

Voting Bulletin: Korea Electric Power Corp.

As part of our fiduciary duty, BlackRock’s Investment Stewardship team (BIS) advocates for sound corporate governance and business practices that are aligned with long-term sustainable financial performance. This objective underpins all our engagements and votes at company meetings.

We engage company leadership on key topics emphasizing governance practices including management of environmental and social factors that potentially have material economic, operational or reputational ramifications for the company.

We determine our [engagement priorities](#) based on our observation of market developments and emerging governance themes and evolve them year over year as necessary. The BIS team’s key engagement priorities include:

1. Board quality
2. Environmental risks and opportunities
3. Corporate strategy and capital allocation
4. Compensation that promotes long-termism
5. Human capital management

Our approach to investment stewardship is grounded in an expectation that the board will oversee and advise management, influencing management’s approach to key business issues. When effective corporate governance is lacking, we believe that voting against the responsible director(s) is often the most impactful action a shareholder can take.

We are committed to enhancing the transparency of our stewardship practices. Where we believe it will help to understand our voting decisions on key votes at shareholder meetings, we will publish a Voting Bulletin explaining the rationale for how we have voted, and (where relevant) provide information around our engagement with the issuer

Company	Korea Electric Power Corporation
Market	South Korea
Meeting Date	9 th November 2020
Key Resolutions ¹	Item 1.2: Elect Choi Young-ho as an Inside Director ² Item 2: Elect Choi Young-ho as a Member of the Audit Committee
Board Recommendation	The board recommended voting in favor of these proposals.

¹ More information can be accessed at: https://home.kepco.co.kr/kepco/EN/ntcob/list.do?boardCd=BRD_000246&menuCd=EN0305

² Under the Korean Commercial Act, an inside director is a director responsible for the day-to-day activities of the company, similar in concept to an executive director in other regions.

While we remain concerned about the company's coal projects in Indonesia and Vietnam, BlackRock voted in favor of the candidate for reasons including that he is a new nominee and therefore not responsible for KEPCO's past decisions.

Overview

State-owned Korea Electric Power Corporation (KEPCO) is South Korea's largest electric utilities service provider, primarily engaging in the generation, transmission and distribution of electricity. It is also involved in the development of electric power projects overseas. The Korean government owns a controlling stake in the company (approximately 51.1% in aggregate) through the Korea Development Bank which holds 32.9% and the Ministry of Trade, Industry and Energy (MOTIE) which holds 18.2%.

Over the past few years BIS has regularly engaged with KEPCO's management on a range of material environmental, social and governance issues. This year, we significantly increased our engagements with the company given KEPCO's development plans to invest in controversial overseas coal projects, including four projects in Southeast Asia and South Africa. These projects represent a significant misalignment with KEPCO's stated climate strategy.³

Our concerns about these risks were amplified by related engagements we had with another utility operator and a bank in the APAC region that had divested or exited from one of the controversial projects above due to financial, environmental and reputational risks. Our engagement with one of KEPCO's local engineering, procurement and construction (EPC) partners helped further our understanding of the business structure of the projects.

We communicated our concerns to KEPCO regarding the environmental, financial and reputational risks the company faced as well as the health and safety risks that these coal projects would present to local communities. In April 2020, we formally escalated our concerns to KEPCO's CEO via a letter requesting enhanced disclosure that included a clear strategic rationale justifying the company's development plans as well as more information on the analysis addressing the risks and opportunities of these controversial projects.⁴

We were deeply disappointed when KEPCO's board approved the company's investment in a coal-fired power plant project in Indonesia in May (Jawa 9 & 10). To reflect this, BIS voted against the re-election of three incumbent inside directors at the company's September Extraordinary General Meeting (EGM), holding them to account for this decision and the fact that it directly contradicts the company's existing climate strategy.

Despite mounting investor concerns⁵ and our continued engagement to advocate for enhanced disclosures, in early October KEPCO's board approved the investment in a coal-fired power plant project in Vietnam (Vung Ang 2) – demonstrating once again a fundamental misalignment between the company's actions and climate strategy.

However, on 28th October, just two weeks ahead of the EGM, KEPCO formally announced a "shift in overseas business development" stating that it would put a stop to any "further overseas coal-fired plant projects in the

³ KEPCO plans to expand eco-friendly energy, build systems to actively respond to climate crisis and lead the transition to a high-efficiency and low consumption energy structure. They have set an GHG emissions reduction target of 47 million tons to BAU by 2030 (2020 Sustainability Report, p. 21, 53)

⁴ See BlackRock Investment Stewardship's Global Quarterly Stewardship Report's case study for more information: <https://www.blackrock.com/corporate/literature/publication/blk-qrtly-stewardship-report-q1-2020.pdf>

⁵ See <https://www.ft.com/content/2b5a7306-4f16-11ea-95a0-43d18ec715f5>

future”, and that “all overseas coal-fired power plant projects of KEPCO will be terminated by 2050”.⁶ The company also stated that it would terminate or convert to Liquid Natural Gas (LNG) the two remaining projects in the pipeline – the Saul 2 project in the Philippines and the Thabametsi plant in South Africa. While this announcement is a welcomed move in the right direction, we are keenly interested to continue our dialogue to better understand how KEPCO intends to progress towards achieving its climate strategy.

Background on the Key Resolution

At this EGM, there are two new directors to be elected. Item 1.1 is for the election of Lee Jong-hwan as an inside director who has been selected by the nomination committee. Item 1.2 is for the election of Choi Young-ho as a publicly appointed inside director, who will also be elected under Item 2 as a member of the audit committee.

Pursuant to the Act on the Management of Public Institutions, South Korea’s Ministry of Economy and Finance (MOEF) has the authority to appoint a full-time audit committee member to independently monitor and oversee KEPCO’s audit function. This is a unique regulation that applies to Korean Quasi-Governmental Institutions such as KEPCO whereby the MOEF appoints the statutory audit committee member for a term of two years. Despite being designated as an inside director given the affiliation with the government, according to the company, this audit committee member does not have any executive function and is not involved in the day-to-day operations of the company.

Rationale for BlackRock’s Vote

Item 1.2: Elect Choi Young-ho as Inside Director (FOR)

Item 2: Elect Choi Young-ho as Member of Audit Committee (FOR)

BlackRock expects audit committees to comprise only non-executive directors and a majority of independent directors to ensure independent oversight of the company’s accounts, including assumptions made by management in key investment decisions as captured in the company’s financial statements.⁷

The company has publicly indicated that the decision to continue to pursue the coal-fired plant projects in Indonesia and Vietnam took into consideration government-to-government level partnerships and support.⁸ BIS therefore has a duty to consider the potential risks that a publicly-appointed candidate might introduce to the company’s internal audit process, including financial oversight of future government-led projects. We have communicated this responsibility with the company in recent engagements, including our duty to take voting actions if deemed necessary to signal concern in order to protect our clients’ interests.

Upon engagement and extensive analysis, and in consideration of the company’s response to investor concerns by committing to move away from future coal-power projects, we supported the candidate Choi Young-ho as an inside director and audit committee member on the basis that:

- (i) Choi is a new nominee who ought not to be held accountable for KEPCO’s past decisions;
- (ii) the prevailing regulation dictates the election of a government-appointee to the board and audit committee; and

⁶ See

http://home.kepco.co.kr/kepco/EN/ntcob/ntcobView.do?pageIndex=1&boardSeq=21049320&boardCd=BRD_000450&menuCd=EN030502&parnScrpSeq=0&searchCondition=total&searchKeyword

⁷ See BlackRock Investment Stewardship’s Asia ex Japan, Chinese & Hong Kong Securities regional proxy voting guidelines:

<https://www.blackrock.com/corporate/literature/fact-sheet/blk-responsible-investment-guidelines-asiaxjapan.pdf>

⁸ See

http://home.kepco.co.kr/kepco/EN/ntcob/ntcobView.do?pageIndex=1&boardSeq=21049320&boardCd=BRD_000450&menuCd=EN030502&parnScrpSeq=0&searchCondition=total&searchKeyword

- (iii) given KEPCO's recent announcement to stop all future coal projects, a safeguard is now in place that he, as well as other members of the board, will not be assessing any new coal projects going forward.

We also supported the election of Lee Jong-hwan as inside director (Item 1.1) as he is a new and non-publicly appointed nominee who is not associated with the company's past decisions.

While we see the company's announcement to stop all future coal projects as a positive outcome, we remain very concerned with the coal-fired power plant projects KEPCO continues to pursue in Indonesia and Vietnam and the contradiction these projects present with the company's stated climate strategy. We will continue to engage with the company on the financial and environmental risks associated with both and seek adequate disclosure regarding the plans and anticipated timeline for the conversion and /or termination of the Saul 2 project in the Philippines and the Thabametsi plant in South Africa.