Dear _____,

The Toxic Bonds network are writing to urge you to not purchase any bonds issued by South Korea's largest utility, Korea Electric Power Corporation (KEPCO) and its power generation subsidiaries until they adopt and publicly disclose a 1.5°C-aligned energy transition plan. The company has been relying heavily on bond debt and is expected to issue more in the coming months. We understand that ___ currently holds $XX in KEPCO's USD/EUR denominated bonds despite. We advise you to be properly informed of the grave financial and climate risks associated with KEPCO and encourage you to use your role to push KEPCO to establish a concrete transition plan.

The majority state-owned power company is currently going through the worst financial crisis in its history, reporting its highest operating loss of 7.8 trillion won (USD 6 billion) in the first quarter of this year. This loss mostly comes from the company's overreliance on coal and gas, with over 60 percent of its electricity generation capacity coming from fossil fuels. It is forecasted that KEPCO will experience a growing deficit this summer and winter, with soaring energy demand and fuel prices.

Without a Paris-aligned coal phaseout plan, KEPCO recently issued USD 800 million worth of green bonds. This comes after issuing a staggering USD 8 billion in corporate bonds in the first quarter of 2022 after reaching a net debt of 40 trillion won (USD 31 billion) at the end of last year.

Hence, we strongly urge you to withhold any purchase of KEPCO-issued bonds based on the following points to avoid investment losses and align with global efforts to stop the climate crisis:

KEPCO is a climate laggard, still heavily reliant on fossil fuels

Coal is still the largest contributor to the climate crisis, accounting for over 40 percent of the growth in global carbon emissions last year. To avert a climate catastrophe, the Intergovernmental Panel on Climate Change (IPCC) warns all new coal power projects must be canceled and the retirement of existing coal plants must be accelerated. The International Energy Agency also states that advanced economies must phase out all unabated coal by 2030 and reach an overall net-zero emissions electricity by 2035.

In this spirit, South Korea announced a moratorium on new public financing of overseas coal-fired power projects last year. Yet, KEPCO pursued coal projects in Indonesia and Vietnam, which were approved only weeks after issuing a $500 million green bond in 2020. The Institute for Energy Economics and Financial Analysis (IEEFA) also found that many well-regarded ESG investors did not acquire KEPCO's green bonds in 2020, due to the company's weak climate risk management, and inconsistent investments and policies.

With KEPCO's domination of South Korea's energy market and its overuse of fossil fuels, South Korea now has the second-highest coal power emissions per capita in the world. Meanwhile, KEPCO's energy transition plan still falls far behind global standards, according to the Climate Action 100+ investor group's assessment. For example, the power company does not have any decarbonization strategy to viably meet its long and medium-term greenhouse gas reduction targets. Instead, KEPCO has supported a prolonged role of fossil fuels, with its subsidiary Southern Power even opposing a coal phase-out by 2050.

Moreover, KEPCO has an ongoing track record of using its green bond proceeds towards projects with no clear positive impacts on the energy transition. Over 40 percent of the 5.2 trillion won (USD

6.8 billion) green bonds that KEPCO and its subsidiaries issued this past year also have no meaningful impact on emission reduction. In fact, 430 billion won (USD 327 million) was issued toward the construction of new LNG plants, which would hinder South Korea's carbon neutrality through carbon lock-in.

KEPCO's high exposure to fossil fuels is a massive financial risk

While fossil fuel prices have continued to skyrocket, renewable power generation costs have steadily decreased, becoming the cheapest source of power. But KEPCO sources most of its energy from imported coal and gas, exposing it to price volatility. In fact, 90 percent of KEPCO's electricity generation cost hike during the past year came from coal and gas.

Globally, governments are imposing higher carbon taxes and environmental costs, and fossil fuel companies are facing countless litigations. KEPCO's continued pursuit of fossil fuels against global trends, especially coal, is causingthe company huge losses. Recently, KEPCO lost in a landmark case in Australia, where the High Court stopped the company's Bylong coal project from moving forward, costing the company over 800 billion won (USD 615 million).

Considering KEPCO's plunging profitability, the S&P recently downgraded the company's stand-alone credit rating to a non-investment level. While its long-term credit rate remains at AA, based on the assumption of governmental support, this does not correctly reflect KEPCO's risk profile. Recently, both the Prime Minister and Minister of Economy and Finance publicly criticized KEPCO's lax financial management and signaled that reforms in public corporations will be needed.

We expect KEPCO to keep bleeding losses as the cost and risk of fossil fuels continue to rise across the globe. The Dutch pension fund APG and Norway's sovereign pension fund GPFG have even dropped KEPCO due to its fossil fuel dependency and many of its major shareholders are already criticizing KEPCO's lack of climate action. BlackRock, LGIM, and the Church of England have publicly opposed the company's new overseas coal projects.

Investors worldwide are now shifting gears. Last year, South Korea's top asset managers pledged to not purchase any bonds supporting the massive Samcheok coal project. The same year, global investors also committed a record USD 501 billion to the clean energy sector. However, we need a more definitive push from global investors for KEPCO to transition from coal toward clean energy.

What we are asking is clear. ____ must not acquire bonds issued by KEPCO and its power generation subsidiaries – green or not – if they do not adopt and publicly disclose an energy transition plan that aligns with the 1.5°C pathway. To align with global standards, its strategy must include a commitment to:

a. Phase out all investment, construction, and operation of unabated and abated coal projects, including coal-fired power plants and thermal coal mines, by 2030;
b. Phase out all investment, construction, and operation of unabated and abated oil and gas projects by 2035;
c. Transparently disclose any strategy that they may have adopted or will adopt to reduce emissions, and any emissions' progress made year over year

We will be publishing the responses and lack thereof to this letter, and would very much appreciate your engagement by [date] in relation to our request to not acquire any future bonds issued by KEPCO without the aforementioned energy transition plan.

Please do not hesitate to get in contact with us if you have any questions or would like to discuss the issue further.

Sincerely,

The Toxic Bonds Network