Korea Corporate Governance Service (www.cgs.or.kr)	Press Release
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Proxy Review of Q1 2019 Annual General Meetings

Ⅰ. Scope

The Korea Corporate Governance Service (KCGS) issued affirmative and negative voting recommendations for institutional investors on the proposals put to vote at the annual general meetings held in the first quarter of 2019 of 300 companies with a 12/31 fiscal year-end. Of the 300 corporations, 218 are listed on the KOSPI market, 78 on the KOSDAQ and the remainder 4 on the KONEX. The review was conducted based on the KCGS Proxy Voting Guidelines updated in January 2019.

In terms of individual proposals, the 300 firms tabled 2,247 proposals and the KCGS looked at 2,229 of them presented by management (40% up year on year). The following shows details of the KCGS's negative voting recommendations against these proposals, alongside the unique features observed during this year's proxy season.

Ⅱ. Proxy Review Result

Of the 2,229 items reviewed by the KCGS, 354 or 15.9% of them received a negative voting recommendation. The number of firms that received at least one negative voting recommendation amounted to 188 or 62.7%.

The ratio of negative voting recommendations slightly increased compared to last year's figure (14.2%). This is attributable to the amendment to the agency's proxy voting guidelines concerning director compensation, which raised the ratio of negative voting recommendations in the pertinent category from 2.1 % to 27.1% year on year. The following details key reasons behind negative voting recommendations and the characteristics observed in this year's proxy season.

< 2019 AGM Proxy Review Results >

Category	Total	F/S · Dividends	Amendments to AoI	Board of directors				Auditing body			Director remuneration cap	Auditor remuneration cap	Other occasional items*
				Inside director	Non-executive director	Independent director	sub-total	Audit committee member	Auditor	sub-total			
negative voting recommendation(%)	15.9	6.8	6.4	4.9	2.2	23.7	14.2	23.5	48.8	26.7	27.1	1.6	44.6
negative voting recommendation(#)	354	21	21	17	1	93	111	65	20	85	81	2	33
# of proposals	2,229	307	326	345	45	392	782	277	41	318	299	123	74

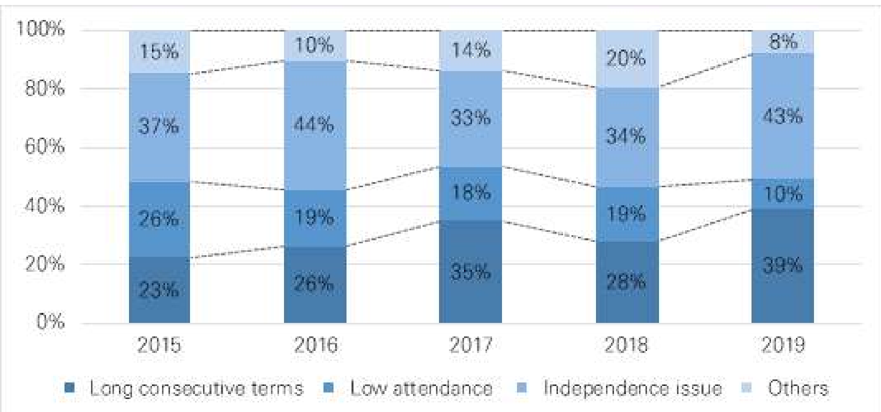
* Company split-offs, creation/revision of severance pay guidelines, stock option plans, capital reserve reductions, etc.

(Election of directors) The KCGS issued negative voting recommendations against 14.2% of the proposals of electing directors (111 out of 782), mostly against independent director nominees. The rate of negative voting recommendations issued against independent directors showed a significant drop year on year from 30.5% to 23.7%, largely due to the drop of the ratio in the low attendance[1] category and the relaxation in the proxy voting guidelines in line with the Commercial Act requirement concerning the restrictions on the interlocking directorate(other reason)[2].

< Number of negative voting recommendations against independent directors by reason 2015 ~ 2019 >

Reason	2015	2016	2017	2018	2019
Long consecutive terms	35	33	58	30	39
Low attendance	40	24	30	20	10
Independence issue (conflicting interests)	57	55	54	36	43
Others	23	13	23	21	8
Total	155	125	165	107	100

< Distribution of reasons for negative voting recommendations against independent directors 2015 ~ 2019 >



1) When the attendance in the board and committee meetings is less than 75% as a recent three-year average.
2) Until 2018, when applying Article 542-8 of the Commercial Act and Article 34 of the Enforcement Decree of the same Act concerning a ban on the practice of serving three or more firms concurrently as a director, executive officer or auditor, the KCGS did not restrict the scope of ‘firms’ to the ones defined by the Commercial Act but employed a broad interpretation.

The number of nominees opposed by the KCGS almost halved despite the year-on-year surge in the number of the proposals of electing independent directors to 392 this year from 305 in 2018. This trend indicates improvements in independent directors' attendance records and in the companies' nomination process. Nonetheless, institutional investors need to pay heed to the fact that the share of negative voting recommendations due to long consecutive terms[3)] and conflicting interests[4)] that potentially undermine the independence of the nominees stayed at a consistently high level for the recent five years.

(Auditing body) With regards to the auditing body, out of a total of 318 proposals of electing an auditing body (auditor or audit committee member), the KCGS issued negative vote recommendations against 58 of them or 26.7%.

The ratio of negative voting recommendations against corporate auditors stood at 48.8%, the highest rate of all categories of proposals subject to this review. The most cited reason was long-term consecutive service, which was found in 11 out of 20 cases. The nominee who served the longest had already served for fifteen years at the time of the election. The nominees who received a negative voting recommendation served an average of 8.9 years.

In an isolated case, the KCGS issued a negative voting recommendation against a full-time corporate auditor nominee because the agency failed to confirm an evidenced expert competency in the auditor candidate when the position requires a certain level of expertise so that he/she may monitor and audit the business activities of the directors and management effectively. In two other cases, a negative voting recommendation was issued respectively because the nominees continued their professions, e.g. professor and law firm attorney, while they served as a 'full-time' corporate auditor.

In the meantime, as for the audit committee member nominees, the KCGS issues negative voting recommendations if the nominee called fewer than four audit committee meetings as an annual average while chairing the audit committee concerned and if the non-audit service fees exceeded the audit service fees during the nominee's service period. There were one and five such cases respectively, nearly half the respective previous figures of two and twelve.

(Amendments to articles of incorporation) Another key theme concerns amendments of articles of incorporation. 284 corporations proposed to amend their articles of incorporation this proxy season. Of these, 21 firms or 6.4% received a negative voting recommendation from the KCGS on grounds of potential violation of shareholder rights and deteriorated firm value.

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3) If the consecutive terms including the prospective term exceed seven years in service (five years as for financial companies)
4) If the nominee is a party related to the legal entity or an individual of acting as a legal representative (for litigation), advisor or external auditor of the company, or in a competing or cooperative business relationship with the company.

Most of the amendments were proposed in preparation for the upcoming enforcement of the Act on Electronic Registration of Stocks, Bonds, Etc. and the Enforcement Decree of the same Act, so much so that no issue was found in these proposals in terms of reduced shareholder rights.

Six companies proposed to remove in-writing voting, which faced negative voting recommendations from the KCGS. As long as the subject voting regime is prescribed in the articles of incorporation, it must be executed without fail. Moreover, electronic voting, a potential substitute, cannot be employed without the board resolution, a cause of concern because it may restrict shareholders from exercising their voting rights.

There were companies proposing to add qualifications as an inside director. The KCGS saw that these proposals, if approved, were likely to be manipulated as a tool to restrict a person from outside the company being appointed to the management team and as a defense to protect the company from a hostile M&A attempt.

(Director remuneration cap) As for director compensation, due to the agency's proxy voting guidelines update, the ratio of negative voting recommendations in this category surged to 27.1% from 2.1% last year. The KCGS revised its proxy voting guidelines based on the awareness of the problematic local practice where the director remuneration cap amounts to twice the actual payment level[5)], failing to serve as an effective corporate governance tool. The revised guidelines advise that the shareholders look at the correlation between remuneration and performance and the actual payment level when evaluating the proposed remuneration cap.

Based on the revised proxy voting guidelines, the KCGS issued negative voting recommendations against the proposals of 81 companies of seeking approval of the director remuneration cap if the proposal failed to show evidenced linkage between remuneration and business performance and the low actual payments records versus the pre-determined remuneration cap are confirmed.

Few companies presented the rationale and justification of why they need a higher remuneration cap when the actual payments are low. The situation remained the same even among the companies seeking a cap rise. This is a testament to the fact that shareholders are hardly informed of the details they need to evaluate whether the proposed director remuneration cap is appropriate.

(Dividends) The last key theme concerns shareholder return. In this proxy season, 307 proposals were tabled to seek the approval of financial statements and dividends. The KCGS opposed 21 proposals or 6.8% citing the dividend is 'too small,' up from last year (5 proposals).

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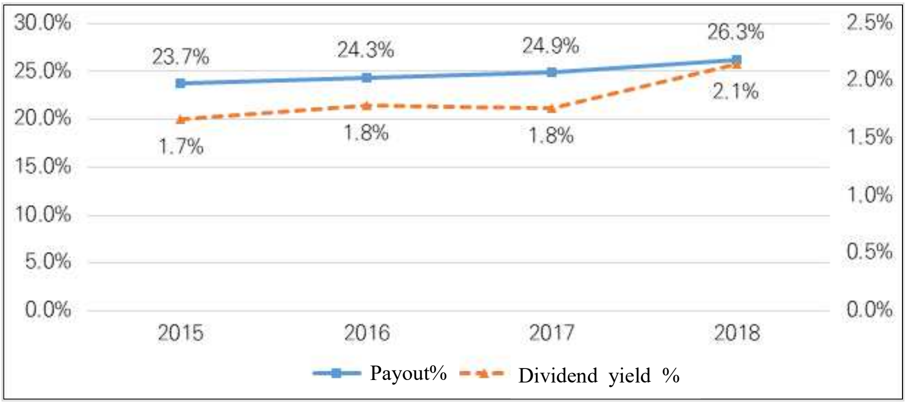
5) The recent ten-year (2008~2017) average of actual payment against respective remuneration caps of 1,617 listed firms is 47.2%.

Limited to 263 companies which went public in 2015 or before, the number of firms who pay out dividends rose from 194 in 2015 to 224 in 2018 and the payout ratio climbed from 23.7% to 26.3% over the same period.

< Payout ratio and dividend yield over FY 2015 ~ 2018 >



In order to reflect such a change in the market and to meet the growing demand for larger shareholder return from the institutional investors, the KCGS developed and applied a more sophisticated analysis model, which led to the rise in the negative voting recommendations.

3. Implications

This year marked the first annual general meeting season after a number of institutional investors, including the Korea National Pension Service, joined the Korea Stewardship Code, so much so that the market showed a multiplied interest in the general shareholders' meetings as well as the direction the institutional investors cast their votes. It is also significant that positive changes were observed in the areas of shareholder return and independent director nomination, among others, the areas that are closely monitored by institutional investors.

It was meaningful to reconfirm that institutional investors play a fairly important role in raising the soundness of the capital markets in general. The KCGS is hopeful that the companies and shareholders will engage in active communication on an ongoing basis and the improvements witnessed this year will continue into the coming years.

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