SUSTAINABILITY REPORT
SOCIETY
ENVIRONMENT
ECONOMY

Sustaining Excellence

EXCELLENCE IN FLIGHT

Korean Air's goal is to maintain its goal as a safely operated airline in the global air industry and we have made great strides toward achieving this goal. While maintaining the highest safety standards in the industry and offering excellent customer service, we promote our safety policies to achieve greater profitability, improvements in the environment, and contributing to social development.


2006 SUSTAINABILITY REPORT
A Route to Sustainable Excellence

Connecting the global skies, Korean Air has always dreamed of wider skies. With great pride, Korean Air is devoted to fulfilling its obligations as an intermediary, widening the roads between nations and enabling as many customers to interact with diverse cultures and nature the world over. In addition to its role as a profit generating, comfortable and safe transportation mode, Korean Air strives to minimize, such as a respectable company concerned with the welfare of society and the environment. In whatever open road on the blue sky across the globe, Korean Air will spread its blue wings towards the direction you desire.
CEO Message

I would like to offer our sincere gratitude to everyone who has provided support and affection towards Korean Air.

As it enters its 37th year in 2006, Korean Air has established connections to 31 countries and 91 cities around the world and has achieved 1st and 15th place in the global cargo and passenger transportation sectors, respectively. As Korea’s representative airline in both name and reality, Korean Air has established itself as a global airline with unlimited potential, continuing to leap forward into the global arena.

2005 was a year that enabled Korean Air to prepare itself for a new leap forward. Despite difficult management conditions that Korean Air faced such as significant cost increases from unprecedented high oil prices, slowdown in the cargo transportation business sector from continued stagnation in the domestic export market, and the effects from the airline pilot’s strike, Korean Air practiced a 10-10-10 strategy, aiming to achieve a 10% revenue increase, a 10% cost reduction and a 10% productivity increase. In effect, Korean Air not only realized quantitative growth, but also qualitative internal growth, resulting in a strong KRW7.6 trillion in sales, KRW430 billion in operating income and KRW200 billion in net income. In addition, Korean Air was able to achieve first place in the global airline cargo transportation sector, a first for the Airline’s distribution services business. By introducing a new uniform that globalizes the traditional Korean beauty by incorporating a refined feel, Korean Air was able to show its commitment to providing an enhanced quality of services to customers.

Korean Air also changed its existing flight seats and furniture with more comfortable and quality products, while upgrading its in-flight entertainment amenities. Its plans to introduce next generation Airbus 380 and Boeing 787 airplanes are proceeding smoothly. In addition, to overcome the difficult management environment such as the uncertain international situation and high oil prices, Korean Air will concentrate on continuously changing and improving the corporate structure, so as to lead the Korean economy and to grow into a leading company within the global airline’s industry. Korean Air’s strong commitment towards sustainable management enables a strongest preparation for the future. As an airline concentrating on diverse means to achieving transparent and open management, Korean Air will not only strive to achieve economic growth as a corporation, but will also fulfill its ethical obligations by implementing environmental management to preserve our environment.

Through the 2006 Sustainability Report, we are happy to be able to provide information on the changing present and future of Korean Air to everyone that has provided support and shown affection towards Korean Air.

Thank you.

June 30, 2006
Cho, Yang Ho
Chairman & CEO
As a global airline, Korean Air is leading the world-wide airlines industry.

As of the end of 2005, Korean Air operates 116 aircrafts and offers scheduled routes to 31 countries and 91 cities around the world. Based on IATA’s (International Air Transport Association) 2005 Global Airlines Transportation Statistics, Korean Air recorded 1st and 15th positions in the cargo and passenger sector, respectively. In addition to cargo and passenger transport, Korean Air also operates in diverse business areas such as in-flight catering, domestic and international hotels, and aircraft manufacturing. With a vision to becoming a “global leading carrier,” Korean Air established its objective of becoming a “World Top 10 Airline by 2010.” To achieve this objective, Korean Air is concentrated on enhancing its brand-value.

Korean Air is carrying out large-scale investments in various business areas as part of its New CI initiative. Korean Air is fostering Operational Excellence, Service Excellence, Innovative Excellence in Flight.

As a result of continuous efforts to reduce cost by establishing a low-cost structure through diverse business measures which includes utilizing high-efficient aircrafts as a countermeasure to the high oil price trend, reducing various operating costs, and maintaining appropriate levels of inventory and divesting surplus assets, Korean Air has been able to enhance its operating income compared to last year. In addition, Korean Air continues to enhance the convenience of its customers by contracting to introduce new aircrafts such as the A380 and B787, opening a global website, installing in-flight Internet services, adopting an E-Ticket Service, and initiating domestic ticketing service through ATMs.

Korean Air continued to focus on achieving economic growth through expansion of its international routes and development of new markets despite adverse business environment in its passenger business due to economic and environmental conditions—dollar depreciation, tsunami and the pilot strike. While actively implementing the ‘10-10-10’ strategy—10% revenue increase, 10% cost reduction, and 10% productivity enhancement, Korean Air is carrying out large-scale investments in various business areas as part of its New CI initiative. Korean Air is fostering Operational Excellence, Service Excellence, Innovative Excellence in Flight.

Korean Air is focused on change. Satisfying customers and generating value, and creating a culture of appropriate levels of inventory and divesting surplus assets, Korean Air has been able to enhance its operating income compared to last year. In addition, Korean Air continues to enhance the convenience of its customers by contracting to introduce new aircrafts such as the A380 and B787, opening a global website, installing in-flight Internet services, adopting an E-Ticket Service, and initiating domestic ticketing service through ATMs.

Not being satisfied with the significant results achieved in the Cargo Business in 2005, Korean Air continues to focus on achieving the highest standards in profitability and service. As part of the Airline’s effort to enhance synergy by streamlining its fleet, Korean Air has retired its MD-11F fleet and added six B747-400ERF—extended range freighter—totaling 19 B747 cargo fleet, significantly increasing its supply capabilities.

In early 2005, Korean Air expanded its cargo terminal at Incheon International Airport to a maximum annual processing capacity of 1,350,000 tons, the world’s largest terminal owned and operated by a single airline. To enhance service quality and safety, Korean Air equipped the new terminal with reinforced facilities—ETVs (Elevating Transfer Vehicle), X-Rays, CCTVs, and Explosive Device Detection Equipment.

Furthermore, we are actively pursuing new projects. E-Booking system will improve customer service and the innovative distribution system. The RFID (Radio Frequency Identification) based system is underway as part of Korea’s Southeast Asian distribution hub policy.
Our Business at a Glance

Korean Air’s outstanding quality in-flight meals and services are so well recognized as to have merited the coveted Mercury Award, an Oscar Award for in-flight meals, and top rankings in in-flight appraisals by several airline magazines.

In 2005, we added elegant tableware and developed a diverse menu, which earned excellent responses from passengers. Since 2001, when Korean Air established an automated kitchen factory within the new Incheon International Airport, the factory is supplying an average of 38,000 in-flight meals daily to its own routes and over 30 foreign airlines.

Korean Air directly owns luxury hotels in Jeju City and Seogwipo and operates the Wilshire Grand Hotel in LA and the Hyatt Regency Hotel in Incheon through its affiliates. In pursuit of maximizing synergies of the hotel business and the passenger transportation business, Korean Air anticipates that the renovation of its Seogwipo Hotel will enhance its image.

Meanwhile, in an effort to enhance its sales efficiency and customer satisfaction in the in-flight sales business, Korean Air introduced “Duty Free Reservation Services” on international routes, diversified product lines and strengthened quality controls. Korean Air’s Limousine Business provides a convenient and safe transportation service to and from airports (Gimpo, Incheon) to metropolitan areas. For the past 10 years, Korean Air has continuously initiated improvements to its Limousine Services, and in 2005, it expanded the schedule to early mornings and late nights.

Aerospace Business

Korean Air’s Aerospace Division is Korea’s largest general aerospace manufacturer. The Division manufactures and exports aircraft parts, maintains and remodels aircrafts, and maintains a strong focus on R&D including aircraft design and development.

The Aerospace Division is currently participating in the design and production of the Wing Tip for Boeing’s B787 and also in negotiations with Airbus to participate in the entire process from design to production of the A350. In the spacecraft business sector, Korean Air is successfully undergoing several projects—the system assembly program for the Korean Space Launch Vehicle, localization of the development of the solar array system, and the development of the main bus structure and solar panels for the Arirang-Sat3 and Arirang-Sat5 will soon be initiated.

Catering Business

Korean Air’s 2006 Business Plan

Korean Air has established and is implementing a diverse and concrete business plan based on its objective to strengthen global competitiveness by achieving healthy growth and enhancing productivity, and as part of its management policy to leap forward as an advanced airline.

Major Business Plan

- Leading the Korean economy through a Global Leading Carrier oriented strategy through innovation and enhanced competitiveness
- Enhanced international competitiveness based on global standards
- Maximized profitability based on the 10-10-10 strategy
- Increase customer service through on-site customer service
- Play a critical role in Korean’s economy

- Strategy to strengthen and implement social contribution activities
- Maintain a focus on an absolute flight safety system
- Achieve strong growth through expansion into new growth markets
- Improve profitability structure through enhanced productivity
- Enhanced Global Service Competitiveness
- Establish organizational platform to achieve its mid-to-long-term vision

Economic Aspects

Social Aspects

Environmental Aspects

Customer Satisfaction: 4.28 (Out of a Maximum 5)
Number of Employees: 14,942 (Personnel)
Rate of Female Workers: 31.3% (%)
Donations: 11,300 (KRW Millions)

Jet Fuel Consumption: 4,236,959 (kl)
CO2 Emissions: 10,812,104 (Tons)
NOX Emissions (LTO): 3,187 (Tons)
Electric Power Consumption: 115,183 (MWh)
Water Consumption: 1,905,442 (Tons)
Noise Charges: 3,580 (KRW Millions)

Sales

<table>
<thead>
<tr>
<th>Year</th>
<th>Sales (KRW Millions)</th>
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<tbody>
<tr>
<td>2004</td>
<td>7,373,899</td>
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<tr>
<td>2005</td>
<td>7,964,221</td>
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Net Income

<table>
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<tr>
<th>Year</th>
<th>Net Income (KRW Millions)</th>
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<tbody>
<tr>
<td>2004</td>
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<tr>
<td>2005</td>
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Passengers Transported

<table>
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<tr>
<th>Year</th>
<th>Passengers Transported (1,000 Passengers)</th>
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<tbody>
<tr>
<td>2004</td>
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</tr>
<tr>
<td>2005</td>
<td>21,709</td>
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</tbody>
</table>

Cargos Transported

<table>
<thead>
<tr>
<th>Year</th>
<th>Cargos Transported (1,000 Tons)</th>
</tr>
</thead>
<tbody>
<tr>
<td>2004</td>
<td>1,984</td>
</tr>
<tr>
<td>2005</td>
<td>1,984</td>
</tr>
</tbody>
</table>

*ASK: Available Seat-Kilometer / RPK: Revenue Passenger-Kilometer / RTK: Revenue Ton-Kilometer

- Korean Air

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2005 Sustainable Management Activities

ACCOLADES & AWARDS

Aircraft Modernization
To capture a global top 10 position by 2010, Korean Air will implement a long-term investment plan to modernize its aircraft fleet by investing KRW10.6 trillion in the next 10 years. Korean Air concluded an agreement with Boeing on April 2005 to purchase 10 next generation jet fuel saving B787 Dreamliners, which are expected to be delivered between 2009 and 2011. Korean Air will utilize the aircrafts as its main mid- to long-distance aircrafts.

Aircraft Noise Reduction
ICAO applied stricter *Chapter 4 noise regulations compared to previous standards for all airlines approved after 2006. By decommissioning one *Chapter 3 B747-300 from its fleet in 2005, among the 116 aircrafts owned by Korean Air, 97% currently meet the Chapter 4 noise standards. Two Chapter 3 B747-200 cargo aircrafts will soon be decommissioned.

First in Korea to Receive IOSA Certification
Korean Air was the first airline in Korea to formally register with IOSA (IATA Operational Safety Audit) in 2006. Korean Air drew international attention when it easily passed the 1st evaluation by AQS (Aviation Quality Services), a highly respected audit organization certified by IATA. 18 airlines have been registered with the IOSA.

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Social

Mongolia Reforestation
Since 2004, Korean Air has conducted reforestation activities to convert Mongolia’s deserts, where yellow sand originates, into green forests. In May of last year, 130 kilometers southeast of Ulaanbaatar, Mongolia’s capital, where “Korean Air’s Forest” is located in Baguur District, 100 new employees who entered Korean Air in 2005 participated in the reforestation efforts by planting approximately 6,000 trees in an area equaling 13,000 pyong.

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Korean Air owns 116 aircrafts and operates routes in 31 countries and 91 cities as of December 31, 2005.
Korean Air Pursues Sustainable Management to Fulfill Responsibilities and Obligations

Korean Air pursues and implements sustainable management based on economics, environment and social aspects. Through this active implementation of sustainable management, Korean Air strives to fulfill its global responsibilities and obligations to lead the worldwide airlines industry by implementing the Airlines’ vision.

Korean Air’s Commitment towards Sustainable Management

Based on a strict commitment towards flight safety, Korean Air is concentrating its efforts on various areas for sustainable management, such as realizing its “Environmental Responsibilities” of minimizing impact on the environment, while satisfying increasing demand, and establishing intimate relationships and communications with Stakeholders.

Korean Air’s Values and Responsibilities

Korean Air’s corporate activities inevitably cause noise and gas emissions. During take-offs and landings, there occur environmental effects such as noise pollution around areas close to the airport and depletion of fossil fuels that cannot be reproduced. The burning of fossil fuels affects the global climate by emitting green house gases into the atmosphere. Everyone at Korean Air will strive to develop sustainable measures to minimize the effects on the environment, while satisfying the increasing number of passenger travels.

Environmental Responsibilities

By realizing the conduct of global business even more convenient, airline transport promotes balanced regional economic development. In addition, through business, travel and tourism, greater and diverse employment opportunities arise. Korean Air will fulfill its economic responsibilities by continuously enhancing value for society, corporations and individuals through expedient and convenient passenger and cargo transportation to all regions of the globe.

Social Responsibilities

Korean Air’s responsibilities are towards those parties that are directly and indirectly affected by its economic activities. Through absolute safety and optimal practices, Korean Air will strive to provide customers freedom to experience abundant culture and education. For the employees, Korean Air will provide opportunities to help foster professional expertise through education, in addition to improving the quality of life through performance based compensations. Korean Air will also concentrate on consistent management through a Win-Win strategy with its cooperative partners while supporting society through management sharing and social contributions.

Ethical Management

Ethical Management as Part of Daily Activities

To emphasize sincerity and transparent management, Korean Air obliges new employees to complete corporate ethics classes. In addition, we encourage ethical management to become a part of daily activities by providing our people with easy access to corporate ethics information and training materials through the company intranet and ethical policies throughout the workplace on a regular basis. Korean Air also strives to establish a transparent relationship with all stakeholders by announcing its commitment against bribery or inequitable transactions within the company and all related firms.

Maintaining a Policy of Reporting Internal Irregularities

Korean Air maintains an “Internal Misconduct Reporting System” to eradicate internal solicitations, irregularities and misconducts in transactions with related firms. Reports received by the audit division, which manages ethical management within Korean Air, will initiate a thorough process to verify irregularities, inefficiencies in policies and habits. Korean Air also operates an Ethics Office under the Audit Division that oversees the implementation of corporate ethics in order to support and establish corporate ethics through systems. An employee in charge of ethics is appointed in each department to prevent behaviors that violate the code of ethics.

Establishing an Ethical Management Network

Korean Air makes efforts to establish ethical management in all corporate activities. Through corporate ethics management forums, seminars and various activities sponsored by the Federation of Korean Industries and Korea Employers Federation, we exchange information and benchmark success stories, while establishing ethical management networks with various organizations. While continuing to strengthen the “Fair Trade Self-oversight” program and “Internal Control Systems,” Korean Air will establish an equitable and transparent corporate culture and implement “Corporate Code of Ethics”.

Korean Air’s Ethical Charter

Korean Air strives to promote mutual prosperity with the community by giving back to the community. We share transparency and responsibility as management principles, respect the free competitive market, and emphasize corporate activities that abide by rules and regulations.

Korean Air adheres to transparent and ethical management.

Having selected corporate ethics as a core strategy to enhance competitiveness, Korean Air instituted its ethical charter on January 1, 2001. Since then, Korean Air has established concrete ethical norms and execution policies and strengthened training programs for our people on the ethical management and internal audit systems.
Enhanced corporate value through a sound and transparent governance structure

Establishing a sound corporate governance structure is the key to establishing trust with stakeholders such as shareholders, customers, employees and business partners, and in enhancing corporate value in the long-run. Based on the authority delegated to Korean Air’s Board of Directors, diverse measures will be taken to ensure that important corporate management issues are transparently and fairly discussed.

Governance Structure

Composition of the Board of Directors

The majority of Korean Air’s Board of Directors (BOD) comprises of non-standing directors. In order to help the Directors make informed decisions, a senior member of the Company will be present for each proposed agenda so as to provide sufficient background explanation and information. Under the BOD are three committees operated: Audit Committee, Management Committee and Non-standing Director Nominating Committee. Each with 4 Directors, these committees ensure objective execution of decisions, professional decision making and equitable nomination of directors. In order to ensure independency and faithful execution of the audit functions, the Audit Committee comprises of all non-standing directors.

Transparent Management

Korean Air aims to establish a transparent corporate image through the practice of fair competition and upliftment management. Since announcing the Company’s fair trade policies in 2004, management has not only tried to establish and expand its fair trade practices within Korean Air, but has also tried to prevent irregular trade activities by distributing the “Fair Trade Self-Observance Manual,” and holding “Self-Observance Educational Programs.” An “Internal Accounting Control Team” was established enhance the credibility and accounting transparency of financial information. In addition, an advanced “Internal Accounting Control System” was established to enable the efficient management of the Internal Accounting Policies and regular monitoring of the Internal Control Management status.

Korean Air has adopted a “Corporate Code of Ethics” that emphasizes integrity and transparency in management. To aid in the implementation of the “Corporate Code of Ethics,” “Guidelines for Handling Ethical Issues” is being implemented. Information and training regarding the code of ethics are continuously provided to all Korean Air employees to help build a corporate culture based on fairness and transparency.

Crisis Management

Organization Crisis Management

Korean Air is fully aware that risk factors are consistently inherent in management activities and the affects that a crisis can have on normal management activities. Korean Air considers crisis management as part of management’s tasks and is establishing a crisis management system to prevent crisis and to take strategic and realistic measure in case of crisis. As a preventive measure, Korean Air is continuously trying to understand various external risk factors that can have an affect on management activities company-wide or from a division level, and diverse risk factors inherent within the Company. By analyzing the scope of the affect on management activities, Korean Air is taking appropriate countermeasures.

Korean Air places flight safety in a top priority position. Since 1999 up until 2005, we have maintained an accident-free record for six consecutive years. Within the airlines industry, safety is an absolute value that cannot be exchanged for anything. Korean Air will continue to provide convenience and safety to its customers.

Safety Evaluations by External Evaluation Organizations

By easily passing the safety evaluation by the IATA certified safety certification institute IOSA in January 2005, Korean Air was the first in Korea and among the SkyTeam alliance members to receive the certification. In addition, evaluated an “Excellent” Airline in the recent safety audit by the US Department of Defense, Korean Air was the only Asian airline re-certified as the US Department of Defense’s contractor. This greatly contributed to the strengthening of Korean Air’s external credibility and enhanced customer service.

Safety-related Investments & Management

Korean Air was able to develop a Flight Visual System (FVS) utilizing its own technology for flight safety, and has applied it to all types of aircrafts in its fleet. The FVS can simulate the flights of aircraft and the training of pilots, enabling a complete review of any risk factors. The results can be applied in training and operational procedures, enhancing flight safety. In the past 3 years, Korean Air’s accident rates on the ground decreased by approximately 77%, resulting in accident cases of 0.21 per 10,000 flights in 2005, a considerably low figure compared to the 1.39 accident per 10,000 flight rate for global airline industry.

Safety Management System

In the past, the focus of accident prevention was on preventing recurrence through case analysis. Now, the paradigm changes to a data-based safety management system. All safety related factors are stocked in a database, pinpointing and pre-eliminating even minor irregular factors. Korean Air has also started a safety data management system. By internally developing in 2005 an integrated safety data management system, SafeNET, Korean Air set the ground for risk factor analysis system through managing flight and ground safety data and trends. By integrating each safety data that were managed separately, the SafeNET is expected to significantly contribute to improving flight safety. In addition, Korean Air continuously and systematically operates a safety evaluation policy, preemptively locating and eliminating safety impediments across the entire work process.

Aircraft Ground Accident Ratio

Korean Air maintains inspection equipment standards higher than national standards. It operates 19 X-Ray units, 12 Search Equipment, 7 Explosive Search Equipment for cargo security in its domestic airport branches. Korean Air also developed and put in place an e-learning airline security course to provide efficient, standardized airline security training to security staff and distributed audio-visual material to its domestic employees and cooperative firms to provide opportunities of simulated experience in advance. To prepare for potential terrorist attacks during flight, Korean Air held various training sessions to simulate potential counter-measures to terrorist situations, which included 2 training sessions where armed guards entered the aircraft, 1 training session in coordination with the police, and 4 training sessions to react to bomb threats.
An Excellent Partnership

We spread our wings toward happiness and, under the shining sun, we establish our foundations on the fruit of our labor. Throughout our growth, inspired by the best, we continue to transform ourselves into what we envision our Korean Air to be. We are always led by our faith in the business philosophy that our success is reflected in the satisfaction of our customers. Safety-oriented operations and customer satisfying services make Korean Air an outstanding company for our patrons to use for their travels. Our generous wage system and talent-fostering training courses instill our employees with professionalism in performing their duties. Practicing the spirit of ‘sharing’ in management and fostering a corporate culture in which all of our responsibilities as a responsible corporate citizen, we also pursue coexistent management in our relationship with our business partners.
In addition to domestic e-Ticket services, Korean Air initiated E-Ticket services jointly with 20 global airlines, including the SkyTeam Alliance members. Through a partnership with GDS (Global Distribution System), a global reservation system, Korean Air will be able to conveniently use E-Ticket services in sales offices around the world and in travel agencies.

Received the ‘e-Business’ President’s Grand Award
Korean Air received the 9th ‘Korean e-Business President’s Grand Award’ on November 2005. This award is the most prestigious award in Korea, awarded by the government to outstanding e-business corporates or organizations for their meritorious and outstanding contributions to enhancing Korea’s industrial competitiveness by utilizing e-commerce. Being the first Korean airlines to initiate e-Ticket services and adopt the 2-dimensional barcode technology on boarding tickets, Korean Air significantly enhanced passenger convenience and strengthened airport security. Korean Air also established the necessary infrastructure to help eliminate various limitations to time and place when providing passenger and cargo transportation services through the Internet and mobile phones, enabling Korean Air to achieve high management performance evaluations such as the top ranking in international cargo transportation.

Service Improvements and Management
Managing the Voice of the Customer
Korean Air is focused on identifying the characteristics of each field of operations and establishing a management structure that reflects the voices in the field such as VOC (Voice of Customer). Through global e-mails and suggestion boxes, Korean Air receives approximately 70,000 compliments, inquiries and complaints annually. The VOC is used as an important means to expediently understand customers’ voices, service demands and requests by providing fast replies and by managing a database.

As of October 2005, Korean Air established a global one-stop service website, enabling customers to make reservations, purchase tickets, and board the aircraft. Through top management’s special attention, Korean Air has been providing fast replies and by managing a database.

Korean Air, whose priority is the safety of its customers, continuously implements changes to achieve the highest service quality.

• Safety is a value that cannot be replaced with anything else.
• Korean Air’s whose priority is the safety of its customers, continuously implements changes to achieve the highest service quality.

Customer Privacy
An internal customer-related information management guideline is utilized to ensure safe and secure commercial activities, eliminating concerns of possible disclosure or misuse of customer information. By securing SMS (Information Security Management System) authentication for the Internet Reservation Ticketing System in 2005, customers are able to aggressivly disclose major complaints and service-related suggestions within the Company, enabling everyone to share in the understanding and acknowledgment of the services provided. This provided a cooperative platform to improve weak service spots.

Similar to the improvements made based on questionnaire results from various service areas, VOC analysis and quality evaluation results are delivered to relevant divisions where the issues are resolved or improved, resulting in enhanced services, the key concern for Korean Air. As the core agent for feedbacks and post-management processes, the Service Improvement Evaluation Committee concentrates on improving areas of weakness and problems in Korean Air’s organizational competencies, significantly contributing to enhancing quality and developing new products.

Customer Satisfaction Research
The results from Korean Air’s semi-annual international passenger customer survey, provides a vast quantity of information such as measurements of customer satisfaction levels and analysis on the changing trends regarding service, and customer propensity by type, in addition to customer demands by sector. The results are also used to evaluate and examine results from service management and improvement efforts in marketing and product development. The total customer satisfaction trend show continuous improvements in service-related areas.

Service Quality Evaluation
Through the internally developed Customer Survey, which is a qualitative evaluation of customer satisfaction, and SQI (Service Quality Indicator), which is a quantitative evaluation method, Korean Air calculates the weighted average of the six core factors related to airlines transport service on a quarterly and yearly basis. The six core factors consist of the number of flight delays, number of non-boarded reserved seats, number of luggage-related incidents, number of customer complaints, number of lost calls and number of delayed mileage point inputs. Since this is based on performance data by sector, it is becoming a useful managerial tool to objectively review Korean Air’s work capabilities. Based on the most recent Service Quality Evaluation, service quality and internal work performance showed a rising trend.

Policies and the Procedure Management System Related to Customer Privacy
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Korean Air strives to recreate human values.

People are considered the most precious asset and resource at Korean Air. Development of the company is achieved through the people. As part of the corporate philosophy, Korean Air’s philosophy that pursues harmonized growth of both corporate and employees is reflected in its human resources management principles and the character of its talented workforce. Korean Air also strives to enhance the quality of life of its employees and to provide an opportunity to develop themselves as specialists and personalities by establishing a positive working environment. People are considered the most precious asset and resource at Korean Air. Development of the company is achieved through the people. As part of the corporate philosophy, Korean Air’s philosophy that pursues harmonized growth of both corporate and employees is reflected in its human resources management principles and the character of its talented workforce. Korean Air also strives to enhance the quality of life of its employees and to provide an opportunity to develop themselves as specialists and personalities by establishing a positive working environment.

Fostering Talent
Foster core talents as a Global Leading Carrier
To establish a 21st century Global Leading Carrier, Korean Air is committed to establishing optimal standards in maintenance and operational excellence in all areas of the Company, whether it be hardware or software, including human resources, systems, rules, organization, etc. To be able to flexibly cope with the ever-changing business conditions, Korean Air focuses on responsibility and transparency in management and reinforces the management paradigm while establishing expertise in its human resources and attracting talents. As a global carrier, Korean Air is committed to establishing a training center to secure and establish a talented professional work force with regional and global expertise.

Human Resources Management Policy
Korean Air strives to achieve an integrated human resource system, which closely links training, evaluation and compensation. To become the 21st century Global Leading Carrier, Korean Air operates various training, evaluation and compensation systems taking into consideration the diverse job and work composition. Through this effort, employees are provided with strong motivation to achieve their objectives and succeed.

Operating a professional organization for each training area
Korean Air’s training program is divided into a dual structure, each administered by different organizations. The first includes courses related to administrative management, organizational revitalization, as well as cyber and service training for all employees. The second is a specialized training program catered towards specific occupations. Training for all employees and occupation-based specialized training is administered and managed by the Human Resources Development Center, while occupation-based specialized training is simultaneously managed by the Educational Training Division at headquarters. Because of the diversified characteristics of different occupations, a training team has been established within each division and/or business unit, which includes flight, maintenance and cabin divisions, and business units for passenger, cargo, aerospace and in-flight meals.

HR System

Employee Status

Korean Air’s Personnel Philosophy

<table>
<thead>
<tr>
<th>Employee Status</th>
<th>Initial</th>
<th>Percent</th>
<th>Office Level</th>
<th>Non-Office Level</th>
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<tr>
<td>Total</td>
<td>14,812</td>
<td>100%</td>
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<td>Office Level</td>
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<td>3,562</td>
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training in job competencies when needed. For promotions to assistant mananger, “Flight Transportation Basic Course” to gain basic knowledge in all areas of flight transportation and each business division is compulsory. Between assistant manager and deputy general manager, each employee must complete compulsory and selective courses in the credit-based “Short Job Competency Program,” which covers job competency training depending on the job title. For promotions to general manager, compiling the AMS (Airline Management School) Program is compulsory. This fosters executives with administrative management competencies and problem solving capabilities related to the airlines industry, through specialized airline specific management and related knowledge-based training and case studies.

Executive Training and Core Personnel Fostering Strategy

Since 2003, Korean Air has conducted KEDP (Korean Air Executive Development Program) courses for Managing Directors. KEDP is a customized MBA program which was developed in conjunction with Seoul University’s School of Business Administration. This is a specialized executive business school program that focuses on airline management strategy through case studies. KEDP’s objective is to help executives develop decision-making capability through selective case-studies related to the airlines industry. Korean Air also selects 10 key personnel annually to study in leading domestic and foreign MBA programs to foster future leaders and global competencies.

Standardizing Service-related Training

With its 37-year history, Korean Air has secured a leading position as the role model in the domestic and foreign airlines industry, as well as the service industry. Since the beginning of 2006, by providing domestic regional and foreign office employees with similar service-related training programs, Korean Air has implemented a continuous and systematic service-related education platform. Korean Air’s 2006 service-related training objective is to establish consistent training throughout the organization, including on-site employees and their managers.

Compensation Structure

The compensation structure’s principle is to simultaneously enhance the basic quality of life for all employees and establish a differentiated performance-based rational compensation structure based on job performance. The total compensation concept not only provides monetary compensation, but also enhances the quality of life for its employees through various Welfare & Benefits Policies.

Responsibilities & Obligations to Employees

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Promotion of Online Training

Special characteristics of the airline service industry makes it difficult to conduct training programs for everyone simultaneously due to various time shifts, diverse functions of jobs and different work loads required by various jobs. Starting in 2004, to overcome these limitations, Korean Air actively initiated the “KAL Cyber Campus,” which is an online training homepage, providing flexibility for employees to select a training program through the renovated open course method. Korean Air has internally developed 50 or more courses such as practical airlines, Japanese, English, airlines open course method. Korean Air has internally developed 50 or more courses such as practical airlines, Japanese, English, airlines open course method. Korean Air has internally developed 50 or more courses such as practical airlines, Japanese, English, airlines open course method. Korean Air has internally developed 50 or more courses such as practical airlines, Japanese, English, airlines open course method.

Welfare & Benefits Policy

A Company Model with Harmonious Labor-Management Relations

With emergency management measures taking effect due to the 2005 unprecedented oil price hike, the labor union unconditionally entrusted the Company with settling wages. In turn, the Company supported its employees a stable life style. Korean Air also provides subsidies for airline tickets, enabling employees to receive a broad range of benefits and simultaneously feel a sense of pride.

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Online Program Operating Results

<table>
<thead>
<tr>
<th>Classification</th>
<th>Number of Training Courses</th>
<th>Number of Registrants (Person)</th>
<th>Total Man-Hours</th>
<th>2004</th>
<th>2005</th>
<th>2006</th>
<th>2007</th>
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</thead>
<tbody>
<tr>
<td>Total</td>
<td>192</td>
<td>27,092</td>
<td>160,787</td>
<td>183</td>
<td>39,325</td>
<td>568,998</td>
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</table>

Pension

Based on the National Pension Law, Korean Air’s pension structure is compulsory for all employees, while the Individual Pension, which is an individually subscribed pension, is supported by the company. Based on the 1995 agreement between labor and management, Korean Air provides KRW10,000 monthly support to individual Pensions for employees in the 18 to 60 age bracket, while individuals are free to pay in additional premiums. As of December 2005, the beneficiaries of the Individual Pension amounted to 15,134 employees, a 91% level.

Beneficiary Status

<table>
<thead>
<tr>
<th>Year</th>
<th>National Pension</th>
<th>Individual Pension</th>
<th>Total</th>
</tr>
</thead>
<tbody>
<tr>
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<td>34,2</td>
<td>11,1</td>
<td>45,3</td>
</tr>
<tr>
<td>2003</td>
<td>25,6</td>
<td>11,1</td>
<td>36,7</td>
</tr>
<tr>
<td>2004</td>
<td>27,1</td>
<td>11,1</td>
<td>38,2</td>
</tr>
<tr>
<td>2005</td>
<td>27,8</td>
<td>11,1</td>
<td>38,0</td>
</tr>
</tbody>
</table>

Korean Air’s compensation structure is based on a differentiated rational performance-based principle.

Welfare & Benefits Policy

Based on a “Employee like a Customer, Customer like a Family” corporate culture that strives to achieve internal employee satisfaction, diverse welfare & benefits are provided to ensure all employees a stable life style. Korean Air also provides subsidies for airline tickets, enabling employees to receive a broad range of benefits and simultaneously feel a sense of pride.
Continuously Promoting an “Accident Free” Environment

Efforts to create a healthy and safe workplace not only enhances the company’s competitiveness, it also reduces social costs. It is also closely related to the pursuit of happiness by each employee of the Company. Korean Air fulfills its safety and health requirements through various industrial safety and health regulations.

Industrial Safety

Industrial Safety Management System

Korean Air’s manufacturing facilities have all acquired the government-promoted Safety & Health Management System (KOSHA 18001). This enables the Company to systematically and efficiently apply safety management systems to all its manufacturing facilities. Through the Industrial Safety & Health Committee and Safety Health Council, Korean Air actively supports the management of safety & health for its employees located in its manufacturing sites, as well as the employees of cooperative firms.

Internal Accident-free Movement

Separately from the country’s accident-free movement, Korean Air’s industrial safety efforts are continuously being promoted through the “Company Accident-free Movement,” which is an internal company incentive program. To achieve accident-free industrial sites, Korean Air promoted friendly competition among divisions by encouraging business units to develop safety management techniques, and based on the performance, was awarded various incentives. Through this self-observed industrial disaster prevention movement, Korean Air’s industrial accident rate has decreased every year.

Korean Air’s industrial accident rate was 0.09 persons per 100 in 2005, a decrease of 82% over the past 5 years. This was the result of the Company’s Accident-free Movement which induced voluntary safety management. By reducing cabin crew accident rate during flight, the 3 year company-wide effort has finally been realized.

Korean Air will continue to make every effort to promote a safer workplace through the development of industrial safety management policies.

Effort to Reduce Industrial Accidents for Crew Members

- Initiate safety training for cabin crew members and carry out physical evaluation
- Adopt and operate basic physical stamina measurement equipment to scientifically measure physical stamina
- Add swimming capabilities as part of the criteria for hiring cabin crews
- Add parts as part of the cabin crews’ uniform to enhance functionality in-flight
- Continuous promotion of industrial accident prevention campaign by the cabin crew division

Industrial Accident Trend

Number of People in Industrial Accidents

Health

Aeromedical Service Team

The Airline Health Team, comprising of specialized airline health experts, is responsible for management of every employee’s health, especially crew members that can directly impact the safety of the flight. Korean Air is especially concerned with providing specialized preventive health management to different jobs within the Company, enabling the employees to concentrate on providing optimal customer service.

To maintain pace with the fast-changing medical environment, Korean Air utilizes medical equipment and facilities similar to that of university hospitals. With this, Korean Air conducts medical examinations for its employees that are more advanced and reinforced than the basic medical examination which is outlined by law.

Korean Air also conducts various programs to promote basic physical health and rehabilitation of cabin crew members through a high-tech precision physical examination system and various health promotion programs, including nutritional and exercise consultations, non-smoking clinics, etc. Korean Air promotes and supports a pleasant environment through measuring, evaluating, and managing the working environment, by promoting health-related activities that fit the characteristics of each occupation, and by applying standards related to harmful factors existing within the location sites that are higher than the legal standards.

Effort to Reduce Industrial Accidents for Crew Members

Korean Air ensures flight safety by not only managing the health of the employees, but also deciding whether to transport infirm patients and providing medical service support to emergency patients during flight.

Infertility Treatment Support

Korean Air is committed to providing safe transport for infirm passengers suffering from infertility, through the labor-management committee, Korean Air initiated holidays for infertility women employees starting in April 2005. This was the result of labor and management acknowledging that fostering children is not only the problem of the individual, but the responsibility of society. This contributed to the enhancement of work efficiencies by enabling female employees to realize a stable working environment.

Transporting Invalid Passengers

Korean Air is committed to providing safe transport for invalid passengers requiring either physical or medical help, including pregnant women. This is to protect passengers from medical emergency situations that may occur during flight.

Transport of invalid passengers is carried out under the recommendation of IATA, whereas the Airline Health Team decides on whether the transportation of the invalid is possible. For safe transport, Korean Air provides medical equipment such as oxygen supplies, airline beds, wheelchairs and special diets (food for diabetes and low salt content foods).
Establishing a Platform for Achieving Growth with Partners

The age of limited competition is rapidly changing into a highly competitive environment based on speed, especially with the fast proliferation of the Internet. As a result, management paradigms are also rapidly changing. Korean Air is creating a platform where business partners and cooperative firms can grow together through maintenance of various systems for establishing an opportunity for coexistence in the midst of the changing management environment.

Management Based on Coexistence

Establish “Win-Win” Teamwork

Times are fast-changing, making teamwork a necessity to achieving efficiencies and mutual enhancement of earnings and profits. In order to convert this competitive environment to one of coexistence, Korean Air has continuously made every effort to upgrade its existing cooperative firm evaluation system. Korean Air provides incentives allowing actual benefits to go towards cooperative firms by enhancing transparency through revised standard processes for company registration and evaluation, and establishment of an equitable and objective evaluation standard.

Establishing the Korean Air’s Corporate Ethics Program

At Korean Air, as well as cooperative firms, a high-level of ethical behaviors is demanded of all employees. To firmly establish “Korean Air’s Corporate Ethics Program,” which was initiated in January 2001, the Company has displayed a strong commitment to implementing the ethics program by regularly sending letters requesting cooperation from senior officers of cooperative firms. Korean Air is focused on achieving transparent and equitable corporate management by preventing internal irregularities and by limiting transactions or canceling agreements with cooperative firms that have not abided by the “Korean Air’s Corporate Ethics Program.” A reward system for reporting irregularities has also been adopted.

Support Program to Maintain a Cooperative Relationship

Korean Air supports cooperative firms by providing technology to outstanding cooperative firms, enhancing technological competence of cooperatives and creating stronger relationships. Korean Air carefully reviews the financial status of cooperative firms and adjusts payment schedules, providing maximum support to cooperative firms. By promoting teamwork with cooperative firms, Korean Air makes every effort to create a company that can reward shareholders and related parties by ensuring success in a highly competitive environment.

CASE (Coordinating Agency for Supplier Evaluation)

To support strict quality management of cooperative firms, Korean Air joined the International Airlines’ Quality Evaluation Committee (CASE). Korean Air will go hand-in-hand with its cooperative firms based on certified international quality standards. Among the 440 companies that transact with Korean Air, approximately 85% are registered as CASE administrative firms.

SkyTeam

With the slogan, “Caring More About You,” the SkyTeam was launched with 9 prominent international airlines, which include Delta Airlines, Air France, Aero Mexico, etc. To provide convenient and consistent service, the SkyTeam jointly operates various services, including joint preferential treatment programs for customers, joint use of airport lounges, joint use of check-in counters, etc. The SkyTeam is the second largest global alliance, whereas the global alliance “SkyTeam Cargo” is the first mammoth airline cargo alliance.

Korean Air Carries Out Its Diverse Roles and Responsibilities Towards Society with Devotion

Based on the belief of Chairman Joong Hoon Cho, the founder of the Hanjin Group, which requires “Corporate Profits Generated from Society should be Returned to Society,” since its privatization in 1969, Korean Air has been active in various social activities, utilizing the special characteristics of the airline transportation business. With the strong corporate ideology of actively returning corporate profits back to society, Korean Air promises to remain a respected company that fulfills the responsibilities and obligations demanded by society, by contributing to the healthy development and welfare promotion of all regional societies that manage the country and its businesses.

Korean Air’s Major Social Contribution Activities

Cultural & Social Activities

Support for Social Volunteer Groups: Social Volunteer Groups have been established to carry out various social activities. The Social Volunteer Groups are divided into the following categories: Disaster Relief, Sponsorship, and Volunteer Activities. Each group is responsible for organizing and executing various social activities.

Social Volunteer Group Activities

- Overseas social contributions (Planting in Mongolia)
- Beautiful Store Korean Air Shop
- Children household heads and disabled fielding to Jeju
- Scholarship for juveniles from low-income family
- Sending books to students in remote places
- Volunteer & medical services at older village
- Supporting marginalized neighborhoods
- Sponsoring the Habitat for Humanity Korea
- “Beautiful Saturday” with the Beautiful Store
- Donation for solitary senior citizens
- Subsidizing disabled shelters with rent subsidies
- Supporting internal volunteer groups with monthly volunteer services

Social Contribution Budget

Every year, 2000 employees participate in social contributions, while KRW10 billion is provided annually as support to the corporate-level social contribution activity fund and the Social Volunteer Group activity fund. The major support areas are arts & sciences/scholarship support, service activities for regional citizens, medical support, cultural/art activities, etc. Starting in 2006, Korean Air shall make every effort to systematically carry out social service activities by establishing an annual social contribution plan, managed by the Social Volunteer Group.

Major Contribution Activities

Disaster Support

Utilizing its business know-how, Korean Air has actively supported various humanity relief activities. Since it formed a Disaster Support Team in 1997, Korean Air has transported disaster relief items, and allocated special fleets and helicopters to help save lives. When the
Yongcheon Station exploded in North Korea in 2004, Korean Air committed two B747-400 special fleets for relief-item transport to help disaster victims. In 2005, to help the sufferers of the tsunami in Indonesia and surrounding countries, Korean Air provided free-of-charge transport of relief items. Korean Air also provided relief item transport to the victims of Hurricane Katrina in the U.S. Every year, Korean Air commits special fleets to transport bottled water to hurricane victims. Korean Air will continue its “Nanoom (Sharing) Management” by actively participating in disaster relief activities.

Change Collection Movement
Since December 2004, the Social Volunteer Group has carried out the “Change Collection Movement” monthly, where employees donate the changes under KRW1,000 and executives, under KRW10,000 from their salaries as part of the Social Service Fund. The aggregate amount is then matched by the Company. The collected funds are mainly used to support internal volunteer groups under the Service Social Volunteer Group, and Company’s service activities.

Korean Air “Beautiful Store”
In August 2005, Korean Air participated in the “Nanoom Market” Volunteer Service along with 15 Hanjin Group affiliates, including Hanjin Shipping and Hanjin, and 3 Hanjin Group foundations, including Inha Academy and Jeongseok Academy. For 2 weeks, 30,000 Hanjin Group people collected clothing and living necessities, while Korean Air crew members donated 2,000 precious memorabilia from their flights around the world and local products. Korean Air contributed 60 personal computers. Hanjin Group’s 400 employees sold the 90,000 donations at 24 Beautiful Stores around the nation.

Sharing Love with the Marginalized
The incumbent and retired Korean Air employees lead the company-wide community service. “Gonihwae,” “Saedeulhwae,” “Sanasa,” “Dasom,” and more voluntary groups comprised of our people patronize shelters for the old and young and juvenile household heads, and provide free meal services to solitary senior citizens.

Habitat for Humanity
Since 2001, Korean Air has sponsored the Habitat for Humanity Korea. Korean Air provides helicopters free-of-charge, monetary support for construction, discount airfares for volunteers, etc. Korean Air also volunteers to build houses in the Habitat for Humanity Korea, the local branch of the Habitat for Humanity International. Between August 8 and 12, 2005, 40 members of the Social Volunteer Group participated in the “Lighting Construction” event, which was held by Habitat for Humanity Korea in Chungchoengnam-Do.

One Company-One Village Sisterhood Relationship
On July 15, 2005, 25 members of our Social Volunteer Group weeded rice fields and garnered flower beds, and provided medical service in collaboration with Inha University Hospital at the sister village of Korean Air in Gangeon-do. The relationship was formed as part of the “One Company-One Village Sisterhood Relationship Movement.”

Flower Seed Sharing
Since 1998, to cultivate a green environment, Korean Air held a “Flower Seed Sharing” event every April. During the “2005 Love the Sky, Love Flower Seeds” event, 66,000 paper-packaged flower seeds were distributed to domestic passengers.

Pink Ribbon Campaign
Every year during the Breast Cancer Prevention month in October, Korean Air holds a Breast Cancer Prevention campaign, where female cabin crew and airport employees wear Pink Ribbon on their uniforms and hand out Breast Cancer Self-evaluation cards to passengers. The Pink Ribbon, representing a healthy women’s breast, is the symbol for the global Breast Cancer Prevention campaign. Committed to protection and promotion of women’s health, Korean Air holds various events including special lectures by speakers who overcame breast cancer.

Jeongseok University
To promote life-long education, friendly labor-management relations and outstanding talent, “Hanjin Industrial University” was first established in 1988 within the Company and was accredited as Jeongseok University in 1999. This is fraught with significance as Jeongseok University was almost the only nationally accredited corporate university that survived the financial crisis in 1997 when most of the corporate universities closed down. Since 1988, the Jeongseok University has awarded 2,819 diplomas. The university’s operating expenses and tuition fees for students are all paid by Korean Air and the Hanjin Group. To cope with the growing demands for higher education, the university added an industrial engineering bachelor curriculum, to total three bachelor programs. The university will continue to enhance the quality of its education.

Overseas Volunteer Activities

Sarang Nanoomhwae’s Voluntary Overseas Activities
From April 29 to May 5 in 2005, the “Sarang Nanoomhwae (Love Sharing Organization)” carried out various activities, including cleaning, painting, gardening, helping the disabled, and presenting gifts at Philippine Orphanage, Samaria Village, Ppayatti School, and Ellsiogche Welfare Facilities in Manila, the Philippines. In October 2006, they also visited and helped deaf-mutes and flood-damaged villages in and around Mumbai, India.

Planting Trees in Mongolia
Since 2005, Korean Air has come up with a plan to expand its cooperation with Mongolia in the long run. The key points of the plan include investment to improve control tower facilities, Air Mongolia’s domestic route business expansion, Mongolian scholarships promotion, and enhanced social contribution activities in Mongolia.
Excellence in Environmental Stewardship

Korean Air works vigorously to create a greener future for the earth and a better life for its inhabitants. We strive to minimize the effects of our operations on the environment, and to this end, have made steady progress in reducing noise during takeoffs and landings while replacing older aircraft with new ones, and improved fuel efficiency in terms of per passenger fuel requirements while reducing our consumption of fossil fuels.
Korean Air seeks to decrease its impact on the environment for the benefit of all.

With the establishment of a vision for its environmental stewardship, that of "Improving the Value of Life through the Harmonization of Aviation and the Environment," Korean Air pursues sustainable growth while decreasing the impact of its operations on the environment. We actively participate in worldwide efforts to improve the environment, strive to meet increasing demand for aviation safety and security, and have adopted environmental management practices aimed at enhancing our operating processes, all the while aiming to fulfill Korean Air’s corporate responsibilities in terms of environmental stewardship.

Impact of Aviation on the Environment
Airlines have continued to make efforts to decrease the impact of their operations on the global environment and in recent times, such efforts have begun to show results. For example, many airlines, including Korean Air, have invested in efficient new airplanes and improve operational procedures to achieve economic and environmental goals, resulting in reductions in oil consumption, fuel emissions and noise.

Major Environmental Impacts of Airlines
Because the development of environment-friendly fuels to replace conventional fuels for aircraft is expected to take place over a long period, and because the global demand for airline travel is growing at around 4% every year, the most immediate and effective way to minimize environmental damage from aircraft fuel emissions is to put the most advanced, fuel efficient airplanes into service. The latest models of aircraft also operate at reduced noise levels, decreasing the impact on neighborhoods and areas adjacent to airports. Korean Air makes continued efforts to reduce its impact on the environment with purchases of new, fuel efficient aircraft, improvements in service procedures and investments in environment-friendly maintenance technologies.

Environmental Impact

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Development of Engines with Improved Fuel Efficiency
Aircraft engine manufacturers are currently developing engines that will decrease fuel consumption by 8-12% by the year 2010.

Fuel Efficiency of Aircraft
Today’s aircraft are 70% more fuel efficient than those of 40 years ago and over 20% more efficient than those of 10 years ago. The latest aircrafts use a mere 3.5 liters of fuel per 100 passenger-kms, resulting in reductions of CO emissions by 50% and HC emissions by 90% compared to previous models.

Environmental Values & Responsibilities

- To prevent pollution: Use of new, fuel efficient aircraft, improvements in service procedures and investments in environment-friendly maintenance technologies.
- To reduce noise: The latest model of aircraft also operate at reduced noise levels, decreasing the impact on neighborhoods and areas adjacent to airports.

Flight Operations

- Use of Fossil Fuels
Korean Air’s use of fossil fuels influences the environment. The burning of fossil fuels has an impact on climate change due to the emission of greenhouse gases such as CO₂ during flights. According to research by the UN’s IPCC (Intergovernmental Panel on Climate Change), approximately 35% of the greenhouse gases emitted by humans is the result of air transportation.

- Takeoffs and Landings
Although Korean Air’s fleet of aircrafts make much less noise than in the past, noise pollution remains a concern of communities in close proximity to airports. During takeoffs and landings, gases emitted below an altitude of 900m contain CO₂, CO, HC, and NOx, all of which negatively affect air quality around airports.

Ground Operations

- Aircraft Maintenance
Aircraft maintenance uses resources such as fuels and electricity, which contribute to emissions of CO₂. The use of solvents in aircraft maintenance results in the creation of volatile organic compounds, other wastes and wastewater.

- Passenger and Cargo Business
The use of fuels by ground support vehicles creates CO₂ emissions and other wastes. Cabin services also create wastes.

Emission Reductions of Leading Airlines

- Use of new, fuel efficient aircraft, improvements in service procedures and investments in environment-friendly maintenance technologies
- Reductions in noise levels, decreasing the impact on neighborhoods and areas adjacent to airports

Sustainable Future
Aircraft manufacturers are currently investing in R&D efforts aimed at improving fuel efficiencies by more than 50% by 2030, curtailing NOx emissions by more than 80%, and reducing noise during takeoffs and landings by more than 50%. As for Korean Air, we plan to add fuel efficient next-generation aircraft such as the A380 and B787 to our fleet, as such aircraft consumes a mere three liters of fuel per 100 passenger-kms.

Environmental Impact

- Fuel Efficiency of Aircraft
Today’s aircraft are 70% more fuel efficient than those of 40 years ago and over 20% more efficient than those of 10 years ago. The latest aircrafts use a mere 3.5 liters of fuel per 100 passenger-kms, resulting in reductions of CO emissions by 50% and HC emissions by 90% compared to previous models.

- Noise
Today’s most advanced airplanes are 26dBs quieter than those of 20 years ago, people commonly perceive such reductions to be a reduction of 75% or more from the airplanes of the past.

- Sustainable Future
Aircraft manufacturers are currently investigating in R&D efforts aimed at improving fuel efficiencies by more than 50% by 2030, curtailing NOx emissions by more than 80%, and reducing noise during takeoffs and landings by more than 50%. As for Korean Air, we plan to add fuel efficient next-generation aircraft such as the A380 and B787 to our fleet, as such aircraft consumes a mere three liters of fuel per 100 passenger-kms.

Development of Engines with Improved Fuel Efficiency
Aircraft engine manufacturers are currently developing engines that will decrease fuel consumption by 8-12% by the year 2010.
Korean Air seeks to fulfill its corporate responsibilities through environmental management practices.

In committing to uphold its corporate responsibilities, Korean Air has adopted a number of environmental policies. The Company aims to prevent potential damage to the environment through environment-friendly processes and procedures. Korean Air also seeks to use environmentally-friendly resources, to recycle waste resources, and to abide by all relevant environmental laws and regulations.

Environmental Management System

Operating the Environmental Management System

In receiving the ISO14001 certification, an international standard for environmental management systems, Korean Air has put a company-wide environmental management system in place in five sectors; the Headquarters & General Division, the Aerospace Division, the Maintenance & Engineering Division, the Catering and other sectors; the Headquarters & General Division, the Aerospace Company seeks to fulfill its corporate responsibilities

Environmental Impact

Aviation and a Sustainable Future

All operations of an airline including flights, cabin services, aircraft maintenance, ground support activities and salvo have an impact on the environment. In particular, airlines burn non-renewable fossil fuels, which have an effect on climate change and on the quality of air in local communities. Additionally, aircraft takeoffs and landings create noise pollution in communities adjacent to airports.

Korean Air fully understands that it must balance the demand for global air travel with a consideration for the impact of its operations on society and the environment. Korean Air’s goal is to secure social, economic and environmental sustainability while remaining interdependent and balanced in its approach to the environment.
Evaluation of Environmental Impacts

Korean Air conducted company-wide environmental impact evaluations in 2005 and found a total of 54 important environmental impacts. Korean Air then responded with various measures designed to decrease the airline’s impact on climate change, to increase the recycling of wastes while saving energy, to replace the use of hazardous chemical materials, to reduce the amount of emissions from vehicles and to provide support for local communities.

62 of 66 Environmental Goals Achieved in 2005

Korean Air established and implemented detailed goals as put forth by individual departments (a total of 66 environmental goals) and realized 62 of the goals.

Environmental Risk Management

Korean Air has established emergency response systems at airports and devised regulations for the operation of such systems. We also created an organizational chart for emergencies and placed emergency equipment in appropriate locations so as to be able to respond rapidly and effectively to emergencies. Though saving lives is our first and foremost priority in any emergency, we also strive to minimize environmental pollution.

In order to minimize damage in the event of an accident, Korean Air conducts mock drills and evaluates the readiness of all emergency procedures on a regular basis. Korean Air has also established an environmental response center to respond to incidents involving the environment and organized an environmental emergency taskforce team. The team’s mandate includes the handling of social problems arising from environmental issues and petitions.

2006 Major Environmental Management Plans

Korean Air is in the process of building an environmental performance evaluation system. In order to respond to the United Nation’s Framework Convention on Climate Change, we will develop, by the end of 2006, a system to manage our levels of greenhouse gas emissions and reinforce our online environmental education system and our global communications regarding the environment with the publication of a sustainability report. Korean Air’s mid- to long-term environmental management goal is to integrate the characteristics of airlines into its current EMS. Notably, Korean Air is in the process of introducing new environmental accounting standards and performance evaluations.

Environmental Risk Management

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Korean Air seeks to reduce fuel consumption with the introduction of new, highly efficient aircrafts.

With the development of new engine technologies and improvements in fuselage mechanics, fuel efficiency has improved by 70% or more since the 1970s. Of late, airplanes have become a more environment-friendly means of transportation as the latest models consume a mere 3.5% of fuel per 100 passenger-km and emit significantly less CO₂ than the main culprits of global warming. In addition to its economic responsibilities, Korean Air is making every effort to improve the environment for future generations as part of the Company’s social and environmental responsibilities and commitments.

Fuel Consumption and Efficiency

Fuel Consumption

In 2005, Korean Air’s consumption of aircraft fuel totaled 4,236,959,342 kgs, an increase of approximately 2.5% from 2004. CO₂ emissions also rose at roughly the same rate as fuel consumption to 1.081 million tons. However, the fuel ratio or fuel consumption per 100 RTK, stood at 33.48, a mere 1.87% increase over the previous year. We attribute such outcome to company-wide efforts at reducing the consumption of fuel such as the steady introduction of advanced aircraft and improved flight procedures.

Fuel Efficiency

The International Air Transportation Association (IATA) established common goals for all member airlines, which aim to raise fuel efficiencies for all new aircraft by 26% or more between 1990 and 2012. In particular, member airlines are expected to achieve improved efficiencies of at least 10% from 2000 to 2010. The fuel efficiency of IATA member airlines in 2005 was 41.12% per 100RTK or 7.5% higher than the original goal. Korean Air’s 33.48% per 100RTK in 2005 was 22% higher than the average efficiency of IATA member airlines.

Establishment of Fuel Management System

Korean Air has sought to establish a fuel management system for all its operations. The Company utilizes the system to oversee relevant activities in its core sectors. To enhance the system, Korean Air integrates the 6-Sigma methods, the recommendations of the ICAO/IATA, systematic methods of analysis and an FTS (Fuel Tracking System). In addition, Korean Air has standardized and systemized all management tasks and those are outlined in a new company-wide fuel management manual. The Company has optimized its fuel management system to reduce short-term fuel costs by sharing relevant information with other airlines through a fuel management network built on global standards.

Fuel Saving Activities

Improving Fuel Saving Tasks

After building the integrated fuel management system covering all sectors including flight operations, maintenance, general controls, passengers, cargoes, and inflight meals, Korean Air took active measures to deal with the world’s highest-ever oil prices so as to manage and save fuel efficiently. In 2005, we proceeded with 50 fuel saving projects in all sectors with an overall aim of saving KRW30 billion. As a result, we succeeded in saving KRW34.6 billion, while cutting down on the CO₂ emission.

Fuel Saving Activities

- Decrease flight times by using more economical routes
- Utilize alternative airports and shorter routes
- Determine optimal flying altitudes in consideration of loads, meteorological data
- Reduce leads to decrease fuel consumption
- Load amount of in-flight potable water
- Optimize the center of gravity of aircraft to improve efficiency
- Improve airplane and engine performance
- Conduct regular washing of engines with water
Korean Air continually introduces new aircrafts, in line with Company policies on modernization and unitization. We are currently in the process of replacing B747s, our main aircraft for long-distance routes, with the latest B777s, and the A300-600 models, used for mid- to long-distance flights, with A330 models. In addition, we have completed the replacement of older F100 and MD80 models, used on short-distance routes, with the latest B737s. The fuel savings improved with these replacements by 17% on average.

### Average Age of Airplanes

The average age of aircraft in Korean Air’s fleet in 2005 stood at 7.3 years, much lower than the average of 11.3 years of other IATA members.

<table>
<thead>
<tr>
<th>Airline</th>
<th>Average Age (in years)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Korean Air</td>
<td>7.3</td>
</tr>
<tr>
<td>IATA average</td>
<td>11.3</td>
</tr>
</tbody>
</table>

### Environmental Review

Korean Air endeavors to observe global environmental regulations, minimize noise and emissions while upholding its social and environmental responsibilities. In purchasing new aircraft, Korean Air holds to strict standards in terms of noise and gas emissions. We also select engines that meet and exceed current international environmental standards while predicting our future operational needs and requirements for when the aircraft is to be delivered. Because the upholding of environmental standards is essential to Korean Air, we always secure warranties in our contracts to guarantee the maintenance of environmental standards.

### Conventional vs. New Aircraft

- **Old Models**: CF6-50C, CF6-80C, CFM56-3C, PW4000-84, GE90-115B, CF34-3B1, PW4090, CFM56-5, PW4168, PW4158, PW4000-100
- **New Models**: CF6-80C2, CFM56-7C2, PW4090-112, PW4168-112, GE90-115B, CFM56-5, PW4000-100

### Emissions of Greenhouse Gases in Korea (by Industry)

- **Jet engine fuel**: Takes up a large portion of an airline’s total costs. We endeavor to meet and exceed global regulations regarding fuel consumption and the emission of greenhouse gases by modernizing aircraft, harmonizing transportation networks, raising load factors, improving procedures, and curtailing the weight of loads.

Over the past 40 years, the aviation industry has decreased emissions by more than 70%.

Since that time, with many areas of the world developing rapidly and consequent rises in living standards, demand has increased for airline services as people seek a better quality of life. With an eye towards satisfying demand for airline services while minimizing the impact on the environment, Korean Air strives to modernize its aircraft and raise efficiencies in its transport operations as a matter of policy. Our efforts to reduce consumption of fossil fuels and curtail emissions are part of the overall effort to promote the sustainable development of the Company while reducing the impact on the environment.

### Conventional Climate Change and the Aviation Industry

Jet engine fuel takes up a large portion of an airline’s total costs. We endeavor to meet and exceed global regulations regarding fuel consumption and the emission of greenhouse gases by modernizing aircraft, harmonizing transportation networks, raising load factors, improving procedures, and curtailing the weight of loads.

Korean Air strives to modernize its aircraft and raise efficiencies in its transport operations as a matter of policy. However, increasing demand for airline services has continued to push fuel consumption totals ever higher as airlines strive to meet the demand. In response, Korean Air seeks to reduce fuel consumption by taking advantage of technological developments and by improving operating procedures. The Kyoto Protocol obliges domestic airlines to decrease the amount of emissions of greenhouse gases, but does not include emissions of such gases by international airlines due to the special characteristics of international flights. The UN’s ICAO is currently seeking to establish global policies on global warming gases in the aviation sector, targeting the year of 2007 for the release of the new standards, and although the ICAO is in the process of reviewing an emissions trading system to reduce aircraft emissions, a number of technological problems remain to be solved.

Emissions of Greenhouse Gases in Korea (by Industry)

The amount of CO₂ emissions by Korean Air’s domestic operations amounts to 0.2% of Korea’s total CO₂ emissions and 1% of the total in the transportation sector. If we include emissions by Korean Air’s international operations, which are currently excluded from the Kyoto Protocol, the Company emits around 2% of Korea’s total CO₂ emissions.

### CO₂ Emissions from Fossil Fuels by Industry

- **Domestic Transportation Sector**: 97.3 million tons
- **International Operations**: 97.3 million tons

Aircraft CO2 Emissions CO2 Ratio Decrease (from 2000)

Although RTK increased 47.6% from the year 2000, Korean Air’s fuel consumption increased by a mere 31.67% over the same period due to the Company’s efforts to raise fuel efficiency and load factors. The unit price growth rate (kg-CO2/*100RTK), instead, was reduced by 9.47%.

Survey of CO2 Emissions by Korean Air in 2005

Emissions by Aircraft and Support Vehicles/Equipment

Airplanes produce emissions during flights and while operating on the ground using an APU (Auxiliary Power Unit). The amount of emissions produced varies depending on the conditions at takeoff & landing and at cruising altitudes of over 150m. The main greenhouse gases emitted by aircraft are CO2 (71.7%) and water vapors (28.2%). The total CO2 emissions include figures of operation both domestic and international airplanes (including leased ones).

Emissions from Other Sources (Energy Use in Buildings)

In this survey, we classified the emissions from boilers, heaters, emergency power generators and incinerators fixed combustion and the use of electric power in the category of indirect combustion.

ICAO Regulations

The maximum limits for aircraft engine emissions of HC, NOx, and CO are set by the ICAO which oversees regulations and sets higher standards. Furthermore, at the sixth meeting of ICAO’s CAEP (Committee on Aviation Environmental Protection), the committee decided to apply a 12% stricter NOx emissions limit for new engines than the current standards starting in 2008. Currently, 56.9% of Korean Air’s aircraft engines already conform to the new NOx standards.

NOx Emissions from Operations

NOx emissions resulting from Korean Air’s operations make up 1.3% of the total NOx emissions from industrial activities in Korea. At the same time, the potential detrimental effects of NOx emissions on the ozone layer and on climate change have yet to be proven conclusively by the scientific community.

Aircraft Conforming to New ICAO NOx Emission Standards

ICAO provides guidelines to the aviation community in order to reduce aircraft emissions. Accordingly, the NOx emissions from Korean Air’s operations are currently categorized as satisfactory standards. As the NOx emission standards are tightened, a larger number of aircraft engines will conform to the new NOx standards.

Ozonesphere and Flights

Aircraft Conforming to New ICAO NOx Emission Standards

* 1000m = 1 Revenue Ton-Kilometer. Transport of one ton load of revenue volume 100Km

Community Air

Emissions during LTO (landing and takeoff) Cycle

An LTO cycle includes aircraft takeoffs, landings and movement below 900m in the vicinity of an airport. During the cycle, airplanes emit gases such as NOx, HC, and CO, which affect air quality in nearby communities. Over the past 40 years the development of aircraft engine technologies has led to a 50% decrease in CO emissions and a 90% decrease in HC emissions during the LTO cycle. Korean Air strives to minimize local air pollution by adhering to LTO regulations and procedures and by minimizing the use of aircraft engines on the ground.

Approach

4 minutes, 30% of regular output

Climb-out

2.2 minutes, 85% of regular output

Take-off

0.7 minutes, 100% of regular output

Taxiing

26 minutes, 7% of regular output

Source: ICAO (Regulations for approving engine efficiency of aircraft)
Korean Air endeavors to decrease noise with the introduction of the latest airplanes and the application of advanced operating procedures. Noise pollution caused by the aviation industry has a significant effect on social and natural environments. Most residents living near airports regard noise from takeoffs and landings to be a more serious environmental problem than air pollution or the effect on climate change. Noise pollution in the vicinity of airports can be classified into engine noise during takeoffs and landings, engine noise from tests on the ground, noise from APU’s (Auxiliary Power Unit) and GPUs (Ground Power Unit), as well as noise from support vehicles. In order to reduce noise pollution, Korean Air purchases quieter, more advanced aircraft while retiring older, noisier airplanes. Korean Air also strives to do its best in following operational procedures that minimize noise.

### Airplane Development and ICAO Noise Reduction Policies

In comparison to aircraft of the 1960s, technological advancements such as the development of better engines, enhanced fuel efficiencies and improvements in operating procedures have contributed greatly to the curtailing of aircraft noise over the last several decades. During takeoffs and landings, today’s airplanes are quieter than their predecessors of 40 years ago by 20dB or more. Such a decrease reduces human fatigue from noise by a quarter.

The ICAO began regulating noise levels of civilian aircraft in 1969 and since that time, the organization has continued to revise its regulations on a regular basis. Currently, approvals of all civilian aircraft are subject to Chapter 3 standards as set forth by the ICAO. However, airplanes seeking approval from 2006 are expected to confirm to Chapter 4 standards, which are 10dB lower than the current Chapter 3 standards. (Apply to approvals of new models beginning in 2006).

### ICAO Noise Certification Standards

<table>
<thead>
<tr>
<th>Year of Certification</th>
<th>CHAPTER 3 Limit</th>
<th>CHAPTER 4 Limit</th>
</tr>
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<tbody>
<tr>
<td>2000</td>
<td></td>
<td></td>
</tr>
<tr>
<td>2005</td>
<td></td>
<td></td>
</tr>
<tr>
<td>2010</td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

### Applying Chapter 4 Standards to Korean Air Airplanes

<table>
<thead>
<tr>
<th>Model</th>
<th>Number of Units</th>
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</thead>
<tbody>
<tr>
<td>B747-200F</td>
<td>24</td>
</tr>
<tr>
<td>B747-300F</td>
<td>10</td>
</tr>
<tr>
<td>B747-400F</td>
<td>6</td>
</tr>
<tr>
<td>B777-200</td>
<td>4</td>
</tr>
<tr>
<td>B777-300</td>
<td>11</td>
</tr>
<tr>
<td>B777-700</td>
<td>14</td>
</tr>
<tr>
<td>B787-800</td>
<td>15</td>
</tr>
<tr>
<td>B787-900</td>
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<td>1</td>
</tr>
<tr>
<td>B787-1000</td>
<td>2</td>
</tr>
</tbody>
</table>

* EPNdB (Effective Perceived Noise Decibels): Refer to Glossary

### Improvements in Operating Procedures

### Takeoff Procedures

- **NADP 1 (Noise Abatement Departure Procedure 1)**
  - In following this system, the pilot uses full power to ascend rapidly to an altitude of between 250m~450m, whereby power is then reduced and the aircraft ascends further at a slower pace. At around 900m, the aircraft’s flaps are folded and the pilot applies more power so as to reach cruising speed. With this system, the rapid ascent takes the airplane out of the vicinity of the airport in a short period of time, leading to the reduction of noise emitted in residential areas surrounding the airport.

- **NADP 2 (Noise Abatement Departure Procedure 2)**
  - In following this system, an aircraft becomes airborne at the official take-off thrust. When the airplane reaches an altitude of around 200m~300m, the flaps are folded and the pilot increases the speed until the airplane reaches an altitude of about 900m. In general, this procedure directs the pilot to rise slowly, in a low degree climb. After the aircraft clears the vicinity of the airport in a short period of time, leading to the reduction of noise emitted in residential areas surrounding the airport.

### Landing Procedures

- **Reduced Flap Approach**
  - If the pilot reduces the angle of the flaps during landing, flap resistance is reduced, thus decreasing the thrust requirements. This allows the aircraft to reduce noise in the areas affected by the noise footprint. By applying this procedure, pilots can reduce aircraft noise by 1~2dB in areas within 8~9km from airports.

- **Delayed Flap Approach**
  - When the angle of a flap is increased, more wind resistance is created causing an increase in noise. Pilots can delay the application of maximum flap angles and delay the dropping of the landing gear to decrease noise.

### Noise Footprint in Accordance with Airplane Development

The following picture indicates the noise footprint of three different aircraft during take-offs and landings.

### Area of Noise Footprint

A noise footprint indicates the extent of the geographical area affected by noise from aircraft during takeoffs and landings. Technological developments in engines and air dynamics have significantly decreased the extent of the areas affected by aircraft noise.

### Environmental Values & Responsibilities

- **Korean Air strives to minimize noise by introducing the latest models of aircraft.**
- **We seek to minimize the effects of aircraft noise on communities surrounding airports by diversifying flight procedures in accordance with prevailing conditions and aircraft performance.**
Noise Charge
Although technological developments and improvements in operating procedures have brought about notable reductions in aircraft noise, such reductions have been offset to some degree by increasing demand for air transportation and by increases in population around airports. Consequently, in order to control noise from takeoffs and landings, many countries impose noise charge to reduce noise pollution in the vicinity of airports.

Charges generally correspond to how much the level of aircraft noise exceeds certain set limits, and at some airports, noisier aircraft are not permitted to land. Municipalities use special equipment to measure aircraft noise near buildings and make use of noise blockers of various kinds and charges to protect local residents. In 2005, Korean Air paid KRW3.58 billion in noise charge.

Engine Test Noise Countermeasures
Engine tests on the ground are first conducted in an engine test cell before being tested at an aircraft run-up shelter. The engine test cell, which includes noise prevention facilities for performance tests, is used to test an engine after maintenance and before being fitted on an aircraft. An aircraft run-up shelter is an outdoor fence-type facility where an airplane’s engines are checked.

Utilization of GPU and Energy Usage
Korean Air’s ground operations contribute to the emission of various gases due to the burning of fossil fuels during engine tests, the use of APUs (Auxiliary Power Units) and GPUs (Ground Power Units), and the operation of flight support vehicles. Two methods are used to supply power, cooling and heating services to airplanes on the ground. One method is via the APU on each aircraft and the other is via the mobile GPU. The problem with the APU is that such units consume a relatively large amount of fuel and create more emissions than do mobile GPUs. For this reason, Korean Air has moved to utilize GPUs for most ground support activities, whenever possible. GPUs create less noise than APUs, thereby contributing to a quieter environment at airports. In addition, since June 2005, we have adopted a new and more environment-friendly system that uses a GPS (Ground Power Service) and PC-Air (Pre-Condition Air) system in boarding bridges to meet energy needs on the ground.

Payment of Noise Charge

<table>
<thead>
<tr>
<th>Years</th>
<th>Domestic</th>
<th>Overseas</th>
<th>Total</th>
</tr>
</thead>
<tbody>
<tr>
<td>2002</td>
<td>1,927</td>
<td>1,568</td>
<td>3,495</td>
</tr>
<tr>
<td>2003</td>
<td>2,113</td>
<td>1,727</td>
<td>3,840</td>
</tr>
<tr>
<td>2004</td>
<td>1,873</td>
<td>2,007</td>
<td>3,880</td>
</tr>
<tr>
<td>2005</td>
<td>1,716</td>
<td>1,862</td>
<td>3,580</td>
</tr>
</tbody>
</table>

Korean Air recognizes the need to minimize the impact of its airplanes on the environment. Thus the airline continues to modernize its fleet by introducing the latest and most advanced models. Korean Air has been replacing its older model B747-200 cargo planes with B747-400ERFs, which are 20% or more quiet during takeoffs.

B747-400ERF
Korean Air recognizes the need to minimize the impact of its airplanes on the environment. Thus the airline continues to modernize its fleet by introducing the latest and most advanced models. Korean Air has been replacing its older model B747-200 cargo planes with B747-400ERFs, which are 20% or more quiet during takeoffs.
Wetairight management systems secure safety and protect the environment.

Korean Air effectively monitors the impact of its operations on the environment through stringent environmental management practices. Every year, Korean Air undertakes evaluations of the impact of its operations on the environment and on communities to find ways to minimize such impacts. We work ceaselessly to ensure a safe, healthy and pleasant environment for all stakeholders, through soil surveys to determine pollution levels, the management of wastes, wastewater and hazardous chemical materials.

Wastes

Korean Air’s aircraft maintenance, general Operations and transport services produce various types of waste, which can be categorized as either general waste, mainly from transportation services, or industrial waste, mainly from maintenance work reflecting the special characteristics of worksites. Food wastes from in-flight services are incinerated to ensure safety and sanitation, and other wastes such as paper, wood, cans, and plastic bottles and so on are separated and recycled. The amount of wastes produced by Korean Air in 2005 stood at 19,521 tons, of which, 7,436 tons was recycled.

Chemical Materials

Korean Air Chemical Management System (KCMS)

Most of the chemical products used in airplane maintenance are pre-selected by aircraft manufacturers. In order to decrease the impact of such chemicals on the environment, Korean Air aims to use more advanced and environment-friendly products in its maintenance operations, and it does so by facilitating a steady exchange of information with the manufacturers of its aircraft. Korean Air currently uses about 1,200 different types of chemical products in its aircraft maintenance programs. In 2005, we developed the KCMS in order to integrate and manage, via the internet, a wide range of chemical materials used at various worksites.

The KCMS offers user-friendly information on products and materials, in addition to detailed information on the proper handling and storage of chemical materials. The system utilizes such real-time information to process permit applications for the import of chemical materials, helping to streamline and integrate the purchase of required products.

Korean Air Chemical Management System (KCMS)

Wastewater Treatment

Korean Air operates 11 wastewater treatment centers, which are capable of handling a maximum of 3,243 tons of wastewater a day, in order to protect water resources from pollution. Korean Air’s standards for discharges are stricter than current legal standards while its TMS (Tele-Metering System) monitors wastewater treatment processes at all workplaces on a real-time basis.
ENVIRONMENTAL VALUES & RESPONSIBILITIES

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• To maintain and protect the environment, Korean Air conducts regular evaluations of its impact on the environment while stringently monitoring and managing hazardous chemical materials so as to provide safe and healthy environments for all stakeholders.

Other Environmental Activities

Anti-icing & De-icing

In winter, to ensure flight safety, snow or frost on airplanes need to be removed prior to takeoff. The anti-icing and de-icing fluids used for such removals contain propylene glycol, which becomes a component of the waste leading to contamination of the water used in the process. The amount of fluid used is dependent on the frequency and amount of snow. Wastewater is collected using a special water absorbent pad and vacuum and handled by contractors specializing in such materials.

Gimpo Airport has built and utilizes seven anti-icing and de-icing worksites at its hardstands. Anti-icing and de-icing worksites were included in the design stage of the Incheon International Airport and sites were built near runways so as to decrease flight delays and to prevent anti-icing and de-icing fluids from flowing into drains.

Soil Management

We operate oil storage facilities at a total of nine worksites. Every year, we make extensive examinations of soil for pollutants to ensure against contamination. In 2005, as a result of regular surveys of soil pollution, Korean Air found contaminated soil (250m³) at its jet fuel storage facility on Yul Island near Incheon. The Company responded by voluntarily conducting restoration work on the contaminated soil. We restored 947m³ of soil around the polluted area using a land farming method, which took approximately three months to complete.

Aerospace Division

Korean Air’s Aerospace Division maintains and remodels military aircraft, as well as developing satellites. It consistently endeavors to use environment-friendly processes and products. To date, the division has successfully completed more than 20 environmental improvement tasks every year. For example, we abandoned the use of chemical detergents and now use high-pressure streams of water in removing fuel foam adhesives from aircraft panels. We also changed the process for preventing the corrosion of components.

A Hangar to Paint Airplanes

Korean Air has a hanger exclusively for airplane painting work. The Company endeavors to remove impurities and odors from the painting work. In particular, we installed 170 ventilations on the ceiling of the hanger and a transparent air curtain screen to direct air into confined spaces where hazardous odors are likely to accumulate. Because of such efforts to create a healthy work environment, odors have been removed from the vicinity of the hanger.

In addition, in the past, when paint was stripped from an airplane, chemical materials were used on a routine basis. But in recent times, Korean Air has begun to make use of plastic grains to remove old paint, decreasing the amount of waste and wastewater. Korean Air has also switched to less hazardous and more environment-friendly products for painting its aircraft. For example, we changed our primer epoxy coating to a high solid paint and replaced solvents and oil-based paints with water-soluble paints. We also minimized the use of materials and decreased the levels of dust by raising the adhesion rate for new paint. Dust is removed from the air by an air cleaning and filtering system located in the basement of the hanger.

Environmental Data

Water Usage

Wastewater Treatment and Improvement Rates

LTO Emissions by Airplanes in 2005

COD

Emissions from Aircraft at Cruising Altitudes in 2005

Other Environmental Activities

Use of Anti-icing and De-icing Fluids

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Environmental Data

Water Usage

Wastewater Treatment and Improvement Rates

LTO Emissions by Airplanes in 2005

COD

Emissions from Aircraft at Cruising Altitudes in 2005
Excellence in Economizing

While aiming for the open blue skies of prosperity, we are on a flight path of continuous growth. Korean Air contributes to balanced regional economic development while creating value in the areas of travel, tourism, and cargo transport. Through effective management of resources, we improve conditions for local communities while increasing the value of the Company for all of our stakeholders. Korean Air will continue to fulfill its economic responsibilities through sustainable development and contributing to social well-being.
Ceaseless change and innovation are key factors in becoming a global leading company. Korean Air works vigorously to develop a sustainable economic foundation while living up to its social responsibilities and commitments. With such efforts, Korean Air is on a stable glide path to achieving the position as a top global carrier while contributing effectively to Korea’s economy. Despite skyrocketing oil prices and a pilots’ strike in 2005, Korean Air achieved 5% growth in operating profits due to recovery in the domestic economy and increases in overseas travel and exports. In addition, decreased foreign exchange expenses offset the increasing expenditures on oil and higher interest rates, resulting in an increase of ordinary income of KRW250 billion.

Outlook & Plans for 2006
Korean Air has set goals for 2006 of achieving KRW8.2 trillion in operating revenues, KRW550 billion in operating incomes and KRW170 billion in ordinary income. Despite unfavorable conditions such as historically high oil prices and high interest rates, we aim to achieve sales growth of 8% and profit growth of more than KRW100 billion over that of 2005. In order to reach these goals, we have set a goal of streamlining our management while securing flexibility and a competitive edge. As we channel resources into the practice of our 10-10-10 strategies, established back in 2005, Korean Air will strategically capitalize on the opportunities that the year 2006 offers to move to the next step in its development as a leading airliner in the world.

Economic Values & Responsibilities

Through continuous change and innovation, we create higher value for our stakeholders.

Korean Air has achieved remarkable economic growth due to increases in overseas travel and exports.

2005 Business Results

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<tr>
<th>Division</th>
<th>Employees</th>
<th>Shareholders</th>
<th>Government</th>
<th>Creditors</th>
<th>Suppliers &amp; Contractors</th>
<th>Customers</th>
<th>Employees</th>
<th>Shareholders</th>
<th>Government</th>
<th>Creditors</th>
<th>Suppliers &amp; Contractors</th>
<th>Customers</th>
<th>Employees</th>
<th>Shareholders</th>
<th>Government</th>
<th>Creditors</th>
<th>Suppliers &amp; Contractors</th>
<th>Customers</th>
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<tbody>
<tr>
<td>Wages and Benefits</td>
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<td>200,000</td>
<td>200,000</td>
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<td>Taxes</td>
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<td>200,000</td>
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<tr>
<td>Social Contributions</td>
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<tr>
<td>Dividends Paid in Cash</td>
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<td>200,000</td>
<td>200,000</td>
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<td>200,000</td>
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2005 Business Results

As of December 31, 2005

Korean Air paid KRW986.3 billion in wages and KRW224.8 billion in benefits in 2005.
Financial Results

### Balance Sheet Summary

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<th>2004</th>
<th>2005</th>
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<tr>
<td>Total assets</td>
<td>13,738,999</td>
<td>13,568,444</td>
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<tr>
<td>Total liabilities</td>
<td>9,927,883</td>
<td>9,529,775</td>
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<tr>
<td>Total shareholders' equity</td>
<td>3,811,076</td>
<td>4,028,909</td>
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### Income Statement Summary

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<th>2004</th>
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<tr>
<td>Operating revenues</td>
<td>7,210,859</td>
<td>7,584,221</td>
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<tr>
<td>Gross profit</td>
<td>1,668,937</td>
<td>1,692,266</td>
</tr>
<tr>
<td>Operating income</td>
<td>366,033</td>
<td>432,513</td>
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<tr>
<td>Ordinary income</td>
<td>722,957</td>
<td>252,959</td>
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<td>Net income</td>
<td>519,492</td>
<td>200,376</td>
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### Growth and Activities Indices

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<td>Return on Assets (ROA)</td>
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<td>Return on Equity (ROE)</td>
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</table>

For more details regarding Korean Air’s economic performances, see our 2005 annual report. www.koreanair.com

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### Air Fleet Data

#### Fleet

- **Total fleet**: 116  (Passenger: 97  Freighter: 19) as of 31 Dec. 2005

#### Boeing 747

- **B747-400ERF**
  - Engine Type: PW4158
  - Seating Capacity: 234
  - Maximum Payload: 60.25 tons
  - Maximum Distance: 12,621km • Maximum Duration: 16.14 hours

- **B747-400ERF**
  - Engine Type: PW4056
  - Seating Capacity: 312
  - Maximum Payload: 60.25 tons
  - Maximum Distance: 12,621km • Maximum Duration: 16.07 hours

#### Boeing 777

- **B777-200**
  - Engine Type: PW4056
  - Seating Capacity: 375
  - Maximum Payload: 66.04 tons
  - Maximum Distance: 19,350km • Maximum Duration: 10.26 hours

- **B777-300ER**
  - Engine Type: PW4090
  - Seating Capacity: 375
  - Maximum Payload: 66.04 tons
  - Maximum Distance: 19,350km • Maximum Duration: 10.26 hours

#### Airbus 330

- **A330-200**
  - Engine Type: PW4090/98
  - Seating Capacity: 164/149
  - Maximum Payload: 44.84 tons
  - Maximum Distance: 7,582/8,541km

- **A330-300**
  - Engine Type: PW4056
  - Seating Capacity: 296/352
  - Maximum Payload: 50.42 tons
  - Maximum Distance: 9,352km • Maximum Duration: 10.26 hours

#### Boeing 737

- **B737-800**
  - Engine Type: CFM56-7B24
  - Seating Capacity: 188
  - Maximum Payload: 9.1 tons
  - Maximum Distance: 2,291km

- **B737-900ER**
  - Engine Type: CFM56-7B24
  - Seating Capacity: 258
  - Maximum Payload: 37.58 tons
  - Maximum Distance: 10,303km • Maximum Duration: 11.59 hours

#### Airbus 300

- **A300-100**
  - Engine Type: PW4090
  - Seating Capacity: 164/149
  - Maximum Payload: 11.75 tons
  - Maximum Distance: 2,291km

- **A300-200**
  - Engine Type: PW4090/98
  - Seating Capacity: 164/149
  - Maximum Payload: 49.25 tons
  - Maximum Distance: 9,352km • Maximum Duration: 10.26 hours

- **A300-300**
  - Engine Type: PW4090/98
  - Seating Capacity: 296/352
  - Maximum Payload: 50.42 tons
  - Maximum Distance: 9,352km • Maximum Duration: 10.26 hours

#### 2006 Fleet Renewal Plan

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<td>B777-900</td>
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<tr>
<td>B767-600</td>
<td>B777-300ER</td>
</tr>
<tr>
<td>B777-900</td>
<td>B777-300ER</td>
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</tbody>
</table>
Expanding Excellence to the World

Blue skies and natural greenery are the birthright of every human being. Korean Air cares about local communities, and in its zeal to fulfill its corporate duties and responsibilities, the Company makes consistent and vigorous efforts to improve social, environmental and economic environments. At the same time, Korean Air strives to be a well-respected and leading airline in the world while making sustainable progress to a better world and better future.
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<td>LA20 Global policies preventing all forms of discrimination</td>
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<td>LA21 Freedom of association</td>
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<td>LA22 Exclusion of child labor</td>
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<td>LA24 Human rights - security personnel training</td>
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<td>LA23 Human rights - employee training</td>
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<td>LA25 Appeal procedures</td>
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<td>LA26 Employee grievance system</td>
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<td>LA27 Human rights - security personnel training</td>
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<td>LA28 Employees in the community</td>
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<td>LA29 Policies and procedures for representing community members’ needs</td>
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<td>LA30 Community grievance mechanisms</td>
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<td>LA31 Community involvement programs, and monitoring systems</td>
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<td>LA32 Policy on bribery and corruption and compliance mechanisms</td>
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<td>LA33 Policy for managing political lobbying and contributions</td>
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<td>LA35 Political party/contributions to candidates</td>
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<td>LA38 Policy on customer health and safety</td>
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<td>LA39 Policy on product information, labeling, and compliance mechanisms</td>
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<td>LA40 Policy and management system for consumer privacy</td>
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<td>LA48 Consumer privacy - complaints of breaches</td>
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Kyoto Protocol
The Kyoto Protocol to the United Nations Framework Convention on Climate Change is an amendment to the international treaty on climate change, assigning mandatory targets for the reduction of greenhouse gas emissions to signatory nations.

UNFCCC (United Nations Framework Convention on Climate Change)
The international treaty unveiled at the United Nations Conference on Environment and Development (UNCED) in June 1992. The UNFCCC commits signatory countries to stabilize anthropogenic (i.e., human-induced) greenhouse gas emissions to levels that would prevent dangerous anthropogenic interference with the climate system.

Emissions Trading
A market-based approach to achieving environmental objectives that allows those reducing greenhouse gas emissions below what is required under the Kyoto Protocol to use or trade the excess reductions to offset emissions at another source inside or outside the country.

GHS (Greenhouse Gases)
Greenhouse gases (GHGs) are gaseous components of the atmosphere that contribute to the "greenhouse effect." CO₂, CH₄, N₂O, HFCs, PFCs, and SF₆ are major GHGs.

Sustainability Report
A Sustainability Report, or SR, is a publication that publicly discloses an organization's economic, environmental, and social performance and its influence on stakeholders. This report reflects how the organization influences stakeholders based on the triple bottom line.

Sustainable Management
Sustainable Management is a business philosophy that subscribes to the belief that a company can achieve sustainable development by taking the load and the responsibility for the economic, environmental, and social aspects of its operations. Such efforts can give a company a competitive edge while improving its overall value.

Six Sigma
Six Sigma is a methodology to manage process variations that cause defects, defined as unacceptable deviation from the mean or target, and to systematically work towards managing variation to eliminate these defects.

APU (Auxiliary Power Unit)
A relatively small self-contained generator used in aircraft to start the main engines, usually with compressed air, and to provide electrical power, hydraulic pressure and air conditioning while the aircraft is on the ground.

CAEP (Committee on Aviation Environmental Protection)
An environmental workgroup of the ICAO, founded in 1983, that reviews international issues concerning environmental problems and adopts standards.

CASE (Coordinating Agency for Supplier Evaluation)
CASE is a nonprofit coalition of industrial companies dedicated to sharing non-prejudicial supplier data. Starting as an American airline coalition in 1980, it now offers its data to all airlines.

EPNdB (Effective Perceived Noise Decibels)
A unit commonly used in aviation to express the average perceived noise level.

GPU (Ground Power Unit)
A device used on the ground at airports to supply aircraft without an APU with electric power.

GRI (Global Report Initiative)
The Global Reporting Initiative (GRI) aims to make reporting on economic, environmental, and social performance - sustainability reporting - by all organizations routine and comparable to financial reporting. To achieve this, the GRI develops, continuously improves and builds capacity around the use of the GRI’s Sustainability Reporting Framework, the core of which is the Sustainability Reporting Guidelines. Other components in the Reporting Framework are Sector Supplements and Protocols.

IATA (International Air Transport Association)
The International Air Transport Association is an international trade organization of airlines headquartered in Montreal, Quebec, Canada. IATA was formed just after World War II in 1945, in Havana, Cuba. Today it has over 270 members from more than 140 nations in every part of the globe. It is the association of airlines worldwide.

ISO 14001
The requirements standard against which organizations are assessed on their environmental management system (EMS).

KOSHA (Korea Occupational Safety & Health Agency)
KOSHA evaluates performances and grants certificates to those who meet the standards and supports the maintenance of safety and health standards.

NOX
NOX is a generic term for the various nitrogen oxides produced during combustion. They are believed to aggravate asthmatic conditions, and react with the oxygen in the air to produce ozone, which is also an irritant, and eventually form nitric acid when dissolved in water. When dissolved in atmospheric moisture the result can be acid rain which can damage both trees and entire forest ecosystems. The ICAO has continued to tighten its regulations on NOX emissions from 20% in 1993 to 16% in 1999 and to 12% in 2004, which will go into affect in the approvals of aircraft engines from 2008.

RFID (Radio Frequency Identification)
An automatic identification method, relying on storing and remotely retrieving data using devices called RFID tags or transponders. An RFID tag is an object that can be attached to or incorporated into a product, animal, or person for the purpose of identification using radio waves. Chip-based RFID tags contain silicon chips and antennas. Passive tags require no internal power source, whereas active tags require a power source.

SO₂
SO₂ is produced by volcanoes and in various industrial processes. In addition, the ICAO defines the protocols for air accident investigations followed by transport safety authorities in countries signatory to the Convention on International Civil Aviation, commonly known as the Chicago Convention. Its headquarters are located in the Quartier International of Montreal, Canada.

ICAO Annex 16
Aviation noise and emission standards established in Annex 16.

ICAO CHAPTER 3.4
Depending on the existing requirements for certification, aircraft must comply with the noise standards established in Chapters 2, 3, 4 and 5 of Annex 16. Starting from 2006, all aircraft must be certified on the basis of Chapter 4.

IOSA Certificate (IATA Operational Safety Audit)
The IATA Operational Safety Audit (IOSA) Program is an internationally recognized and accepted evaluation system designed to assess the operational management and control systems of an airline. IOSA uses internationally recognized quality audit principles, and is designed so that audits are conducted in a standardized and consistent manner.

ISO 14001
The requirements standard against which organizations are assessed on their environmental management system (EMS).
Feedback

Your feedback regarding this sustainability report is welcome and appreciated. Please complete the survey and send to the address below.

1. Which of the following stakeholder groups do you belong to?
   - Employee
   - Shareholder
   - Customer
   - Alliance or Rival
   - Supplier/Subcontractor
   - Community near airport/NGO
   - CSR expert
   - Media
   - Academic body
   - Public Administration
   - None of the above:

2. Which sections of the report did you find most interesting/relevant?
   - Company Profile
   - Social Values & Responsibilities
   - Environmental Values & Responsibilities
   - Economic Values & Responsibilities
   - Design
   - None of the above:

3. Did you find any sections of this report to be insufficient, incomplete or inadequate? If so, please elaborate.
   - Company Profile
   - Social Values & Responsibilities
   - Economic Values & Responsibilities
   - Environmental Values & Responsibilities
   - Design
   - None of the above:

4. We welcome any comments or criticisms regarding this report.

Thank you for completing the survey. Your comments are greatly appreciated and will be used to improve future reports. Please mail or fax the survey to the following contact points:

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Website: www.koreanair.com    E-mail: baejunghwan@koreanair.com / kimmsun@koreanair.com
Flying Higher towards Becoming a Leading Global Carrier
To serve you best, Korean Air has decorated its facilities with modern as well as traditional Korean style motifs. Furthermore, all Korean Air aircraft are equipped with state-of-the-art technology to make each trip a pleasurable experience.

**ECONOMY CLASS**
The Economy Class seats have been newly-designed to offer more convenience with added seating space.

**PRESTIGE CLASS**
The bed-type high-end 'Prestige Plus Seats' can be unfolded fully flat rendering more room for extra convenience and comfort.

**FIRST CLASS**
Korean Air exclusively offers our first-class passengers the ergonomically-designed 'Cosmo Sleeper Seats'-stylish sleeper seats that guarantee privacy and comfort.

Any comments or inquiries are welcome. Feel free to contact us at the followings:
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