

ISSUE REPORT

IR-18-09 | July 6, 2018 | **Contact:** Lead Analyst EH Song (ehsong@cgs.or.kr), Analyst SS Park (sspark@cgs.or.kr)

Asiana Airlines (020560)

Rating	2015	2016	2017
ESG Integrated	B+	B+	B+
Governance	C	B	B
Social	B+	A+	A
Environmental	A	B+	B+

Recent issue

Area

Social/Governance

Negative

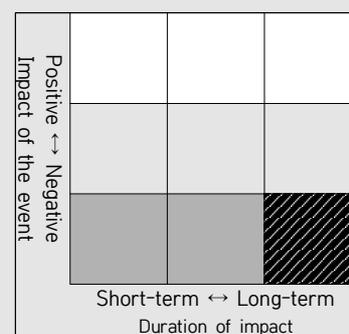
Power trip suspicion and governance risk surfaced with no-meal incident

- Asiana Airlines Chairman Sam-Koo Park publicly apologized on July 4 for the company's in-flight meal fiasco and the death of the food caterer concerned. Nonetheless, the suspicion of a power trip rather spreads as the airliner's employees warn a massive rally accusing an unfair trade surrounding the subcontractor.
- The existing supplier LSG Korea brought the case to the Korea Fair Trade Commission that before the replacement of the food supplier that triggered the incident, when LSG rejected to make investments in Kumho Holdings (currently Kumho Buslines), Asiana Airlines terminated the food supply contract unjustly.
- The new caterer Gate Gourmet Korea is a joint venture with China's HNA Group, who invested KRW 160 billion in Kumho Holdings in March last year.
- Law firm Hannuri says it is preparing a derivative suit representing minority shareholders. The law firm sees a potential negligence of duty in the act of Asiana Airlines's management who replaced the food caterer for raising funds for Kumho Holdings, not in the interest of the airliner itself.

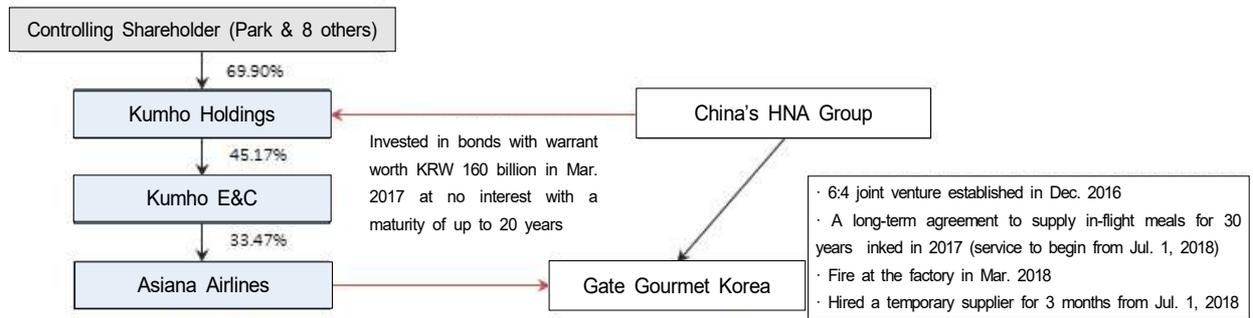
(Source) Chairman Sam-Koo Park apologized but both customers and employees are enraged, MBC NEWS, July 5, 2018

Comment

- With regard to the no-meal fiasco of Asiana Airlines, the KCGS will consider downgrading the company's ESG rating for 2H 2018, taking into account ① the process of replacing the food supplier and any unfair practices in the agreement with the supplier, and ② the materiality impacting consumer rights.
- The suspicion raised by the market that Asiana Airlines was mobilized by the controlling shareholder to rebuild the business group is legitimate, in that HNA Group made investments and the food caterer was replaced at the time when Chairman Park was keen to secure funds for acquiring Kumho Tire.
- The ownership structure of Kumho Asiana Group runs from the controlling shareholder at the top down to Kumho Holdings, Kumho Engineering and Construction, and to Asiana Airlines. Chairman Sam-Koo Park triple-hats as the CEO of the three companies.
- The divergence between ownership and control is wide in Asiana Airlines with a high risk of being exploited for the private interest of the controlling shareholder. In 2016 as well, there was a suspicion of unfair support was raised that the company sold its subsidiary Kumho Terminal to Kumho Holdings at a cheap price.



<Figure> Fundraising for Kumho Holdings and In-Flight Meal Business for Asiana Airlines



Note: Kumho Holdings merged with Kumho Buslines in November 2017 and changed its name to Kumho Buslines in April 2018.

Source: Business Watch, Korea Corporate Governance Service