Press Release - November 15, 2019

KCGI's stance on corporate governance improvement plans announced by Hanjin KAL and Korean Air(“Hanjin Group”)

- ✓ We welcome their awareness but anticipate them to deliver real substance
- ✓ The most urgent task at this moment is to improve productivity and lower its excessive debt to equity ratio
- ✓ We urge both firms to abide by and implement “Hanjin Group Vision 2023” and strengthen their capital structure to the targeted level of Asiana Airlines

1. Hanjin KAL announced that the board of directors decided to establish the Corporate Governance Charter, the Governance Committee, and the Compensation Committee on November 8, 2019. Before this announcement, on November 7, 2019, the board of directors of Korean Air also decided to adopt the Corporate Governance Charter and the Compensation Committee, strengthen the independence of the non-Executive Directors via setting up the Director Candidate Recommendation Committee.

2. Up to now, KCGI has consistently demanded that the two companies must improve their poor governance structure. To this end, KCGI has also firmly proposed that the Corporate Governance Charter, together with both Governance Committee and Compensation Committee, be established, as reflected in KCGI’s suggested vision "A 5-year Program to Restore Trust of Hanjin Group.”

3. KCGI finds it regrettable that Hanjin Group came up with those announced measures for improving its corporate governance without any prior consultation with KCGI, the second-largest shareholder of Hanjin KAL, the parent company of all Hanjin affiliates. With this stated, KCGI acknowledges to a certain extent that Hanjin Group declared toward the market its intention to improve its corporate governance structure. Concurrently, however, it remains KCGI's unabated hope that Hanjin Group should continue this kind of momentum to go into full-gear for improving its governance structure.

4. KCGI’s concerns and suspicions all remain in place that Hanjin Group may have crafted out merely cosmetic ones to disguise illegal behaviors as to the payments of compensation and severance bonus to the Cho family, the controlling shareholder. The Seoul Central Court accepted KCGI’s petition to elect an independent auditor to review those payments. This means that the Court endorsed that there are enough grounds to suspect the existence of the violation of relevant laws and regulations concerning those payments to Mr. Cho Yang-

Ho, the deceased Chairman of Hanjin Group. In other words, there is circumstantial evidence that compensation payments to the controlling shareholders and top-executives have not followed the relevant laws and articles of incorporation, and the non-executive directors of the Boards have been tolerating or condoning such practices.

5. According to media reports, the chairman of Hanjin KAL's Governance Committee is Ju Sun-Sik, an acting advisor to **Yulchon**, one of the big law firms in Korea, and the chairman of Korean Air's non-executive director recommendation committee is Chung Jin-Soo, a lawyer of **Hwawoo**, another large law firm. These two law firms carry the material business relationship with Hanjin Group and the controlling family shareholders, and, therefore, raising doubts whether those committees will operate genuinely independently, not to mention that there are conflicts of interests. Provided that this Recommendation Committee consists of only those directors who have material relationships with the controlling family and the top-executives of Hanjin Group, it would be nothing but another layer that will block the election of truly independent non-executive directors. Besides, if the Governance Committee fails to reflect the stances of non-controlling shareholders, it is highly likely that the current governance structure heavily favoring the controlling shareholder family will be all the more entrenched.

6. The bottom line about overhauling the governance structures of Hanjin Group is whether or not Hanjin Group can establish and adopt genuine Director Independence Standards so that genuinely independent non-executive directors shall be elected. In mid-December 2018, the Board of Hanjin KAL made a resolution to take a short-term loan of KRW160bn(USD140mn), which KCGI firmly believes unnecessary for the operation of the firm. KCGI filed the derivative lawsuit against the board members of Hanjin KAL, as it considers that the raise of this unnecessary borrowing was aimed at deliberately circumventing the so-called "3% Rule." This rule caps the voting rights of the controlling shareholder at 3% for electing an auditor at the annual meeting. But, if the total asset size of a firm exceeds the KRW2trn mark, this 3% rule is not applied. In this case, the Audit Committee should be set up, but the caveat is that members of the Audit Committee are to be elected from only non-executed directors whose election does not go by the 3% rule. Accordingly, at the annual meeting in March 2019, only those non-executed directors recommended by the management of Hanjin KAL were also elected as auditors. Thus, KCGI points out that to improve corporate governance in real substance, Director Independence Standards must be established to secure genuine independence and professionalism for non-executive directors. Also, efforts to improve corporate governance should be made at all the affiliates of Hanjin Group.

7. As stated on many occasions, KCGI has no intent to take over management control of Hanjin Group from the incumbent controlling shareholder. Instead, KCGI seeks to strengthen management efficiency and transparency through monitoring and checks. To this end, KCGI, the second-largest shareholder of Hanjin KAL, hopes to install at least one representative on the firm's newly created governance committee. This is because this committee is to review and assess all those critical management proposals, which will have significant impacts on

the shareholder value.

8. Furthermore, KCGI continues to demand that Hanjin Group urgently must take action to reduce the excessive debt-to-equity ratio of Korean Air, which accounts for the most substantial portion of Hanjin KAL's corporate value. As of the end of September of 2019, Korean Air's debt ratio stands at 922.5% (1,616.4% if KRW1.08trn in perpetual bonds are classified as part of the debt, as Korea's Financial Supervisory Service recommends). As of the end of June of 2019, the debt ratio already stood at the highest among KOSPI 200 companies (excluding the financial sector) and is nine times higher than the average of 90.8% for these companies. Also, Korean Air's debt ratio is significantly excessive compared to the average of 75%-106% for major Asian airlines such as Japan Airlines and Singapore Airlines, as well as 2-3 times higher than that of Chinese airlines (see Appendix 1, 2).

9. In the past, Hanjin Group had undertaken irrational and excessive investment in Hanjin Shipping coupled with its reckless expansion into significantly low-margin hotel businesses. All this has worked to create the current level of deplorable financial structure. KCGI is deeply concerned that the incumbent management has not yet shown any signs of duly taking effective and immediate actions to reduce its debt ratio. Moreover, Hanjin Group has not engaged with divesting non-core assets of Hanjin Group affiliates at all, not to mention its publicly declared promise to sell down the idle landownership in SongHyeon-Dong, near the Kyungbok-Palace. The KCGI reiterates its demand that Hanjin Group's management takes proactive measures to significantly improve Korean Air's financial status and thus effectively cope with the ongoing crisis in Korea's aviation industry.

<Appendix 1> Comparison of KOSPI 200 listed companies and Korean Air's debt ratio

# of companies [1]	KOSPI 200 Average debt ratio[2]
185	90.8%

Source : Annual report, DART

1)Excluding the financial sector in KOSPI 200

2)As of the end of half-year of 2019

Rank	Company	Debt ratio
1	Korean Air	834.7%
2	Company A	611.4%
3	Company B	375.1%
4	Company C	309.9%
5	Company D	298.5%

Source : Annual Report

<Appendix 2> Debt ratio of Global Airlines[1]

Airline	Country	2016	2017	2018	Average
Korean Air	Korea	1178.1%	557.1%	743.7%	826.3%
Asiana Airlines (after paid-in capital increase)[2]	Korea	264.0%			
United Airlines	US	363.6%	384.8%	348.1%	365.5%
Delta Airlines	US	317.2%	328.3%	340.3%	328.6%
China Eastern Airlines	China	305.5%	290.8%	288.0%	294.8%
China Southern Airlines	China	264.6%	249.7%	214.7%	243.0%
Emirates Airlines	UAE	246.4%	244.4%	237.5%	242.8%
British Airways	UK	288.4%	190.6%	194.4%	224.5%
Air China	China	193.3%	148.4%	142.4%	161.4%
All Nippon Airways	Japan	151.8%	159.2%	144.4%	151.8%
Singapore Airlines	Singapore	88.9%	101.3%	129.6%	106.6%
Lufthansa Airlines	Germany	94.6%	94.3%	87.9%	92.3%
Japan Airlines	Japan	77.8%	74.9%	74.3%	75.7%
Qatar Airways	Qatar	61.5%	59.8%	63.8%	61.7%
Average[3]		279.4%	221.8%	231.5%	244.2%

1) Consolidated

2) Assumed paid-in capital increase of 2.18 trillion KRW as of the end of half-year of 2019

3) Excluding Asiana Airlines

Source : Annual Report

<Appendix 3> List of Hanjin Group hotels

Name	Location	# of rooms
Grand Hyatt Incheon	Incheon	1,024
Jeju KAL Hotel	Jeju	282
Seogwipo KAL Hotel	Jeju	225
Paradise Hotel Jeju	Jeju	No operation
Wilshire Grand Center	Los Angeles, US	889
Waikiki Resort Hotel	Hawaii, US	275

<Appendix4> List of Hanjin Group real estates

Name	Location	Area (1,000 m^2)
Songhyeon-dong	Seoul	40
Yuldo	Incheon	110
Yangpyeong	Gyeonggi	4,620
Jungseok airfield	Jeju	1,250
Jedong ranch	Jeju	15,210
Folk village	Jeju	170