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POSCO



Engagement with EOS helped us better understand investor expectations for our actions on climate change and challenges us to increase our future ambitions.

Yerim Kim, Manager, IR group, POSCO

Following engagement on climate change, POSCO strengthened its governance and management framework of climate-related issues. As a co-lead for the company under Climate Action 100+, EOS engaged with POSCO, contributing to the company's 2050 carbon neutrality commitment and reporting in line with the TCFD's recommendations.

Background

POSCO is a South Korean conglomerate with operations including steel manufacturing, chemicals and natural resources. As one of the largest steel companies in the world, it has a large environmental footprint and exposure to climate-related opportunities and risks. EOS at Federated Hermes' engagement with POSCO dates back to 2011 on human rights. Since 2016, EOS has engaged with POSCO on climate change.

Our engagement

EOS began engaging with POSCO on climate change in October 2016 when we met the head of the business ethics department along with teams from its subsidiary, POSCO International, to follow up on our previous discussion on human rights. We discussed the implementation of climate change policy to meet the 2°C target, while the company was waiting for national targets for the steel sector to be announced.

After sending a letter to the chair and CEO of POSCO as a co-lead for the company through the Climate Action 100+ (CA100+) collaborative initiative in August 2018, we had our first call with POSCO regarding CA100+ in October 2018. Although the chief executive officer was leading the environmental management committee, we stressed to the company the need for board-level discussions of climate change.

Engagement objective:



Environmental:

Company sets greenhouse gas emission reduction targets and reports in line with the recommendations of the TCFD

Sustainable Development Goal:



Timeline

2016

- EOS began engagement with POSCO on climate change policy.

2018

- We sent a joint-letter to the chair and CEO about the CA100+ initiative and had our first call with the company as a co-lead of the initiative.

2019

- We intensified CA100+ engagement, asking the company to set new, ambitious, long-term targets for reducing its scope 1 and 2 emissions in line with the Paris Agreement, and to adopt the recommendations of the TCFD.

2020

- POSCO released its first, comprehensive carbon report with its short-, medium- and long-term carbon targets; a roadmap that outlines its strategy to achieve the targets; and scenario analyses in line with EOS discussions.

2021

- EOS continues to monitor the company's implementation of its climate change strategy, and engage with the company and its subsidiary, POSCO International, on other material ESG issues.

We increased the intensity of our engagement in March 2019. Key requests in our engagement over the following two years included:

- Asking POSCO to respond to the investor expectations of steel companies, including the need to set ambitious (science-based) short-, medium- and long-term carbon reduction targets on both absolute and intensity bases; and
- Asking for disclosure in line with the Task Force on Climate-related Financial Disclosures' (TCFD) recommendations, with analyses of its business resilience to low carbon scenarios, including a 1.5°C scenario.

We wrote to the company to set out these expectations in June 2019 and then followed up with further meetings and correspondence, including escalating engagement to the CEO by a letter setting out our concerns in April 2020. In June 2020, when POSCO communicated climate change scenario analyses were underway, EOS encouraged the company to consider scenarios for well-below 2°C and 1.5°C.

Changes at the company

In June 2020, when we spoke with POSCO, the company confirmed an ESG group was created to address climate change issues and it was making progress on our requests. In October 2020, we received a letter from POSCO's head of finance in response to the company benchmark letter from the CA100+ steering committee. The company acknowledged the gravity of climate change issues and confirmed it was working on mid- to long-term carbon reduction targets, to be published in 2020.

In December 2020, we were pleased that POSCO released its very first, comprehensive carbon report with its short-, medium and long-term carbon targets; a roadmap that outlines its strategy to achieve the targets; and scenario analyses in line with our discussions. The company set a 20% carbon reduction target by 2030, 50% by 2040 and carbon neutrality by 2050 against the 2017-2019 average baseline of its scope 1 and 2 emissions. The roadmap outlines five technologies in order to meet the long-term carbon target

and the company believes hydrogen-based steel making will ultimately allow it to achieve this. The 2050 target has been aligned with a 1.5°C warming scenario and the medium and long-term targets have been set in consideration of a well-below 2°C scenario and further developments of renewable energy in Korea.

In our joint call with the company following the release of the report, we congratulated POSCO on its successful target setting and reporting in line with the recommendations of the TCFD. The company confirmed its progress against the targets will be reported in the annual corporate citizenship report. If there are any updates required, including technologies in the future, a subsequent carbon report will follow. Although scope 3 emission reduction targets have not yet been set, the company acknowledged the importance of science-based carbon reduction targets, and it has been working on reducing its scope 3 emissions by switching its corporate vehicles to electric vehicles and using LNG (liquefied natural gas) shipping.

Next steps

We will monitor POSCO's implementation of its climate change strategy outlined in the carbon report. POSCO's large subsidiaries are currently reviewing the adoption of the TCFD's recommendations in line with the parent company. We will continue to engage with the company and its subsidiary, POSCO International, on material ESG issues.



Hanah Chang
Engagement
EOS



This case study has been fact-checked by POSCO to ensure a fair representation of EOS work carried out and changes made at the company.



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