure requirement regarding director attendance. However, due to the limited amount of available information on the attendance of non-independent directors, we are only able to provide attendance-related voting recommendations for independent directors.

GLASS LEWIS ANALYSIS

We believe shareholders should be mindful of the following:

BOARD STRUCTURE

We note that the Company's total assets are above KRW 2 trillion and the Company is governed by a one-tier board.

AUDIT COMMITTEE CHAIR

As of the writing of this report, we have not been able to obtain any information regarding the chairperson of the audit committee. Given the audit committee chair's important role of providing leadership and of exercising powers on behalf of the committee, we believe that shareholders should be fully informed of the audit committee's composition including its chairperson's background and independence status. While we refrain from recommending to vote against any particular nominee on this basis at this time, we encourage the Company to provide more detailed information with regard to the chairperson of the audit committee.

NOMINATING COMMITTEE CHAIR RESPONSIBLE FOR BOARD INDEPENDENCE

Director LEE Sang Woon serves on the nominating committee as its chairperson, which we believe should be held responsible for failing to nominate a sufficient number of independent directors.

NOMINATING COMMITTEE CHAIR INDEPENDENCE

Director LEE Sang Woon serves as chairman of the nominating committee, which we believe should be chaired by an independent director so as to ensure fair and objective supervision.

NOMINATION OF DIRECTOR WITH POOR ATTENDANCE

Nominee SON Byeong Du failed to fulfill a fundamental responsibility to represent shareholders at meetings for the past 2 or more consecutive years by attending less than 75% of the meetings. We believe that the chairman of the nominating committee, LEE Sang Woon, should be held accountable for the decision to re-nominate these directors despite the obvious lack of commitment.

FAVORABLE JUDGMENT FOR EXECUTIVE CHAIRMAN

In January 2016, the Company's executive chairman, CHO Suk Rae was sentenced to three years of imprisonment on charges relating to tax evasion and accounting fraud. During the first trial in January, the Seoul Administrative Court found Mr. CHO innocent of the alleged embezzlement, but guilty of tax misappropriations. During the ongoing trial, Mr. CHO effectively won certain tax disputes against certain taxation authorities. However, on January 16, 2017, the Seoul District Court ruled in favor of the taxpayers. The case is still open and pending ruling over misappropriations amounting to approximately KRW 85 billion of in taxes, including KRW 64 billion in gift taxes, KRW 460 million of composite income taxes, and KRW 22 billion of transfer income taxes. Mr. CHO's third trial of appeal is scheduled for April 7, 2017. (LEE Sae Ha. "[Hyosung CHO Suk Rae, Virtually in Favor of Tax Appeal... Effect on a Criminal Trial.](#)" *Etoday*. January 16, 2017; PARK Ki Tae. "[CHO Suk Rae, Previous Chairman of Hyosung, The Third Trial of Appeal Will Be Held on April 7th.](#)" *Focusnews*. January 18, 2017).

UNDECLARED FOREIGN FINANCIAL ACCOUNTS OF PRESIDENT OF THE COMPANY

The National Tax Service ("NTS") exposed that CHO Hyun Joon, president of the Company, did not declare foreign financial accounts amounting to KRW 6,472 million. Mr. CHO is currently undergoing a criminal trial involving embezzlement and is being investigated over raising a slush fund and dumping its losses on the Company. The NTS, who has a list of perpetrators, plans to impose fines, repayment of back taxes and bring a criminal charge to light in respect to undeclared foreign financial accounts amounting to an estimated more than KRW 5 billion in underreporting. If convicted, individuals face fines of up to 10% of the sum of money misreported or even up to two years of a jail sentence. (KIM Kyeong Ho. "[CHO Hyun Joon, President of Hyosung, Undeclared Foreign Financial Accounts Were Exposed.](#)" *Smedaily*. December 9, 2016).

In our view, shareholders should be concerned with any type of lawsuit or regulatory investigation involving the Company or its board members and management members, as such matters could potentially expand in scope and prove to dampen shareholder value. As such, in the event that members of management or the board are implicated in any such legal proceedings, we may consider recommending that shareholders withhold votes from certain directors on that basis. However, due to the ongoing nature of the legal proceedings, we do not feel that any such action is necessary at this time. We will continue to monitor the proceedings going forward.

RECOMMENDATION

We recommend voting against nominees up for election as follows:

DISCLOSURE OF AUDITED FINANCIAL STATEMENTS

The Company failed to disclose its audited financial statements for the previous fiscal year in its annual general meeting

circular. We believe that audit committee chair should be responsible for failure to disclose audited financial statements in timely manner. However, given the lack of disclosure, we believe that the audit committee member with the longest tenure **KIM Sang Hee** should be responsible for this issue.

AUDIT COMMITTEE COMPOSITION

The audit committee has not, to our knowledge, appointed an audit committee financial expert. An audit financial expert is essential in providing the committee with expert advice and guidance as it relates to the oversight of the Company's accounting and financial reporting. We believe this is a serious omission for which the audit committee member with the longest tenure, director **KIM Sang Hee** should be held accountable.

DIRECTOR ATTENDANCE

Nominee **SON Byeong Du** attended less than 75% of the meetings held by the board and/or the applicable committees during the last fiscal year. We view this as a failure to fulfill a fundamental responsibility to represent shareholders at such meetings.

AUDIT COMMITTEE INDEPENDENCE

Nominee **LEE Byeong Ju** serves on the audit committee, which we believe should consist solely of independent non-executive directors.

BOARD INDEPENDENCE

Based on our analysis and definition of independence, we find that the board does not have a sufficient number of independent directors. Due to the lack of board independence, we recommend voting against the nominee **LEE Byeong Ju**.

PROFESSIONAL SERVICES

Nominee **LEE Byeong Ju** serves as lawyer of [Bae, Kim and Lee, LLC.](#), which provides legal services to the Company. We question the need for the Company to engage in legal services with its directors. We view such relationships as creating conflicts for directors, as they may be forced to weigh their own interests in relation to shareholder interests when making board decisions. In addition, a company's decision regarding where to turn for the best professional services may be compromised when doing business with the professional services firm of one of the Company's directors.

(For shareholders electing directors individually)

We recommend that shareholders vote:

AGAINST: KIM Sang Hee; LEE Byeong Ju; SON Byeong Du

FOR: HAN Min Koo; KIM Gyu Young; PARK Tae Ho

(For shareholders electing directors as a slate)

Given the nature and extent of the concerns regarding the aforementioned issues, we recommend voting against the entire slate of directors.

We recommend that shareholders vote **AGAINST** this proposal.

3.00: ELECTION OF AUDIT COMMITTEE MEMBERS (SLATE)

AGAINST

PROPOSAL REQUEST:	Election of audit committee members	RECOMMENDATIONS & CONCERNS:
PRIOR YEAR VOTE RESULT (FOR):	N/A	AGAINST- Unaudited financial statements Director has a professional services relationship with company Board is not sufficiently independent Affiliate/Insider on a committee No designated financial expert on board
BINDING/ADVISORY:	Binding	
REQUIRED TO APPROVE:	Majority	

Please refer to the analysis in Proposal 2.

PROPOSAL REQUEST:	Approval of the fees to be paid to the Company's board of directors for fiscal year 2017	RECOMMENDATIONS & CONCERNS:
PRIOR YEAR VOTE RESULT (FOR):	N/A	FOR- No material concerns
BINDING/ADVISORY:	Binding	
REQUIRED TO APPROVE:	Majority	

GLASS LEWIS ANALYSIS

Glass Lewis believes that fees paid to directors should be substantial enough to attract and retain qualified individuals. We also recognize the value of equity-based incentive programs, which may be included in the proposed directors' compensation. When used appropriately, these programs can provide a vehicle for linking a director's pay to a company's performance, thereby aligning the director's interests with those of shareholders. At the same time, these fees should not impose a high financial cost to the company or threaten to compromise the objectivity and independence of non-executive directors.

We note that pursuant to the relevant laws and regulations of Korea, the proposed annual cap may include the aggregate amount of directors' fees for all directors and any other compensation for executive directors, such as bonuses, performance incentives, equity-based compensation and other benefits. Currently, laws are silent on the detailed disclosure requirement on the compensation policies, so we understand that such lack of compensation policy disclosure is a common practice of Korean companies. However, we believe that compensation policy for board members and key executives should be well defined and disclosed by the board and that full disclosure will allow shareholders to make an informed assessment of the compensation policy for the board and key executives to be granted and evaluated in a fair and reasonable range based on the company's financial position and performance in all material aspects.

Here, we evaluated directors' compensation based on our research and set up a standard to determine the proposed cap to be within a reasonable range relative to its peers of similar total assets and market capitalization. Based on the 2016 annual caps on the directors' compensation of Korea's top 50 companies with assets over KRW 2 trillion ("large companies") and top 50 companies with assets below KRW 2 trillion ("small companies"), we believe that the following should be reasonable for the average annual cap per director for fiscal year 2017: i) KRW 2.16 billion for large companies; and ii) KRW 1.15 billion for small companies.

PROPOSED ANNUAL CAP ON DIRECTOR COMPENSATION

In KRW billion	FY 2017
Proposed Maximum Aggregate Fees	15
Average Annual Cap per Director	1.4

INDEPENDENT DIRECTORS FEES PAID IN 2016

Classification (In KRW million)	Aggregate Compensation	Average Compensation
Independent Directors	325	54

In our analysis, taking into account similarly-sized companies and market position, we find that the Company's director fees are reasonable and in line with those paid by the Company's peers. As such, we believe shareholders can support this resolution at this time.

We recommend that shareholders vote **FOR** this proposal.

APPENDIX

Questions or comments about this report, GL policies, methodologies or data? Contact your client service representative or go to www.glasslewis.com/issuer/ for information and contact directions.

■ DISCLOSURES

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■ LEAD ANALYSTS

Governance:

Kelly Kim