

KOREAN AIR



2005 Financial Results

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2005 Traffic Review

Despite a 3.6% decline in domestic traffic, 2005 overall passenger traffic was 6.6% up from 2004 on strong international traffic, which grew in line with an industry average growth rate of 7.6%. International traffic growth was contributed by an expansion of the newly adopted five-day workweek system, which was instrumental in boosting overseas leisure travel, on top of strong Korean Won.

Cargo, which slightly suffered from IT industry slowdown and capacity cut following return of three MD11Fs, showed traffic decline of 2.5% from 2004. But the cargo traffic showed the gradual recovery from the 4th quarter.

<2005 Passenger and Cargo growth rate over 2004>

	Passenger		Cargo	
	ASK Growth (%)	RPK Growth (%)	ATK Growth (%)	FTK Growth (%)
Industry*	6.3%	7.6%	6.3%	3.2%
Korean Air (total)	6.2%	6.6%	-1.7%	-2.5%
Korean Air (Dom)	-8.5%	-3.6%		
Korean Air (Int'l)	7.8%	7.6%		

* IATA International Traffic Statistics, 31 January 2006



Financial Summary

- 7.6 trillion KRW in Operating Revenue
 - Operating Revenue up by 5.2% yoy
- 432 billion KRW in Operating Profit
 - Operating Profit up by 12.6% yoy
- Lower Recurring and Net Profit
 - FX translation gain down by 74.0% yoy due to the smaller KRW appreciation
(KRW/USD rates change 12/31/2003: 1,197.8 → 12/31/2004: 1,043.8, -13%
12/31/2004: 1,043.8 → 12/31/2005: 1,013.0, -3%)
- Dividend and Employee Incentive
 - Common Stock: 7%, Preferred Stock: 8%
 - Incentive to employee: 34 bil (100% of a month salary) in Performance Incentive (PI)
13.5 bil in Special Bonus (50% of a month salary)

Income Statement

(unit: bil KRW)

	4Q (YOY)			Compared to 3Q		Year-to-Date		
	2005	2004	Change (%)	3Q	Change (%)	2005	2004	Change (%)
Operating Revenue	1,981	1,867	6.1	2,121	-6.6	7,584	7,211	5.2
Dom Pax	146	139	5.3	179	-18.1	619	634	-2.5
Int' l Pax	915	833	9.9	1,124	-18.6	3,732	3,373	10.7
Cargo	665	662	0.4	589	12.8	2,322	2,327	-0.2
Others	255	233	9.4	229	11.4	911	877	4.0
Operating Expense	1,956	1,863	5.0	1,853	5.6	7,152	6,827	4.8
Fuel	579	474	22.1	569	1.7	2,022	1,588	27.3
Maintenance	97	56	73.5	64	52.5	289	250	15.6
Labor	262	305	-13.9	226	15.9	950	998	-4.8
Depreciation	164	169	-2.8	161	1.8	666	655	1.7
Rentals	98	94	4.5	87	13.3	358	433	-17.4
Ground Handling	67	66	0.9	66	1.4	263	266	-1.2
Landing Fee	51	52	-1.9	52	-2.9	202	201	0.6
SG&A	330	334	-1.4	335	-1.6	1,260	1,285	-2.0
Others	308	313	-1.7	293	5.3	1,142	1,151	-0.8
Operating Profit	25	4	+	268	-90.4	432	384	12.6
Non-Op Income	233	738	-68.4	68	+	432	1,146	-62.3
FX translation	192	667	-71.3	1	+	238	913	-74.0
Others	41	71	-41.5	67	-37.8	194	233	-16.7
Non-Op Expense	224	374	-40.1	184	21.7	611	807	-24.2
Interest Expense	102	97	5.2	95	6.8	389	400	-2.8
Others	122	277	-55.9	89	37.7	222	407	-45.4
Recurring Profit	34	368	-90.5	152	-76.8	253	723	-64.8
Net Profit	29	219	-86.6	154	-80.9	200	519	-61.4

■ Traffic Data

	4Q (YOY)			Compared to 3Q		Year-to-Date		
	2005	2004	Change (%)	3Q	Change (%)	2005	2004	Change (%)
Domestic Pax								
ASK(mil Km)	1,379	1,402	-1.6	1,482	-7.0	5,787	6,323	-8.5
RPK(mil Km)	905	866	4.5	998	-9.3	3,731	3,869	-3.6
L/F(%)	65.6	61.8	3.9%p	67.4	-1.8%p	64.5	61.2	3.3%p
Yield(Cent)	15.22	14.21	7.1	17.08	-10.9	15.84	13.93	13.8
Int'l Pax								
ASK(mil Km)	15,657	14,849	5.4	16,959	-7.7	62,872	58,329	7.8
RPK(mil Km)	10,957	10,412	5.2	12,885	-15.0	45,315	42,130	7.6
L/F(%)	70.0	70.1	-0.1%p	76.0	-6.0%p	72.1	72.2	-0.1%p
Yield(Cent)	7.34	6.50	12.9	7.74	-5.2	7.32	6.28	16.5
Cargo								
AFTK(mil ton Km)	2,785	2,902	-4.0	2,733	1.9	10,831	11,015	-1.7
FTK(mil ton Km)	2,126	2,204	-3.5	2,057	3.4	8,140	8,345	-2.5
L/F(%)	76.3	75.9	0.4%p	75.3	1.0%p	75.2	75.8	-0.6%p
Yield(Cent)	28.26	25.23	12.0	26.02	8.6	26.02	22.56	15.3

1. Operating Revenue

(unit: bil KRW)

	4Q (YOY)			Compared to 3Q		Year-to-Date		
	2005	2004	change	3Q	change	2005	2004	change
Domestic Pax	146	139	5.4%	179	-18.1%	618	634	-2.5%
Int'l Pax	915	833	9.9%	1,124	-18.6%	3,732	3,373	10.7%
Cargo	665	662	0.4%	589	12.8%	2,322	2,327	-0.2%
Aerospace	56	57	-1.8%	43	28.6%	188	201	-6.7%
Catering	12	10	19.2%	14	-12.1%	49	42	18.5%
Hotel/Limou	10	8	26.3%	7	41.2%	35	37	-5.5%
Others	178	1,58	11.9%	165	7.7%	640	597	7.1%
Total	1,982	1,867	6.1%	2,121	-6.6%	7,584	7,211	5.2%

- Domestic passenger down

Domestic passenger revenue went down 2.5% yoy as more domestic travelers chose high-speed train over air travel.

- International passenger soars

International passenger revenue rose 10.7% on international traffic increase of 7.6% yoy, thanks to an expanded five-day workweek system, strong KRW, fare and fuel surcharge increases.

- Cargo revenue slightly changed

Cargo traffic was down 2.5% yoy due to IT sector slowdown and capacity reduction following return of 3 MD11Fs. However, cargo revenue only went down 0.2%, thanks to fare and fuel surcharge increases.

- Aerospace down

Although revenue in USD was in line with its initial target, the aerospace revenue converted to KRW was down 6.7% yoy due to the strong KRW.

- Catering up

Catering revenue increased 18.5% yoy, thanks to increased demand from existing airline customers and new customers such as Emirates airline.

- Hotel/Limousine down

Hotel/Limousine revenue went down 5.5% from a fierce competition among hotels in Jeju area.

2. Operating Expense

FUEL	4Q (YOY)			Compared to 3Q		Year-to-Date		
	2005	2004	Chg (%)	3Q	Chg (%)	2005	2004	Chg (%)
Price (Cent/Gallon)	193.22	151.17	27.8	185.16	4.4	173.15	123.22	40.5
Consumption (000 Gallon)	285,866	286,167	-0.1	300,540	-4.9	1,138,981	1,117,934	1.9

* From June to December, 20% of the period's or 10% of the year's total consumption was hedged.

* 1 barrel = 42 gallon

Even though jet fuel price in USD was up 40.5% yoy in 2005, due to strong KRW, the increase in KRW was only 27.3%.

Exchange Rate (KAL's Internal)	04/6/30	9/30	12/31	05/3/31	6/30	9/30	12/31
KRW/USD	1,152.5	1,147.9	1,043.8	1,024.3	1,024.4	1,038.0	1,013.0

- Fuel price up

Compared to 2004, additional 434 bil KRW was spent on jet fuel. Thanks to strong KRW, fuel spending in KRW was up 27.3% yoy, whilst USD fuel price rose 40.5% yoy and total fuel consumption rose 1.9% from traffic increase.

- Labor expense down

Labor expense decreased 4.8% yoy with a reduction in employee bonus payment. (down to 100% from 300% in 2004)

- Rental expense down

Rental expense went down 17.4% yoy due to the return of three MD11Fs to lesser in the first half of 2005.

- Maintenance expense up

Maintenance expense was up 15.6% from 2004 for enhancing in-flight amenities such as IFE(in-flight entertainment) and new seats in accordance with new CI.

3. Financial Ratio

At the end of 2005, assets and liabilities each went down 1.2% and 3.9% respectively due to debt repayment with cash, while shareholder's equity went up 5.7% by increased retained earnings. Debt/equity ratio was 25%p down to 237% and interest-bearing debt decreased 6.8% to 7.5 trillion KRW.

	2005/12/31	2004/12/31
Debt/Equity ratio	237%	261%
EBITDAR margin	19.3%	20.5%
Fixed charge coverage ratio	2.03	1.86
PBR	52.9%	33.1%

- Recurring and Net Profit down

Recurring and net profit were down from 2004, as non-operating income went down 62.3% followed by a sharp decline in forex translation gains(-74.0%).

(KRW/USD rates change 12/31/2003: 1,197.8 → 12/31/2004: 1,043.8, -13%
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- Interest expense down

Interest expense was down 2.8% yoy as the interest-bearing debt was reduced by 6.8% from 2004 and reduction in interest rate through refinancing.

- Asset disposition including aircraft disposition loss down

Asset disposition loss was down by 39 bil KRW or 52.6% from 2004.

- Dividend

23.9 bil KRW

4. Fleet Status

Korean Air took deliveries of four aircraft and disposed five in 2005, bringing the total number of aircraft to 116 at the year-end from 117 in 2004.

- Delivery : Two B777-200s, One B737 and One B747-400ERF
- Disposal: One B747-300, One B737 and three MD11Fs

Type	1Q	2Q	3Q	4Q
B747-400	24	24	24	24
B747-300	1	1	1	0
B777-300	4	4	4	4
B777-200	9	10	11	11
A330-200	3	3	3	3
A330-300	16	16	16	16
A300-600	10	10	10	10
B737-800	14	14	14	14
B737-900	14	15	15	15
<i>Passenger Total</i>	<i>95</i>	<i>97</i>	<i>98</i>	<i>97</i>
B747-400F	15	15	15	16
B747-300F	1	1	1	1
MD11F	2	0	0	0
B747-200F	2	2	2	2
<i>Cargo Total</i>	<i>20</i>	<i>18</i>	<i>18</i>	<i>19</i>
Total	115	115	116	116

Fleet utilization hour in 2005 went up 5.4% for passenger and 5.5% for cargo over the same period in 2004.

Fleet Utilization Hrs (Hour/day)	4Q (YOY)			Compared to 3Q		Year-to-Date		
	2005	2004	Change (%)	3Q	Change (%)	2005	2004	Change (%)
Passenger	9.8	9.3	5.4	10.3	-4.9	9.9	9.4	5.3
Cargo	15.4	14.6	5.5	15.0	2.7	15.0	14.3	4.9
<i>Total</i>	<i>10.7</i>	<i>10.3</i>	<i>3.9</i>	<i>11.0</i>	<i>-2.7</i>	<i>10.7</i>	<i>10.3</i>	<i>3.9</i>

5. Routes

- New : 11/1 Busan/Hanoi, 2 Weekly
12/30 Busan/Guam, 3 Weekly
10/21 Incheon/Shenzhen 3 Weekly, Public Charter

Please see attached for 2005 BSPL