Korean Air, a leading global carrier, has 140 aircraft in its fleet, operating scheduled routes to 13 domestic and 105 international destinations in 39 countries around the world. In 2011, we transported 23.3 million passengers and 1.71 million tons of freight safely. Our business areas include air transportation, aerospace, catering & in-flight sales, and hotel & limousine services, contributing to a better life for people everywhere. In the future, Korean Air will continue to grow while contributing to the development of the company and communities by balancing its business activities socially, environmentally and economically.

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About This Report
Reporting Principle: GRI 3.1
Scope
This report contains data collected from Korean Air’s head office in Seoul, as well as its domestic and overseas business premises, but does not include data from its subsidiaries or affiliates.

Changes to the Reporting Methodology
Economic Performance
Financial reporting standards were changed as of January 1, 2010 from Korean Generally Accepted Accounting Principles (K-GAAP) to Korean International Financial Reporting Standards (K-IFRS). Thus, the 2010 figures were prepared following K-GAAP while 2011 figures followed K-IFRS. Please refer to our recent annual report for details about financial reporting, standard changes and their impacts on the company’s financial position, business results and cash flows.

Environmental Performance
Fuel consumption and electricity consumption data in the previous report was collected from 24 Korean Air business premises or business premises on lease which consumed energy in large amounts and were leased under the condition of gratuitous donation, using TOE as a standard unit. This year, however, the report covers statistics of 44 business premises, including those on lease of domestic airports and smaller business premises across Korea, with GJ used as the standard unit.

Towards a Higher Place
Korean Air, a leading global carrier, has 140 aircraft in its fleet, operating scheduled routes to 13 domestic and 105 international destinations in 39 countries around the world. In 2011, we transported 23.3 million passengers and 1.71 million tons of freight safely. Our business areas include air transportation, aerospace, catering & in-flight sales, and hotel & limousine services, contributing to a better life for people everywhere. In the future, Korean Air will continue to grow while contributing to the development of the company and communities by balancing its business activities socially, environmentally and economically.
Dear stakeholders,

Korean Air thrives on its close relationship with customers and other stakeholders through balanced economic, social and environmental growth. The company might have begun as a small regional airline 43 years ago, but it has grown into one of the world’s leading global carriers with routes spanning the globe thanks to your unwavering support. Korean Air now carries an average of 20 million passengers annually, while maintaining unrivaled performance in transporting international freight. Along with its outstanding business performance, the company is also adamant about maintaining sustainable growth through its triple bottom line in business operations.

Sustainable development is not only related to companies and their stakeholders, but is also about sustaining the planet and future generations. Korean Air has long been aware of this, which is why it has been committed to environmental management since the early 1990s. Under strict environmental management principles, Korean Air has been actively involved in a number of activities to mitigate global warming through global reforestation projects. Also, everyone at Korean Air has been volunteering to contribute to numerous social contribution activities, making the volunteer program a crucial part of our corporate culture.

These efforts continued through 2011 under a well-organized system, when the company adopted the more eco-friendly next-generation A380 aircraft. In addition, our work process has been innovated and efficiency has been enhanced with our fleet. At the same time, we have continued to become closer to local communities. In particular, we take pride in that our patronage to the bid committee played a crucial part in Pyeongchang’s winning bid for the 2018 Winter Olympic Games.

In 2012, Korean Air set a “communication and harmony” goal for the year. These two words reflect our age-old business philosophy and corporate culture, while setting the direction for a new era in the coming years. Communicating and harmonizing with company staff, customers, and society will help us effectively deal with ever-changing business environments as well as achieve sustainable growth economically, environmentally and socially.

The key to effective communication lies in flexibility and tolerance of others’ opinions and beliefs. Korean Air promotes active discussion across the board to find solutions for internal issues. At the same time, we ensure steady profit levels for the company by constantly improving our fundamentals and stressing innovation to reinforce our organizational competencies and corporate competitiveness. We firmly believe we will be able to achieve higher growth and greater profitability in 2012 through these efforts.

In addition, we ensure open and direct communication with our customers for greater customer satisfaction, and we also continue to promote a creative corporate culture to attract and retain global talent, allowing the company to grow with talented employees alongside satisfied customers. As we move forward, we will also remain vigilant of our corporate social responsibilities. All of our employees will take part in the company’s commitment to community engagement as the company maintains its commitment to community engagement programs.

In short, we will reinforce our competitiveness through communicative and harmonious leadership. Korean Air is taking flight to a higher place for a better future through sustainable growth.

Thank you.

Chairman & CEO
Cho, Yang Ho
Towards a higher place

Since its inception in 1962, Korean Air has grown to become Korea’s leading global carrier. Its holding company, the Hanjin Group, is a total logistics entity specializing in transport. Korean Air also has another airline under its wing, Jin Air, a premium low-price airline.

Network

- **Destinations in Europe & the Middle East – 20 cities**
- **Destinations in the CIS – 6 cities**
- **Destinations in China – 24 cities**
- **Destinations in Korea – 13 cities**
- **Destinations in Japan – 15 cities**
- **Destinations in Southeast Asia – 18 cities**
- **Destinations in Oceania – 7 cities**

**Hanjin Group**

Since the Hanjin Group was established in 1945, it has been serving Korea with its transportation services and leading the world’s logistics industry. Its 51 subsidiaries serve in diverse fields such as inland, marine and air transportation, door-to-door delivery, IT, hotels, in-flight sales, aerospace, limousine services, and ground operations. [http://www.hanjin.net](http://www.hanjin.net)

**Jin Air**

Jin Air, the premium low-price subsidiary of Korean Air, launched its fleet of mid-sized carriers in January 2008. In July 2008, a route between Gimpo and Jeju was established, followed by routes to Japan, China, and Southeast Asia. Today, Jin Air is widely known in Korea as a reputable airline that offers premium, low-price flights. [http://www.jinair.com](http://www.jinair.com)

**SkyTeam**

SkyTeam is a global airline alliance that was launched by Korean Air, Delta Air Lines, Air France and Aeromexico in June 2000. Including new members from 2012 – Saudi Airlines, Middle East Airlines, and Aerolíneas Argentinas – the alliance has a total of 18 members, serving 537 million customers around the world with 14,968 flights every day to and from 993 cities in 186 countries.
Business Portfolio

As a leading global carrier, Korean Air operates businesses in air transportation, aerospace, catering & in-flight sales, and hotel & limousine services, contributing to higher customer value and the development of society.

Air Transportation Business

For our business operations, we have kept oil prices and foreign exchange rate fluctuation risks under tight control, stabilizing operations through efficient route operations. In particular, cutting-edge new aircraft such as the A380s and B777-300ERs significantly improved fuel efficiency and route competitiveness. At the same time, upgraded facilities for our existing fleet enhanced the quality of passenger services. We also reinforced our global network, while developing new routes in a bid to secure future growth engines.

We have actually topped the IATA’s global ranking for commercial cargo transport for six years in a row, a testament to the company’s outstanding achievements in the global cargo transport market. By the end of 2011, Korean Air had 24 cargo aircraft in its fleet, flying to 48 cities around the world including 32 exclusive destinations. In 2011, its annual revenue from cargo transport sales declined by 8 percent compared to the previous year, as market demand decreased from the economic slowdown in the U.S., the European financial crisis, and other similar economic factors. In response, as market demand decreased from the economic slowdown in the U.S., the Korean Air had 24 cargo aircraft in its fleet, flying to 48 cities around the world including 32 exclusive destinations. In 2011, its annual revenue from cargo transport sales declined by 8 percent compared to the previous year, as market demand decreased from the economic slowdown in the U.S., the European financial crisis, and other similar economic factors. In response, as market demand decreased from the economic slowdown in the U.S., the European financial crisis, and other similar economic factors. In response, as market demand decreased from the economic slowdown in the U.S., the European financial crisis, and other similar economic factors. In response, as market demand decreased from the economic slowdown in the U.S., the European financial crisis, and other similar economic factors. In response, as market demand decreased from the economic slowdown in the U.S., the European financial crisis, and other similar economic factors. In response, as market demand decreased from the economic slowdown in the U.S., the European financial crisis, and other similar economic factors. 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Business Philosophy and Sustainability Management

The right business philosophy and an intelligent management system ensure sustainable growth that benefits all stakeholders, including customers, employees, and shareholders.

Korean Air analyzes business environment and risk/opportunity factors on an annual basis to develop key performance indicators (KPI) for executives by division (Safety: Corporate Safety, Security & Compliance Department, Environment: Environment Construction Management Department, Health: Aeromedical Center, Customers: Customer Relations Department). KPI goals are set in relation to executive performance evaluations. The CEO receives a direct report on KPI performance and then gives further instructions. The KPIs are evaluated biannually and executives keep the CEO abreast of developments through direct communication channels whenever necessary.

Business Philosophy

Establishing a trusted and respected corporate image

- Reinforcing corporate competency for stable growth
- Ensuring a young and enterprising spirit
- Change-oriented organizational culture
- Future-oriented reshuffling of our business portfolio to realign core competencies

Customer-oriented Management

Creating customer loyalty with the highest level of customer satisfaction
- A comprehensive and systematic approach to customer relations
- Prompt responses to changing customer needs
- Maximizing customer value through management by wandering around (MBWA)

Change-oriented Management

Creating a new corporate culture through innovation and change
- A young and enterprising spirit
- Change-oriented organizational culture
- Future-oriented reshuffling of our business portfolio to realign core competencies

Talent-led Management

Developing future growth engines with competent human resources
- Securing globally competent talent
- Continuing to aggressively invest in fostering talent
- A corporate culture that fosters and grows alongside employees

System-based Management

Organizational management based on expertise and autonomy
- Mutual respect for expertise in different areas
- Rational decision-making based on an efficient management system
- Pursuing creative solutions through harmonious relations with employees and customers

Fundamental Management

Just management that adheres to the highest standards and principles
- Establishing standards and principles that meet the highest global standards
- Pursuing flexibility in business based on the highest principles and standards
- Consistency in business operations with the elimination of expedients and guile

Corporate Strategy & Planning

Economy

- Human Resources
- Customer Relations
- Corporate Safety, Security & Compliance
- Aeromedical Center
- Environment
- General Affairs Department (CSR Team)
- Internal Auditing

Society

- President & CEO
- Board of Directors

Environment

- Chairman
Korean Air remains vigilant in its efforts to be a responsible corporate citizen and constantly listens to the diverse opinions of different stakeholder groups so that it can reflect the thoughts and ideas of stakeholders in its management plans and activities.

**Communication and Harmony**

We believe that harmony is most effective when it is based on communication. As people talk and listen to each other more frequently, they are able to share different ideas and reach agreements with one another. As a corporate citizen, Korean Air has grown alongside its stakeholders, who have actively engaged in the company’s diverse initiatives and activities. We classify our major stakeholder groups as customers, employees, shareholders & investors, business partners, governments, industrial sector, non-governmental organizations (NGOs), and experts and local communities, maintaining different communication channels with each of these groups to respond to their different opinions. In 2012, we will continue to effectively operate stakeholder channels to systematically manage sustainability issues as we reflect their opinions in our management activities.

**HARMONY** campaign

Korean Air initiated its 2012 communication campaign to promote cross-functional communication and to build mutual trust among all employees. This will strengthen our corporate culture, making it more effective for us to deal with crises arising from the global economic recession, rising oil prices, and other adverse external factors.

Alongside Korean Air President and CEO Yang-ho Cho, Korean Air employees held a Communication Tree ceremony in February 2012, declaring a commitment to company-wide communication. During the ceremony, two ‘communication trees’ were planted in employee lounges where employees were able to leave messages and cards to executives and colleagues. On the company intranet, a Communication Bulletin Board was set up for inter-departmental and individual communication on a real-time basis.

The Inter-departmental Bond program encourages exchanges and communication among employees from different departments to help lead to a better understanding of each other. On the last Thursday of every month, each team gathers for Happy Hour, a time when employees share their thoughts on any number of subjects.

In addition, every third Wednesday of the month is Family Day, a day when employees are encouraged to spend more time with their families. In addition, every third Wednesday of the month is Family Day, a day when employees are encouraged to spend more time with their families. The Inter-departmental Bond program encourages exchanges and communication among employees from different departments to help lead to a better understanding of each other. On the last Thursday of every month, each team gathers for Happy Hour, a time when employees share their thoughts on any number of subjects.

The Inter-departmental Bond program encourages exchanges and communication among employees from different departments to help lead to a better understanding of each other. On the last Thursday of every month, each team gathers for Happy Hour, a time when employees share their thoughts on any number of subjects.

Q. What has been the biggest change to the company since the launch of the Communication Campaign?

A. Employees have been really happy with the program, especially with the monthly Happy Hour program, which provides people with the opportunity to exchange opinions on things that matter to them. The Inter-departmental Bond program also helps employees from different departments better understand each other and their jobs.

Above all, employees have become more proactive in expressing themselves. The messages left on Communication Trees and Communication Bulletin Boards are candid, and they range from constructive to laudable comments. We have received grievances on working hours and breastfeeding facilities as well as gratitude and compliments. The program is also effective in bringing about positive changes to the workplace, as employees continue to make a lot of great suggestions for the development of the company.

Young-jin Kim, Manager, Corporate Communications Department
Korean Air ran a materiality test on major sustainability issues and prioritized issues to report on according to the test results in order to better reflect the information on the report that are of the highest interest to our stakeholders.

### Step 2 _ Prioritizing issues

Based on the issues identified in Step 1, we developed questionnaires to survey our stakeholders. A total of 538 stakeholders answered our questions. Based on the findings, we prioritized the significance of key issues.

### Materiality Matrix

<table>
<thead>
<tr>
<th>Step</th>
<th>Prioritization of Issues</th>
<th>Stakeholder Surveys</th>
<th>Review by Internal CSR Experts and Reporting to Top Management</th>
</tr>
</thead>
<tbody>
<tr>
<td>1</td>
<td>Customer satisfaction</td>
<td></td>
<td></td>
</tr>
<tr>
<td>2</td>
<td>Sales growth</td>
<td></td>
<td></td>
</tr>
<tr>
<td>3</td>
<td>Fleet modernization</td>
<td></td>
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<tr>
<td>4</td>
<td>Customer privacy protection</td>
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<tr>
<td>5</td>
<td>Safety &amp; health</td>
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<td>6</td>
<td>Addressing climate change</td>
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<td></td>
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<tr>
<td>7</td>
<td>Responding to international environmental regulations</td>
<td></td>
<td></td>
</tr>
<tr>
<td>8</td>
<td>Employee satisfaction &amp; health</td>
<td></td>
<td></td>
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<tr>
<td>9</td>
<td>Fair transactions</td>
<td></td>
<td></td>
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<tr>
<td>10</td>
<td>Employee communication</td>
<td></td>
<td></td>
</tr>
<tr>
<td>11</td>
<td>Internal CSR experts and report to top management</td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

The priority issues were reviewed by internal CSR experts and reported to top management. The issues were then finalized as issues to report on.

### Materiality Test

Korean Air ran a materiality test on major sustainability issues and prioritized issues to report on according to the test results in order to better reflect the information on the report that are of the highest interest to our stakeholders.

### Step 1 _ Identifying sustainability issues

We identified all the major issues that are of the highest interest to stakeholders in our industry and competitors through an extensive analysis of GRI Guidelines, our CSR agency’s criteria and benchmarking of industrial sustainability reports. We also conducted media research to identify major issues raised by our stakeholders.

* Media research was conducted by screening 808 major media reports on Korean Air from January 2011 to March 2012.

### Step 3 _ Finalizing reporting issues

The priority issues were reviewed by internal CSR experts and reported to top management. The issues were then finalized as issues to report on.

### Introduction

Profile

CSR Management System

Key Issue 1: **GROWTH**

Key Issue 2: **PEOPLE**

Key Issue 3: **VALUE**

Key Issue 4: **GREEN**

Key Issue 5: **HARMONY**

Appendix

2012 Sustainability Report
Management Stability

Korean Air’s board of directors consists of competent management professionals and experts who contribute their expertise and experience in management’s decision-making process through extensive discussion and discourse to protect shareholder value and the stability of management.

The annual plan for BOD meetings is delivered to BOD members in advance to improve the attendance and efficiency of the BOD’s decision-making process. Senior executives with expertise relevant to issues on the agenda are asked to attend particular meetings to provide comprehensive information related to the matter at hand. This enables other BOD members to gain a better understanding of each topic, allowing for more informed decision making. Non-standing members are provided with officer reports and the right of access to a diverse range of corporate information, including the status of the company’s operations and performance through the company’s intranet. Management reports on the approved agenda at the following BOD meeting. Management also reports quarterly business results to the Audit Committee and the BOD.

Under the BOD are three specialized subcommittees that adhere to relevant rules and regulations. These include the Audit Committee, the Management Committee, and the Non-Standing Director Nomination Committee. The Audit Committee is composed entirely of non-standing directors to ensure the committee’s independence in monitoring the company’s performance and the BOD’s activities.

Remunerations to directors are made after acquiring approval at the general shareholders’ meeting. In 2011, the general shareholders’ meeting approved KRW 5.0 billion in compensation to directors for the year, with approximately KRW 4.0 billion actually being paid out.

In 2011, the BOD held six meetings to deliberate on 51 items. On average, 7.5 directors were present at BOD meetings in 2011, with the average attendance rate standing at 89 percent (non-standing directors: 89 percent).

On an annual basis, Korean Air analyzes the business environment and risk/opportunity factors to develop key performance indicators (KPIs) for executives by division. The KPI goals are set in relation to executives’ performance evaluation. The CEO receives a direct report on KPI performance before relaying further instructions. The KPIs are evaluated every half year and executives keep the CEO informed of any developments through direct communication channels whenever necessary.

Transparent Corporate Governance

Korean Air’s board of directors (BOD) consists of executive members who are leaders in the aviation industry as well as non-standing directors who have profound expertise in their respective areas. Non-standing directors contribute to the transparency of management by monitoring and advising executives. Korean Air’s BOD makes resolutions on an agenda commissioned at the general shareholders’ meeting and on various issues of significance regarding Korean Air’s operations in accordance with company regulations and the Articles of Incorporation, while also monitoring the performance and fulfillment of duties by company directors. The Korean Air BOD is comprised of 13 highly capable executives who are leaders in the aviation industry, and seven of them are non-standing directors who have high-level expertise in their respective fields. Under the governing regulations, we have one or more accounting and/or financial expert(s) as standing auditor(s).

The KPIs are evaluated every half year and executives keep the CEO informed of any developments through direct communication channels whenever necessary.

Process to prevent any conflict of interest within the BOD

In order to prevent any conflict of interest in the decision-making process by the BOD, Korean Air’s BOD regulations restrict the voting rights of any director with special interests in a subject agenda. (BOD’s regulations: “If a director has special interests in a particular agenda, the director must refrain from voting on the agenda. The director who does not vote shall not be counted in the quorum at the meeting.”)

Channels for employees and shareholders to have their voice heard by the BOD

In addition to business reports, quarterly reports and other regular reports, Korean Air discloses its management information in a timely and accurate fashion to its stakeholders through communication channels such as shareholder meetings, IR meetings and other related activities. Prior to each BOD meeting, the company gathers the opinions of executives and employees on each agenda item. Furthermore, the company’s numerous regulations, including the duties and responsibilities to investors listed in the Business Ethics Guidelines, protect shareholder rights (attending general shareholders’ meetings, voting, selection and appointment of BOD members, timely access to information, dividend payouts, etc.), while respecting and responding to shareholder demands.

Board of Directors (as of June 30, 2012)

<table>
<thead>
<tr>
<th>Name</th>
<th>Career</th>
<th>Remarks</th>
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<tbody>
<tr>
<td>Standing</td>
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<tr>
<td>Cho, Yang-ho</td>
<td>Chairman &amp; CEO</td>
<td>Chairman of the BOD</td>
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<tr>
<td>Lee, Tae-hoon</td>
<td>General Council</td>
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<tr>
<td>Cho, Chang-hoon</td>
<td>President &amp; CEO</td>
<td></td>
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<tr>
<td>Goh, Yong-woo</td>
<td>Executive Vice President</td>
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<tr>
<td>Chung, In-ha</td>
<td>Senior Vice President</td>
<td>Catering &amp; In-flight Sales Business Division</td>
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<tr>
<td>Chung, Won-tae</td>
<td>Senior Vice President</td>
<td>Corporate Strategy &amp; Planning Division</td>
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<tr>
<td>Non-standing</td>
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<td></td>
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<tr>
<td>Park, Oh-ju</td>
<td>Professor, College of Business Administration</td>
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<td></td>
<td>Seoul National University</td>
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<td>Lee, Seok-woo</td>
<td>Former Chief Justice of the South Gyeongbuk District Court</td>
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<td>President, Doosan Group</td>
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<td>Lee, Hee-jin</td>
<td>Former Minister of Commerce &amp; Energy</td>
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<td></td>
<td>Chairman of STX Energy &amp; STX Heavy Industries</td>
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<td>Lee, Yun-woo</td>
<td>Former Vice President of Korea Development Bank</td>
<td>Chairman of CIC</td>
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<td>Hwang, Jung-taik</td>
<td>Former President of Korea Development Bank/</td>
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<td></td>
<td>President, Korea Development Institutes/</td>
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<tr>
<td>Kim, Sung-yoo</td>
<td>Foreign/CEO of Hana Financial Group</td>
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<tr>
<td>Jang, In-woo</td>
<td>Former Head of the Seoul Regional TaxOffice/</td>
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<tr>
<td></td>
<td>Present/Chairman &amp; CEO of WoorinGroup</td>
<td></td>
</tr>
</tbody>
</table>

* See page 148 of Korean Air’s 50th Business Report at http://dart.fss.or.kr for more details about the careers and responsibilities of these directors.

Major Shareholders

<table>
<thead>
<tr>
<th>Name</th>
<th>No. of shares owned (shares)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Cho, Yang-ho</td>
<td>22,931,296</td>
</tr>
<tr>
<td>National Pension Fund</td>
<td>17,851,276</td>
</tr>
<tr>
<td>Mirae Asset Management</td>
<td>19,272</td>
</tr>
<tr>
<td>Korean Teachers Credit Union (KTCL)</td>
<td>755,196</td>
</tr>
<tr>
<td>Shinhan BNP Paribas Asset Management</td>
<td>646,632</td>
</tr>
</tbody>
</table>

See page 148 of Korean Air’s 50th Business Report at http://dart.fss.or.kr for more details about the careers and responsibilities of these directors.
Korean Air’s Charter of Ethics

Korean Air regards transparency and responsibility as vital management values. We also respect free market principles and abide by relevant rules and regulations in our business practices. With these principles, we strive to promote co-prosperity for both the company and society as a whole. To this end, Korean Air has instituted its own Charter of Ethics, which it vows to put into practice at all times.

- We regard customer satisfaction and safety as our highest priority.
- We respect each and every employee, and make an effort to enhance their quality of life.
- We promote joint development with our business partners based on mutual trust.
- We respect the principles of free competition, and we are the front runner in the development of the airline transport industry.
- We strongly contribute to the development of society and to the preservation of the environment.
- We acknowledge the corporate principles set forth by the company and uphold all of our obligations and responsibilities.

Business Ethics

Since Korean Air enacted its charter of ethics, it has been promoting ethical practices for employees in compliance with these codes through diverse educational programs. In cooperation with external agencies such as the Federation of Korean Industries (FKi) and the UN Global Compact, it has also been promoting corporate social responsibility and the highest business ethics in Korea.

Incorporating an Ethical Mind-set in the Entire Workforce

Korean Air runs a Business Ethics section on its internal communication network to provide business ethics training as well as clear, detailed behavioral guidelines to employees. We also operate an online course on business ethics for employees, including new employees, who have to complete this course and pledge to uphold the highest standards of business ethics. Roughly 40 percent of the business ethics course is devoted to anti-corruption issues. In addition, we also have a Sexual Harassment-free Workplace course to help employees avoid or properly respond to such incidents. In addition, security guards attend sexual harassment prevention classes, where videos and other materials provided by the Ministry of Labor are used to explain relevant laws and regulations or ethical codes or guidelines in the course of employees carrying out their work. Any unethical practices can be reported via mail, e-mail (jebo@koreanair.com/whistleblower@koreanair.com), phone, or a personal visit to the Ethics Bureau which verifies the report, and then notifies the results to the person who made the report. The informants’ identity and report are kept confidential. All Korean Air stakeholders, including employees of Korean Air, business partners and customers are subject to be reported on, and any violation by a business partner is penalized with suspension or termination of transactions according to relevant internal bylaws.

Korean Air Business Ethics System

Korean Air has a Business Ethics Bureau (Auditing Dept.) and Chief Ethics Officer (Directors of the Business Division and Operations Division as well as executive staff in charge) to provide detailed guidelines on the work process for handling ethical issues between the company and employees as stipulated in Korean Air’s Code of Ethics. The Bureau and the Officer also manage and overcome situations to help employees behave according to the Code of Ethics and to make the right decisions.

Korean Air’s Code of Ethics

Korean Air enacted its Charter of Ethics, Ethics Code & Practice Guidelines, Guidelines on Solving Ethical Issues, and Whistleblowing System to encourage employees to comply with ethics codes. The company also keeps business partners up to date on its ethical policies and programs and encourages them to respect and comply with these codes. The Ethics Code & Practice Guidelines provide the outline of our duties and responsibilities to customers, investors, employees, business partners, competitors, and society as a whole. It also provides guidelines on human rights, the elimination of discrimination, corruption and bribery, as well as information on fair transactions, privacy protection, safety and health of employees, business partners and customers, security, health, environment and mutual growth.

System for Reporting Unethical Practices

Korean Air operates an internal whistleblowing program to prevent and minimize potential losses to the company which arise from any violation of relevant laws and regulations or ethical codes or guidelines in the course of employees carrying out their work. Any unethical practices can be reported via mail, e-mail (jebo@koreanair.com/whistleblower@koreanair.com), phone, or a personal visit to the Ethics Bureau which verifies the report, and then notifies the results to the person who made the report. The informants’ identity and report are kept confidential. All Korean Air stakeholders, including employees of Korean Air, business partners and customers are subject to be reported on, and any violation by a business partner is penalized with suspension or termination of transactions according to relevant internal bylaws.

External Networks to Enhance Ethical Management

In order to benchmark best practices and exchange information effectively, Korean Air is building networks with outside entities by joining ethical management related meetings, seminars and corporate ethics schools sponsored by the Korea Chamber of Commerce and Industry.

Internal Inspections to Ensure the Observation of Fair Trade Regulations

Korean Air adopted a voluntary observation program to abide by relevant rules and regulations regarding fair trade, setting up an internal inspection system afterwards for its actual operation. Since 2004, when management declared its commitment to the voluntary observation of Fair Trade rules, Korean Air has been operating an exclusive team dedicated to promoting unfair trade preventing unfair trade practices, and eradicating collusion.

Internal Accounting Control System

Korean Air operates an advanced internal accounting control system to regularly monitor the status of internal operations; ensuring reliable accounting information that enhances transparency in management practices. In addition, we make sure that this monitoring is not confined to the financial sector. We have expanded monitoring to all business practices to detect loopholes in the work process and make necessary improvements.
Crisis Management

To guarantee optimal business operations, Korean Air has been systematically managing market risks in order to minimize the risks associated with fluctuating oil prices, foreign exchange rates and interest rates.

Risk Management System

Korean Air's internal laws and guidelines take into account all risks that could have a potential impact on business operations and run the required organization to fulfill this responsibility. It also assigns duties and missions, and develops contingency plans and countermeasures to minimize all risks. As a result, everyone at Korean Air is well prepared to deal with any potential risks, minimizing any potential losses to the corporate image, corporate finance or morale.

Risk Management

Crisis Response Principles

1. Recognizing crises
2. Reporting crises
3. Classifying crises
4. Declaring crises
5. Organizing and launching the Emergency Response Committee
6. Operating contingency plans
7. Controlling crises
8. Returning to normal business status

Financial Risk Management

For sustainable and stable business operations, Korean Air has systematically been operating a risk management program since 2001 to control the financial risks arising from oil prices, fluctuations in foreign exchange rates, and interest rates. There are two ways of hedging risks: natural hedging and active hedging. Korean Air strategically operates these two strategies to effectively control its market risks.

<table>
<thead>
<tr>
<th>Variable</th>
<th>Percentage</th>
<th>Position</th>
<th>Effect</th>
</tr>
</thead>
<tbody>
<tr>
<td>Oil prices</td>
<td>Annual oil demand: 33 million barrels</td>
<td>Delta frame change to oil prices: leads to a USD 33 million loss to Korean Air</td>
<td></td>
</tr>
<tr>
<td>Foreign Exchange Rates</td>
<td>Evaluation loss</td>
<td>USD-denominated liabilities: USD 7.07 billion</td>
<td>Change of KRW 10 in foreign exchange rate: leads to KRW 10.0 billion loss from evaluation of foreign currency (no relation to cash flow)</td>
</tr>
<tr>
<td>Cash Flow</td>
<td>Annual shortage in USD: approximately USD 2.0 billion</td>
<td>Change of KRW 10 in foreign exchange rate: leads to approximately KRW 20.0 billion in cash flow</td>
<td></td>
</tr>
<tr>
<td>Interest rates</td>
<td>Fixed-rate liabilities: KRW 5.3 trillion</td>
<td>A 1% change in average interest rates: leads to a KRW 54.0 billion change in interest expenses</td>
<td></td>
</tr>
</tbody>
</table>

Active Hedge (hedging through derivatives)

- Oil prices:
  - Basic hedge: hedging 30% of annual exposure according to statistical data and market developments
  - Additional hedge: hedging 30% of annual exposure according to statistical data and market developments

Variable Position Effect Strategy

- Oil prices:
  - Natural hedge: balancing net income/expenditure by currency
  - Maintaining the ratio of fixed-rate liabilities to floating-rate liabilities at 50:50 level

Responding to Non-Financial Risks

Korean Air experienced several non-financial risks in 2011, including the uprising in Egypt, the Great East Japanese Earthquake and the ensuing nuclear power plant meltdowns, and the severe floods in Thailand. These incidents had a significant impact on the aviation industry, as these places are popular overseas destinations for many travelers, including Koreans. In the event of or anticipation of unforeseeable crises, Korean Air runs a correlation analysis of these crises and develops countermeasures to minimize losses from these risks. When developing countermeasures, we run a simulation analysis based on similar incidents in the past and make decisions based on these results. The results and lessons learned from responding to these crises are accumulated in our database for future response measures. With crises in 2011, we identified their financial impact through scenario analyses and analyzed flight reservation trends by each region and route, allowing us to effectively respond by suspending flight services on routes with an issue or decreasing the number of flights or changing aircrafts to these routes with an issue, which minimized potential losses.
→ Mutual Growth

We fulfill our corporate social responsibility through the promotion of fair transactions and the support of business partners to realize mutual growth and to coexist with business partners and society.

→ Selection, Collaboration, and Evaluation of Business Partners

Korean Air ensures fair and transparent procedures in the selection of business partners under internal bylaws and guidelines on procurement. We opt for bidding in principle when a number of companies are applying at the same time and select business partners based on the total cost of ownership (TCO) methodology. We also consider business ethics practices, financial stability, education programs, safety and health in the workplace, human rights and compliance with labor laws, acts and policies to prevent physical or psychological harassment, elimination of abuse and discrimination, respect for collective bargaining and union membership, environmental certification, safety, quality and technology before finalizing our business partners. In addition, our business partners are subject to regular follow-up evaluations, with results reflected in future transactions.

→ Mutual Growth Policies

The mutual growth of large corporations and their SME partners is a prerequisite to sustainable development in the global market. Korean Air is reinforcing its partnerships with business partners to promote mutual growth and to mutually benefit from this growth. We make transactions with our business partners based on mutual trust. At the same time, we pursue mutual growth along with our SME partners in step with our sizeable growth, while fulfilling our social responsibilities.

In a bid to realize mutual growth alongside our SME partners and ensure the sustainable growth of both parties, Korean Air held a ceremony in 2011 with 19 of its business partners to sign an agreement on mutual growth. Under the agreement, we now operate a Mutual Growth Council which serves as a channel for communication with business partners who are members of the council for effective cooperative measures for mutual growth.

→ Major Achievements in 2011

As of 2011, Korean Air operated a number of mutual growth programs for its 726 business partners, including the settlement of suppliers’ bills in cash and instant reflection of changes in raw material prices or foreign exchange rates in supply costs under a Raw Material Price Pegging system. We also purchased expensive equipment and leased them to business partners who were unable to afford such expensive equipment under the Sale & Leaseback program, and shared profits from the costs saved from innovation drives with our business partners under our Profit Sharing program. Furthermore, we offered financial and technical support and subsidized overseas technology training to help our business partners build their competencies.

Concurrently with the adoption of the enterprise resource planning (ERP) system in January 2009, we launched the ISP (Internet Supplier Portal) for our business partners. This allows them to check orders, storage, and payment information on a real-time basis and also gives them the opportunity to ask questions or make inquiries. Korean Air's procurement staff and other staff from each division regularly communicated with business partners to learn about current issues and inconveniences and to offer solutions to those problems, which helped build mutual trust. We also surveyed business partner satisfaction on our policies and studied any shortcomings in order to improve mutual growth.

In addition, we have completed a Business Partner Performance Evaluation system in collaboration with a credit rating agency. This allowed for the systematic evaluation of our business partner performance and has significantly enhanced our supplier relationship management and helped foster better business partners. As mutual growth with our business partners is the key to sustainable economic growth, Korean Air will continue to promote more opportunities for win-win partnerships with its SME suppliers, building a more sustainable mutual growth platform.

→ Mutual Growth Programs

- Mutual Growth Council: signing ceremony for mutual growth, communication channel with business partners
- Cash settlement of bills
- Raw material price pegging system: reflecting changes in raw materials prices and foreign exchange rates in supply costs
- Sale & leaseback of expensive instruments: purchasing expensive instruments and leasing back to business partners
- Profit sharing: sharing with business partners the profits from joint development of technologies and the resultant cost savings
- Providing technical support and training to business partners
- Providing educational support and meetings/seminars to business partners

→ Overseas Local Procurement Policy

Korean Air makes purchases only after following the applicable procedures under the internal procurement guidelines. Our internal procurement guidelines mandate that objects be bought locally. The local procurement procedures are reviewed by relevant departments and the roles and responsibilities are articulated accordingly. The work process also ensures that local procurement is carried out fairly under the relevant standards.
KEY ISSUE 1

THE GROWTH

Roadmap up to 2019

- Goal by 2019 (50th anniversary business goal)
- KRW 25 trillion in sales, KRW 2.5 trillion in operating profit (operating margin of 10%)
- A fleet of 180 aircraft, flying to 140 destinations
- One of the world’s top 10 passenger airlines, the world’s No. 1 cargo transport airline

Long-term Growth Strategy

- Reinforcing a leading airline brand image through top safety and high-end customer services
- Enhancing marketing activities to secure market leadership and consistent profitability
- Diversifying our business portfolio by expanding into the logistics business
- Enhancing productivity through process innovation
- Strengthening business risk management

Business Strategy & Key Tasks

- Achieving profitable growth through crisis management and global competencies
- Reinforcing our response to the business environment
- Preemptive responses to global economic crises
- Aggressive marketing activities as a response to intensifying market competition with international airlines in the Korean market
- Flexibility and timely responses to market and customer demands
- Enhancing competitiveness by improving our fundamentals
- Ensuring profitability and growth potential by tapping into our global sales network
- Establishing a low-cost system by improving productivity
- Creating greater value through a creative corporate culture

Major Performance Indicators

<table>
<thead>
<tr>
<th>GOALS</th>
<th>2010</th>
<th>2011</th>
<th>2012 PLAN</th>
</tr>
</thead>
<tbody>
<tr>
<td>Sales</td>
<td>KRW 11,378.8 billion</td>
<td>KRW 11,805.3 billion</td>
<td>KRW 12,820.0 billion</td>
</tr>
<tr>
<td>Operating margin</td>
<td>KRW 1,158.9 billion</td>
<td>KRW 394.1 billion</td>
<td>KRW 820.0 billion</td>
</tr>
<tr>
<td>Adding new routes</td>
<td>Adding five new routes (for a total of 113 destinations)</td>
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</tr>
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<td>Consistent investment in fleet modernization</td>
<td>KRW 1,638.2 billion</td>
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<td>Adding 14 more aircrafts (A380, B777-300ER, B747-8F, B777 freighters, etc.)</td>
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<td>• Vietnam Airlines and TAROM Romanian Air Transport joined SkyTeam</td>
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</table>

Achieving profitable growth through crisis management and global competencies

- Developing new growth markets
- Expanding sales in existing markets and exploiting new markets in Latin America, Africa, and Central Asia
- Expanding networks by tapping into the network and resources of SkyTeam
- Increasing connections to other transportation means such as trains and trucks
- Efficient operation of management resources
- Maximizing efficiency in the operation of aircrafts, including new aircrafts
- Utilizing up-to-date management systems such as ERP
- Fostering and retaining global talent

A fleet of 180 aircraft, flying to 140 destinations

- One of the world’s top 10 passenger airlines, the world’s No. 1 cargo transport airline
- Reinforcing a leading airline brand image through top safety and high-end customer services
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Expanding our global network

- Expanding sales in existing markets and exploring new markets in Latin America, Africa, and Central Asia
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Sustaining Profit Growth through Future Growth Engines

Review of 2011 & Outlook for 2012

In 2011, the global business environment was mired in problems, influenced by the European financial crisis, the U.S. economic slowdown, uprisings in the Middle East, and the Great East Japanese Earthquake, global economic growth slowed, with fluctuating oil prices and foreign exchange rates affecting airline market demands. According to the IATA, international air transport increased 5.9 percent for passengers, but decreased 0.7 percent for cargo transport in 2011.

In 2012, Korean Air has set its business policy to pursuing profitable growth through an enhanced crisis response capacity and global competencies, with the goal of reaching KRW 12,820.0 billion in sales and an operating margin of KRW 394.1 billion. However, sales growth was undermined by a weakened operating margin, which lowered to almost half from the previous year due to more than a KRW 1 trillion rise in fuel expenses arising from skyrocketing oil prices. Also, the 11 percent year-on-year growth in passenger route sales revenue, which reached KRW 7 trillion for 2011, was compromised by an 8 percent drop in the cargo route sales revenue, which reached KRW 3.5 trillion in 2011. Although our operating margin declined, we consistently expanded our global network by launching new routes and improved our transport performance through increased overseas sales, allowing for further growth in 2011. In addition, we successfully incorporated 5 new A380 aircraft, furthering our position as a leading global carrier.

Business Environment in 2011

Korean Air had 4.7 percent year-on-year growth in annual sales for 2012, reaching KRW 11,805.3 billion, and an operating margin of KRW 394.1 billion. However, sales growth was undermined by a weakened operating margin, which lowered to almost half from the previous year due to more than a KRW 1 trillion rise in fuel expenses arising from skyrocketing oil prices. Also, the 11 percent year-on-year growth in passenger route sales revenue, which reached KRW 7 trillion for 2011, was compromised by an 8 percent drop in the cargo route sales revenue, which reached KRW 3.5 trillion in 2011. Although our operating margin declined, we consistently expanded our global network by launching new routes and improved our transport performance through increased overseas sales, allowing for further growth in 2011. In addition, we successfully incorporated 5 new A380 aircraft, furthering our position as a leading global carrier.

Risks and Opportunities in 2012

In 2012, Korean Air sees opportunities in the exploding demand for overseas travel by Chinese passengers and a growing number of flights triggered by international K-POP fans. There is also opportunity with the increasing international sales of Korean carmakers following the Korea-U.S. Free Trade Agreement (FTA), the growing number of Korean families going abroad for the weekend as Korean schools begin closing on Saturdays in 2012, and other global events such as the Yeosu Expo and the London Olympic Games.

These opportunities, however, come with risk factors as well. The global economic recession is going to dampen the increase in air transport demand, with fluctuating oil prices and foreign exchange issues also posing threats to the aviation industry. Furthermore, an increasing number of low-cost carriers in Asia are tapping the Korean market, while Chinese cargo carriers are expanding in size and threatening Korean Air's market share.

In response to these risk factors, Korean Air is consistently striving to secure a foundation for sustainable growth. As we expand our global network, we are also aggressively adding cutting-edge new aircraft to our fleet. In addition, we are investing in the development and manufacturing of aircraft components and unmanned aerial vehicles (UAVs) in a bid to secure future growth engines.

In 2012, Korean Air has set its business policy to pursuing profitable growth through an enhanced crisis response capacity and global competencies, with the goal of reaching KRW 12,820.0 billion in sales and KRW 394.1 billion in operating margin.

Indirect Economic Benefits of the Aviation Industry

Air transport is the fastest, safest form of international transportation with human and material resources, making it the heart of global trade. Its related industries, which include business, travel and tourism, also contribute to job creation. In step with the growth of the world aviation industry, the global economy has been developing faster than ever. This has led to the development of the aviation industry, creating a virtuous circle. In fact, the global aviation industry accounts for 3.5 percent of global gross domestic product (GDP), with 56.6 million jobs and USD 2.2 trillion in economic value. (Source: IATA 56th World Air Transport Statistics [WATS])

In 2011, Korean Air transported 23.3 million passengers and 1.71 million tons of freight, helping contribute to global economic development. Through its global network, the company directly hired 3,064 people and contributed to the balanced growth of regional economies through its global network. Its direct influence on the import and export of a number of manufacturing and logistics activities and exchange of financial and service businesses served both Korean and regional economic development. Furthermore, we are active in various aerospace business sectors, including the improvement of military aircraft, as well as designing, developing and launching satellites.
→ Achieving Profit Growth through Global Competencies

Korean Air is actively expanding its global network and adopting cutting-edge aircraft as it continues to invest in R&D to secure future growth engines for more sustainable growth. To this end, the company is carrying out strategies in line with its business policy for 2012, which is to pursue profitable growth through an enhanced crisis response capacity and global competencies.

→ Securing Future Growth Engines
In the face of the global economic slowdown, Korean Air is making aggressive investments in future growth engines.

→ Expanding Our Global Network
In 2011, Korean Air aggressively expanded its global network. We added passenger routes from Incheon to Huangshan China and to Palau, and from Gimpo to Beijing China. We also added cargo flights to Zaragoza Spain and Chengdu China. In 2012, we will continue advancing into the Latin American, African and Central Asian markets. In addition, SkyTeam’s new members – Saudi Arabian Airlines, Middle East Airlines, Xiamen Airlines (scheduled) and Aerolíneas Argentinas – will help us further expand our global network.

→ Routes Operation Strategy
- Consistent market expansion and network building
- Developing new growth engines through consistently developing new markets in Africa, Latin America and Central Asia
- Improving connection flight schedules through efficient flight scheduling
- Tapping into the SkyTeam network and resources
- Reinforcing global competencies by establishing regional hubs through the SkyTeam network
- Maximizing profits by increasing highly profitable long- and short-haul routes
- Strengthening schedule competitiveness and reliability by increasing the number of major routes

<New Routes Launched in 2011>

<table>
<thead>
<tr>
<th>Route</th>
<th>Aircraft</th>
<th>Frequency</th>
<th>Launch</th>
<th>Remarks</th>
</tr>
</thead>
<tbody>
<tr>
<td>Incheon/St. Petersburg/Frankfurt</td>
<td>B744F</td>
<td>twice/week</td>
<td>Mar. 23</td>
<td>Cargo route</td>
</tr>
<tr>
<td>Incheon/Kuala Lumpur</td>
<td>B737</td>
<td>twice/week</td>
<td>June. 29</td>
<td></td>
</tr>
<tr>
<td>Copenhagen/Beijing</td>
<td>A333</td>
<td>seven/week</td>
<td>July.</td>
<td></td>
</tr>
<tr>
<td>Incheon/Brussels/Zaragoza/Palau</td>
<td>B744F</td>
<td>twice/week</td>
<td>July. 4</td>
<td>Cargo route</td>
</tr>
<tr>
<td>Trans-Atlantic cargo routes (Incheon/Dallas/New York/Brussels</td>
<td>B744F</td>
<td>twice/week</td>
<td>July. 6</td>
<td>Cargo route</td>
</tr>
<tr>
<td>Xian/Incheon/Guangzhou</td>
<td>B737</td>
<td>three/week</td>
<td>Aug. 10</td>
<td></td>
</tr>
<tr>
<td>Incheon/Doha/Chengdu</td>
<td>B744F</td>
<td>twice/week</td>
<td>Sep. 21</td>
<td>Cargo route</td>
</tr>
<tr>
<td>Incheon/Palau</td>
<td>B737</td>
<td>twice/week</td>
<td>Dec. 1</td>
<td></td>
</tr>
<tr>
<td>Busan/Cebu</td>
<td>B737</td>
<td>four/week</td>
<td>Dec. 1</td>
<td></td>
</tr>
</tbody>
</table>

<New Routes in Plan for 2012>

<table>
<thead>
<tr>
<th>Route</th>
<th>Aircraft</th>
<th>Frequency</th>
<th>Launch</th>
<th>Remarks</th>
</tr>
</thead>
<tbody>
<tr>
<td>Incheon/Da Nang</td>
<td>B737</td>
<td>twice/week</td>
<td>Jan. 7</td>
<td></td>
</tr>
<tr>
<td>Incheon/London (Gatwick)</td>
<td>B777</td>
<td>three/week</td>
<td>Apr. 28</td>
<td></td>
</tr>
<tr>
<td>Incheon/Phuket</td>
<td>A332</td>
<td>three/week</td>
<td>June 21</td>
<td></td>
</tr>
</tbody>
</table>

→ Passenger Business Strategy

Although global economic recovery is expected to be compromised by the European financial crisis in 2012, we expect growth in Korean aviation market demand, mainly in short-haul routes to destinations in China and Southeast Asian countries. We also expect fierce market competition in the domestic aviation market due to high oil prices and the growing market share of low-cost carriers. As a result, Korean Air’s passenger business division will pursue efficient business operations and adopt cutting-edge new aircraft to expand the number of its high-end customers, while consistently expanding the company’s growth platform through new routes.

To begin, we will expand overseas and reinforce our global network. We plan to launch new routes to Da Nang Vietnam, Yangon Myanmar, and Nairobi Kenya. Our service launch to Nairobi marks a significant advance into the African market. In addition, we plan to increase nonscheduled flights to markets with high growth potential, such as Zhangjiajie, Guilin, and Chengdu China, Nha Trang Vietnam, and to the Philippines island province of Palawan, securing more future growth engines. We are also planning to expand connecting flights to Incheon International Airport by connecting routes between European countries and Oceania and by improving our network between countries in the Americas and Southeast Asian countries.

Second, we will concentrate on attracting high-end customers through the strategic operation of top aircraft such as the A380-800 and the B777-300ER, with enhanced customer service. The highly fuel efficient A380-800 will be used on long-haul routes to New York, Los Angeles and Frankfurt, improving our route competitiveness.

Third, we will establish a profit-oriented route operation system and reinforce our global sales network so as to achieve both growth and profit at the same time. We will also timely respond to changing market and customer demands. Furthermore, in order to increase our online sales, we will tap into social networking services (SNS) and diversify our sales channels, which will strengthen our global sales network.

→ Cargo Business Strategy

In 2011, the global air cargo transport market suffered economically and from political instability in Africa and the Middle East. Influenced by a slowdown in pricing for international air cargo transport, Korean Air’s cargo business also suffered. In response, we worked hard to improve profitability by eliminating less-performing routes and launching new routes to St. Petersburg Russia, Zaragoza Spain, Chengdu China, and trans-Atlantic routes, securing a long-term growth platform.

The outlook for air cargo transport looks dim given the sluggish recovery in the market demand for air cargo transport. This will intensify market competition amid growing uncertainties in the global economy and high oil prices. Still, we see opportunities in the concerted efforts of the international community to overcome the global economic slowdown, the FTAs between Korea and other nations, the London Olympic Games, and the growth of emerging markets in Latin America and Vietnam.

In 2012, Korean Air’s cargo business division will respond to changing market environments to secure a sustainable growth platform through diversified routes, stable supplies and excellent transport services. We are also adopting new routes in line with industrial and logistics market developments and overall market demands, while consistently developing new and specialized services in the transport of valuable freight, fresh-freight and medical supplies. In addition, we are addressing basic demands through strategic alliances with global shippers and forwarders. To enhance customer satisfaction, we are making use of the most advanced IT technology to expand our e-Freight service, monitoring the entire process of cargo transport from shipping to delivery.
**Cutting-edge New Aircraft**

Korean Air plans to adopt 52 new passenger aircraft (five A330s, five B747-8s and ten B787s) and 12 new cargo aircraft (seven B747-8Fs and five B777Fs) from 2014 to 2018 in order to meet growing market demand for air transport. The new aircraft are suitable for long-range routes with high fuel efficiency. Also, with their lighter materials, their flight distance has been significantly expanded. As a result, the existing lower efficiency aircraft, such as the A300-600 and B747-400, will be phased out in the future. This plan for cutting-edge aircraft is part of Korean Air’s mid-to-long term goal for fleet modernization, and it shows Korean Air’s commitment to sustainable growth.

**Fleet Modernization and Sustainable Growth**

**Economic benefits**

The addition of new routes and increased flights on existing routes with highly efficient, long-range aircraft such as the A330, B747-8 and B787 will contribute to economic development, cutting operating expenses and flight duration.

**Social benefits**

Increased flights will contribute to direct and indirect job creation, with a modern fleet enhancing customer convenience, while increasing passengers' choice of aircraft and flight schedules.

**Environmental benefits**

Continued introduction and operation of highly efficient/low-noise cutting-edge aircraft such as the A380 and B787 will reduce exhaust gas emissions and lower them during landing and take-off.

- The A380 generates 27 percent less noise than the B747 in its external noise footprint and 56 percent less noise in its internal noise footprint. It also generates 10-80 percent less NOx exhaust gases and 30-40 percent less CO and smoke compared to international limits.
- The B787 is made of cutting-edge composite materials, with 20 percent higher fuel efficiency than existing regional aircraft.

**Introduction of Aircraft**

<table>
<thead>
<tr>
<th>Aircraft</th>
<th>No. of Aircraft</th>
<th>Introduction</th>
</tr>
</thead>
<tbody>
<tr>
<td>B777-300ER</td>
<td>2</td>
<td>May, June, Nov.</td>
</tr>
<tr>
<td>B787-800</td>
<td>8</td>
<td>Feb., Mar.</td>
</tr>
<tr>
<td>B777-200</td>
<td>9</td>
<td>June</td>
</tr>
<tr>
<td>A330-200</td>
<td>9</td>
<td>May, Nov.</td>
</tr>
<tr>
<td>Regional and small aircraft Total</td>
<td>57</td>
<td>62</td>
</tr>
</tbody>
</table>

**Disposition/Removal of Aircraft**

<table>
<thead>
<tr>
<th>Aircraft</th>
<th>No. of Aircraft</th>
<th>Disposition/Removal</th>
</tr>
</thead>
<tbody>
<tr>
<td>Boeing 747-400D</td>
<td>104</td>
<td>106</td>
</tr>
<tr>
<td>Cargo aircraft</td>
<td>2067</td>
<td>407</td>
</tr>
<tr>
<td>Cargo aircraft Total</td>
<td>2434</td>
<td>2491</td>
</tr>
<tr>
<td>Total</td>
<td>128</td>
<td>140</td>
</tr>
</tbody>
</table>
A New Growth Engine: Becoming the Logistics Hub in Central Asia

Korean Air’s Navoi Project is about creating a logistics hub connecting air and inland transportation in Navoi by capitalizing on the geographical advantage of Navoi Airport, which is located strategically between Asia and Europe. By taking advantage of the geographical advantage of the airport, we will establish a logistics hub connecting air and inland transportation.

In May 2008, Korean Air signed a memorandum of understanding (MOU) with Uzbekistan Airlines on construction of a logistics center at Navoi International Airport, agreeing to cooperate in developing Navoi Airport as an international airport. Starting with our launch of the new cargo route connecting Incheon, Navoi and Milan, we are aggressively pursuing the logistics market in Central Asia through Uzbekistan.

In addition, Korean Air is modernizing the airport facilities under its management contract and is leasing two cargo jets, including an A300-600, to Uzbekistan Airlines for five years. We are ushering in a new air cargo transport era in Uzbekistan by transporting cargo to and from Southeast Asia and Russia and CIS countries to Europe. We have also launched a joint venture with the local inland transporter Central Asia Trans, completing a comprehensive logistics network that connects Navoi Airport with inland transportation to Russia, Europe, East Asia and Central Asia. A Central Asian logistics network centered on Navoi Airport has been established and Korean Air is going to maximize its potential as an Asian logistics hub.

Major Contracts

**KUH Pilot Production**
- Contractor: Korea Aerospace Industries, Ltd.
- Project: supplying Korean Air products for the strategic production of KUH

**Boeing 777 F5F/RWT/WE/AFW/FT Projects**
- Contractor: Boeing, U.S.
- Project: manufacturing fairings for Boeing 777

**Boeing 737 F5F/Radome Project**
- Contractor: Boeing, U.S.
- Project: manufacturing fairings for existing Boeing aircraft

**Boeing 747 Radarome Project**
- Contractor: Boeing, U.S.
- Project: manufacturing fairings for Boeing 747

**847T-4D05F Maintenance Project**
- Contractor: World Airways, U.S.
- Project: 2C-CHECK for 747-4D05F Boeing aircraft

**Striping and painting helicopters for the U.S. Army in Korea**
- Contractor: U.S. Army
- Project: striping and painting UH-60/CH-47/AH-64

**Replacing the frames of F-16s for the U.S. Air Force**
- Contractor: U.S. Air Force
- Project: replacing the rear frame of F-16s

**Phase 2 Development of a satellite telescope structure**
- Contractor: Korea Aerospace Research Institute (KARI)
- Project: phase 2 verification of the photonic structure, using high-stability, high-strength composite materials model design & manufacturing

**Follow-ups for the repair and manufacturing of F-15s for the U.S. Air Force**
- Contractor: U.S. Air Force
- Project: repair and manufacturing the fuselage on F-15s

**Follow-ups for the manufacturing of A330/340 section-15**
- Contractor: Latécoère, France
- Project: manufacturing section-15 of the A330/340
Economic Performance & Distribution

Economic Performance in 2011

According to the IATA, annual international air transport increased by 6.1 percent in the passenger business in 2011, but decreased by 0.5 percent in the cargo business. Despite an increasing number of air travelers, the global aviation industry only saw USD 6.9 billion in profit for 2011, or half what it was in 2010, due to the unstable political situation in the Middle East and high oil prices. The IATA forecasts a 4.0 percent growth in passenger transport and stagnant market demand in cargo transport for 2012. In Korea, the number of travelers increased 5.7 percent from 2010 to 2011, but the aviation industry is forecast to see moderate profits due to lingering uncertainties in advanced economies and oil price hikes amid the unstable political situation in the Middle East.

Despite the unfavorable business environment due to the economic slowdown and the Japanese earthquake in 2011, annual passenger sales revenue saw an 11 percent year-on-year growth thanks to the efficient operation of routes in response to changing market demands. Overall international transport volume grew 8 percent over the past year as well. By route, the Southeast Asian routes increased 13 percent, Chinese routes increased 11 percent and American routes increased 10 percent over the past year, while Japanese, Oceania and European routes remained the same as the previous year.

By region, Korean Air saw a 9 percent growth in sales revenue despite the domestic economic slowdown. Internationally, Chinese route sales surged 25 percent from the previous year thanks to visa deregulations for Chinese travelers and the popularity of the K-Pop wave. Overall sales revenue from overseas routes also increased 16 percent from 2010. However, annual sales revenue from cargo routes for 2011 declined 8 percent from 2010 due to the sluggish U.S. economy and the European financial crisis. In response, Korean Air adjusted its route operations while returning charter planes to their owners before the end of their lease period. We also increased marketing with large-scale shippers in order to overcome the challenging market environment. In 2012, we will continue to overcome remaining uncertainties in the market environment through the timely response to market demands and by securing stable sources of revenue from fixed volume transport, while also aggressively pursuing emerging markets to secure new growth engines.

As of the end of 2011, cash and cash equivalents stood at KRW 1,465.7 billion, with other financial assets reaching KRW 183.5 billion, up KRW 614.2 billion and down KRW 112.0 billion from 2010, respectively. Current assets and non-current assets increased from the previous year, with total assets reaching KRW 22,388.3 billion. Total liabilities increased 17.3 percent over 2010 to KRW 15,895.4 billion due to the increased non-current portion of liabilities such as short-term borrowings and lease liabilities. On a consolidated basis, Korean Air’s cash flow from business activities reached KRW 2,025.2 billion, while the company recorded a net cash outflow of KRW 586.2 billion from investment activities. Cash flow from financial activities resulted in a KRW 833.0 billion net cash outflow.

Korean Air Adjusted its Route Operations While Returning Charter Planes to Their Owners Before the End of Their Lease Period. We Also Increased Marketing with Large-Scale Shippers in Order to Confront the Challenging Market Environment. In 2012, We Will Continue to Overcome Remaining Uncertainties in the Market Environment Through the Timely Response to Market Demands and by Securing Stable Sources of Revenue from Fixed Volume Transport, While Also Aggressively Pursuing Emerging Markets to Secure New Growth Engines.

Vision
Under the founder’s business philosophy that a company is the sum of its people, Korean Air is building a great workplace where its employees can lead a quality life both physically and psychologically, ensuring that they are fairly compensated based on their expertise and accomplishments.

Our Commitment
• We respect the dignity of our employees, maintain a trust-based relationship with labor and value our employees as the most valuable asset.
• We operate our human resource management system in a transparent and indiscriminate way through fair compensation based on the accomplishments, performance and capabilities of employees.
• We set clear business goals in line with the company’s corporate philosophy and assist our employees so they understand the philosophy through diverse programs.
• We provide the best possible benefit for a higher quality of life for employees and support our employees’ self-development and self-realization with a wide range of programs.
• We operate an Air Maintenance Care System to provide safe, healthy and agreeable working conditions and to prevent any occupational diseases arising from our unique working conditions.
• We provide timely and accurate information to employees through effective communication.

KEY Performance Indicator

<table>
<thead>
<tr>
<th>Indicator</th>
<th>2011 Achievements</th>
</tr>
</thead>
<tbody>
<tr>
<td>Promotion of disabled employers</td>
<td>11% increase from 2010</td>
</tr>
<tr>
<td>Reshuffling field-oriented job training organization</td>
<td>Establishment of a Sales Transportation Training Team to enhance the correlation between on- and off-line courses and expertise in job training in the long-term (July 2011)</td>
</tr>
<tr>
<td>Activating internal employee communication</td>
<td>Harmony Campaign</td>
</tr>
<tr>
<td>Safe workplaces</td>
<td>Maintaining occupational injury rates at 0.08%</td>
</tr>
</tbody>
</table>
Human Rights at Our Workplaces

We respect human rights.

Promoting Female Employment

Korean Air has been endeavoring to increase the employment of disabled people since 2000. In 2005, the company advanced this initiative by signing an agreement with the Korean Employment Promotion Agency for the Disabled (KEPAD). While increasing the number of disabled people at the company, we have also expanded the scope of positions for the disabled, from flight booking, ticketing and transportation to computer-related work and general administration, in order to accommodate an increasing number of disabled job seekers, including the severely disabled. We have also increased opportunities for disabled employees to become full-time employees. In 2007, we adopted a home-based telework program into the company’s work schedule, in recognition of these efforts, we agreed to computer-related work and general administration in order to accommodate an increasing number of disabled job seekers, including the severely disabled. We have also increased opportunities for disabled employees to become full-time employees. In 2007, we adopted a home-based telework program into the company’s work schedule, in recognition of these efforts, we agreed to computer-related work and general administration in order to accommodate an increasing number of disabled job seekers, including the severely disabled. We have also increased opportunities for disabled employees to become full-time employees.

Overview of employee turnover ratio

No. of employees on pregnancy/parental leave 712
No. of employees on pregnancy leave 231
No. of employees on parental leave 481
No. of employees on maternity leave 527
Return to work rate after pregnancy leave 100%
Return to work rate after maternity leave 102%

Promoting Female Employment

Korean Air has continuously been increasing the number of female workers. As of 2012, the number of female employees stood at 43 percent of the entire workforce. Lately, the number of female crew members has been increasing in the flight crew and engineering job sectors, two jobs which men have traditionally held. In fact, Korean Air ranked number two in a 2007 survey with female university students on the best company to work for, and became the most admired company by female consumers in 2008. In order to provide more women-friendly working conditions, Korean Air operates a number of programs and benefits in addition to the legally mandated ones. For instance, we give pregnancy leaves to pregnant flight attendants and maternity leave to any female employees for artificial insemination and/or in vitro fertilization treatment. We also run various programs to improve gender equality at the managerial level, such as overseas assignment programs and cabin crew member training. In practice of our commitment to female employment promotion, we became the first Korean company to sign an agreement with the Ministry of Gender Equality & Family as a “Women-Friendly Company” in December 2008. In 2009, we were awarded the gold prize by the Korean Federation of the Business & Professional Women (BPW), and awarded the presidential prize for our meritorious service to enhancing female welfare through female employment and the practice of gender equality in 2010.

<Return to work and retention rates after parental leave (domestic/full-time staff)>
Human Resource Development System

Under the firm belief that people are our most valuable asset, Korean Air operates diverse programs to build global competencies in its employees. In fact, its HRD strategy and system have won the Korea HRD Association’s HRD Management Awards Grand Prize for five years in a row. The Human Resource Development Center at Korean Air is in charge of company-wide integrated education programs, including manager training and core value training. A separate training center also offers specialized courses for flight operations, maintenance, and cabin services in order to maximize expertise through educational programs. Korean Air’s basic education system is divided into different levels depending on the roles and responsibilities required for each position. The on/off-line mixed courses maximize the effectiveness of programs. Korean Air’s basic education system is divided into different levels depending on the roles and responsibilities required for each position. The on/off-line mixed courses maximize the effectiveness of the program. We have also resigned the passenger and cargo job functional training system to support field operations.

Korean Air has a number of education programs to help its overseas employees who are hired locally. In fact, they account for 11 percent of Korean Air’s entire workforce. We launched an Overseas Education Training Program to provide the proper education and systematic job training programs so as to enhance our customer service at overseas operations. Employees from the Seoul head office are dispatched to new route branches or poorly performing branches to give them intensive assistance on practical information and customer service.

In July 2011, we established a new Sales Transportation Training Team to enhance the correlation between on/off-line courses and expertise in our job training by taking a long-term and integrated approach. On-the-job training (OJT), due diligence, quality assurance (QA) and post-responsibility programs take a process-based approach to education. These new programs have helped us enhance the quality of customer service.

Training Managers

We run a course for increasing team leaders’ competencies around the year and have developed case study content about management, leadership and coaching, significantly strengthening these manager training courses. In addition, the new Team Leader Workshop programs helps all team leaders better understand the company’s vision and business environment, helping team leaders think congruously when it comes to management issues.

Training Overseas Employees

We also foster a select number of locally hired employees overseas as job and service instructors to promote education and training at each regional headquarters. In addition, we increased the frequency of orientation for locally hired employees overseas from an annual basis to a monthly basis, helping them understand the company’s vision and business environment, helping team leaders think congruously when it comes to management issues.
Wages and Incentives

Korean Air pays wages and provides incentives that are among the highest in the aviation sector. This helps employees work to the best of their abilities and ensures that everyone is fairly compensated based on their individual competencies and performance through equal opportunities. In addition to annual performance-based incentives, the company offers safety incentives to encourage employees to pay closer attention to safety and work-life balance issues.

- Wage & Incentives: differential but reasonable financial rewards based on individual performance and capabilities
- Retirement Allowance System: a Retirement Allowance System under which retirees receive average wages for 30 days per one year of consecutive work

Korean Air's Initial Wages vs. Legal Minimum Wage

Korean Air pays wages that are among the highest in the aviation sector. New employees with a bachelor's degree are paid roughly 300 percent more than the legal minimum wage in Korea, which in 2011 stood at KRW 4,320.

Performance-based Remuneration to Executives

Executive management makes rational management decisions based on the objective analysis of data and information, allowing sustainable profitability and enhanced shareholder value. Remunerations are made to executives based on the evaluation of accomplishments and contribution against the annual KPI goals, pegging remuneration to organizational performance.

Evaluation and Differential Compensation

Korean Air runs its own multi-layered evaluation system according to different job function which is called the KAL Performance Appraisal System (KALPAS). Every employee is required to develop their own key objectives and plans in line with their team and company goals, with their performance evaluated by assessing all accomplishments against the indicators. For staff working in the field whose duties are measurable, their performance is evaluated based on the Standard Performance Indicators by job function. As for crew members, their performance is evaluated by tracking their flight destinations, pilot technology by aircraft type, and competency of following emergency procedures in the event of an emergency. The evaluation results are reflected in the annual pay rate and promotion review by job function and class under the differential compensation scheme.

Compensation & Benefits

Korean Air has a Comprehensive Compensation System which combines performance-based wages with benefits that are closely related to employees' livelihood.

Benefits

Korean Air provides employees and their families with airline tickets annually to help broaden their global leadership. To enhance their quality of life, the company also offers a wide range of other benefits, including company housing, tuition support for the children of employees, medical subsidies, support for leisure activities and post-retirement plans.
**Health & Safety at Work**

**Employee Health Care Service**

Health Check-ups & Management

For prevention, early detection, and treatment of health problems, Korean Air operates regular and special employment, return to work, overseas assignment, health check-ups, and provides follow-up check-ups and health management services. The integrated medical service system, called KALMED, controls and manages the health of the entire Korean Air workforce as soon as they join the company until they retire.

Primary Health Care

In the event of any health issues at work, first aid is provided, followed by treatment from a doctor, medicine, and any other necessary medical services. In addition, the company provides vaccination for influenza and cervical cancer to protect employees.

Health Promotion & Health Education

Consulting services on improving life habits and health problems are provided within our premises; professional doctors, nurses, and counselors who help employees quit smoking and operate health programs that suit individual needs. On/off-line health education courses are also provided quarterly along with useful health information to aid our employees with the management of their health wherever they are.

Flight Attendant Physicals

In order to protect cabin crew members from musculoskeletal disorders, Korean Air regularly conducts Preventing Musculoskeletal Disorders physical fitness tests on cabin crew members and provides continued health management programs. We make every effort in our health management programs for cabin crew members to be as safe as possible. Korean Air comprehensively issues and manages a domestic/international certificate for aviation physicals, and engages in preventive health care activities to ensure safe flight operations.

Korean Air's Job Hazards Analysis allows employees to self-check any hazardous factors and to apply appropriate improvement to the issue. As a result, the prevention rate has significantly improved. As for any work process with the slightest possibility of occupational accident, a risk assessment is conducted, followed by appropriate improvements and follow-ups through regular check-ups. In addition, we have consistently promoted accident-free campaigns and raised safety awareness with employees, offering incentives for accident-free performance.

Preventing Musculoskeletal Disorders

In order to protect cabin crew members from musculoskeletal disorders, Korean Air regularly conducts physical fitness tests on cabin crew members and provides continued health management programs.

Korean Air has been consistently striving to create an accident-free and healthy workplace for its employees. Recently, we have been focusing on health and safety support activities, promoting spontaneous accident-prevention activities at each division, which has helped raise safety awareness with employees. Every employee follows the given work process and continues to improve safety risks at workplaces. As a result, we have maintained a low occupational injury rate, which in 2011 stood at 0.08 percent.

**Occupational Environment and Health at Work**

Korean Air continues to check on a regular basis for any hazards on its occupational environment and subsequently make appropriate improvements to ensure a safe and agreeable workplace. In addition, a joint team of doctors, nurses as well as occupational and environmental hygienists provide health and medical services such as counseling, and education, occupational disease prevention, and improvement to working conditions through regular visits. Under the Occupational Safety & Health Act, we conduct special and pre/post-assignment health check-ups to ensure our workplace is as healthy as can be.

Korean Air's Job Hazards Analysis allows employees to self-check any hazardous factors and to apply appropriate improvement to the issue. As a result, the prevention rate has significantly improved. As for any work process with the slightest possibility of occupational accident, a risk assessment is conducted, followed by appropriate improvements and follow-ups through regular check-ups. In addition, we have consistently promoted accident-free campaigns and raised safety awareness with employees, offering incentives for accident-free performance.

In response to radiation anxiety after the Great Japanese Earthquake, Korean Air screened all passengers flying from Japan with radiation monitors in cooperation with the Korea Institute of Nuclear Safety, and disclosed the daily measurement of radiation exposure to each airport where one of our flights had departed from. The data was then delivered to our crew members in the form of daily reports.

Korean Air will continue to encourage its entire workforce to participate in the company’s safety promotion campaigns so as to minimize any hazardous factors at work and to build a safer workplace as an accident-free airline company.
Communication at Work

Cooperative Labor-Management Relations

Korean Air upholds the freedom of association and collective bargaining rights as stipulated by the International Labor Organization (ILO) convention. Korean Air has two labor unions: the Korean Air Labor Union, consisting of workers in positions such as cabin service, maintenance and general administration, and the Korean Air Pilots Labor Union. The Korean Air Labor Union has remained free of disputes during collective bargaining for 43 straight years. The Korean Air Pilots Labor Union has also maintained cooperative relations with the company in an effort to weather the economic crisis and raise corporate competitiveness.

<Labor Unions>

<table>
<thead>
<tr>
<th>Year</th>
<th>No. of Members/No. of Eligible Employees</th>
<th>Membership Rate</th>
<th>No. of Members/No. of Eligible Employees</th>
<th>Membership Rate</th>
</tr>
</thead>
<tbody>
<tr>
<td>2011</td>
<td>9,793 / 13,993</td>
<td>70%</td>
<td>1,196 / 2,179</td>
<td>55%</td>
</tr>
<tr>
<td>2012</td>
<td>9,942 / 13,732</td>
<td>72%</td>
<td>1,283 / 2,175</td>
<td>57%</td>
</tr>
<tr>
<td>2013</td>
<td>9,970 / 13,801</td>
<td>72%</td>
<td>1,251 / 2,078</td>
<td>60%</td>
</tr>
<tr>
<td>2014</td>
<td>9,207 / 13,522</td>
<td>68%</td>
<td>1,278 / 1,940</td>
<td>65%</td>
</tr>
</tbody>
</table>

* All collective agreements with the labor unions or labor-management council's resolutions cover the entire workforce at Korean Air, whether union members or not.

Ombudsman Program

Korean Air operates an Ombudsman Committee and HRM Counselor Program to proactively offer solutions to employee grievances and respond to their suggestions to promote a better HR network and raise morale within the organization. All counseling data is recorded and kept in the counseling room, and remains confidential. Counselors respect the individual dignity of each person so that they feel comfortable with the counseling.

Hotline

All Korean Air employees can log on to the HRM portal system to contact the HRM or sexual harassment counselors instantly.

Labor-Management Communication on the Intranet

Employees at Korean Air have real-time access to corporate information such as company news, daily sales, major economic indicators, and corporate policies and regulations through the company intranet systems, which include the Employee Information System (KALMAN), the Work Management System, and the HANWAY system. KALMAN allows employees to check their personnel or income information or apply for benefits like airline tickets. KALMAN also serves as an online channel for across-the-board interactive communication.

The company shares major management issues with all employees and posts changes such as revisions to internal bylaws, reorganization, recruitment, promotions, transfers, and retirement information on the intranet in accordance with Articles 22 and 30 of our Collective Agreement, which stipulates advanced notification of lay-offs (90 days in advance) and dismissals (30 days in advance) and instant notification in the event of any significant change to business operations. This transparent management practice is a basic principle of Korean Air's management and is articulated in the collective agreement. In addition, labor and management come together through four regular labor-management council meetings, annual wage negotiations, and biennial collective bargaining sessions. In addition, the two sides hold collective negotiation and council meetings whenever necessary. In the event of a need for an enactment or revision to regulations, they form a project team to discuss and consult with each other for the mutually beneficial development of both sides.

Harmonious Labor-Management Culture for Sharing

Korean Air's labor and management have the same beliefs when it comes to social contribution, which is why the two parties engage in a number of community service programs together. In 2011, they delivered briquettes to low-income families, helped elderly citizens living alone, delivered living necessities to the families of disabled people, and provided free meals to undernourished children. They also donated books to children overseas and delivered disaster relief supplies to communities hit by earthquakes. In addition, Korean Air employees donate a small amount of their monthly pay (under KRW 1,000, executives under KRW 10,000) to maintain a fund that was established in 2003. The company contributes the amount matching the fund raised by employees to form a charity fund. In the future, Korean Air's labor and management will continue to work together in more diverse social contribution activities at home and abroad to build a better world for everyone.

Labor-Management Culture for Employees, Families, and the Company

Korean Air hosts a variety of labor-management events for its employees and families every year. In 2011, we held a marathon and cultural events in celebration of the company’s 42nd anniversary, helping employees gain a stronger sense of loyalty to the company and balance their work and life. In addition, we hold a table tennis competition every year to build solidarity among employees.
Our commitment

- We do our best to provide the most excellent customer service possible so that passengers can enjoy safe and comfortable flights.
- We provide our customers with convenient air transport service, which will lead to a service-oriented culture wherein customers around the world place their trust on us. Our Total Travel Service system will provide useful travel information and travel convenience to our passengers to satisfy their needs.
- We operate the safest flights, from take-off to landing, with an established "safe flight system."
- With respect to passenger rights, we treat everyone with respect regardless of their culture, customs, traditions or values.
- By listening to customers, our Customer Service Center is able to offer solutions to any inconvenience instantly. In addition, the Real-Name Service program is enhancing the transparency and accountability of our customer service.
- We continue to transparently disclose information to customers, while customer information that we access in the process of our customer service shall be protected confidentially, and not leaked or abused.

Vision

Customer safety and satisfaction are at the top of our priority list.

Our Commitment

- We do our best to provide the best possible customer service so that passengers can enjoy safe and comfortable flights.
- We provide our customers with a convenient air transport service and are trusted around the world. Our total travel service system provides useful travel information and the travel convenience that our passengers need.
- From take-off to landing, we complete the safest flight operation system to ensure safe flights for all our passengers.
- In respect of passenger rights, we treat everyone with respect regardless of their culture, customs, traditions or values.
- By listening to customers, our Customer Service Center is able to offer solutions to any inconvenience instantly. In addition, the real-name Service program is enhancing the transparency and accountability of our customer service.
- We will continue to transparently disclose information to customers, while customer information that we access in the process of our customer services shall be protected as confidential, and not leaked or abused.

KEY Performance Indicator

<table>
<thead>
<tr>
<th>Indicator</th>
<th>2011 Performance</th>
</tr>
</thead>
<tbody>
<tr>
<td>Improved Customer Service and Convenience</td>
<td>• Completed the Top-Class Cabin Service project on 49 airplanes (B747, B777, A330) from 2005 to 2011</td>
</tr>
<tr>
<td></td>
<td>• Created a prestige class on the entire 2nd floor of an A380 aircraft, with the least number of economy seats compared to any other airline, replacing seats with a duty-free store, bar lounge and other amenities for passengers.</td>
</tr>
<tr>
<td></td>
<td>• 50 cabin crew members were dispatched to complete a bartender course at Absolut of Sweden</td>
</tr>
<tr>
<td></td>
<td>• Launched a mobile cargo service website (mcargo.koreanair.com)</td>
</tr>
<tr>
<td></td>
<td>• Commenced a project to upgrade the AmaDeus A201/Customer Relationship Management Solution program that encompasses booking, ticketing, transport, IT and systems</td>
</tr>
<tr>
<td>Expanded Communication with Customers</td>
<td>• Invited customers to help produce a TV commercial under the theme of &quot;A Place of Our Own&quot;</td>
</tr>
<tr>
<td></td>
<td>• 3rd My Amazing Plane drawing competition</td>
</tr>
<tr>
<td></td>
<td>• 4th round of sponsorship of the Korean On-Air Program</td>
</tr>
<tr>
<td>Improved Customer Health and Safety</td>
<td>• Continuously increasing the portion of organic and low-calorie food in catering, and receiving the HACCP certificate</td>
</tr>
<tr>
<td></td>
<td>• Completed IT system upgrades for safety management by investing USD 750,000 from Sep. to Dec. 2011</td>
</tr>
<tr>
<td>Customer Privacy Protection</td>
<td>• Shared useful information on protecting personal information to other companies as the vice-chairman of the Korean Council on the Protection of Personal Information (KCOMPI), which was launched in 2010</td>
</tr>
</tbody>
</table>
Key Issue 3: Learning from Customers for Greater Customer Satisfaction

Korean Air listens to customers and reflects their opinions in its management by using the voice of customer (VOC) program, which allows Korean Air to receive customer feedback and make improvements to its service structure. Today, we receive 70,000-80,000 comments annually, including praise, complaints, inquiries, and suggestions through email and our global website, which is available in 10 languages: Korean, English, Simplified & Traditional Chinese, Japanese, German, French, Spanish, Portuguese, and Russian.

Complaints, praise, and suggestions from customers received through the Voice of Customer (VOC) system are kept on record and reflected in future management planning. The VOC is shared across the board to better understand customer needs for our services and analyzed by related departments to develop solutions and improvements for shortcomings. The monthly Service Improvement Evaluation Committee then assesses improvement performance and feedback on shortcomings and issues to improve on. A monthly website called Service Bulletin was first published in September 2006 and as of December 2011, the 106th issue was published. The website covers case studies on customer complaints, features employees with excellent service records on the Service Champion and Service Excellence pages, and provides information on customer trends, as well as useful information on customer service and the aviation industry.

In addition to the VOC, Korean Air has a round-the-clock chat consulting service. It is a real-time customer service for more efficient and instant communication. We offer this service to customers in Korea, the US, Japan, and China. From 2010, we have been communicating with our customers via a number of social media, including Twitter, Facebook, and MeToday. For a more integrated and strategic approach to SNS communication with customers, we have established a new SNS Team under the Corporate Communications Department.

In September 2011, we invested USD 190,000 to upgrade our safety control IT system. In addition, we continue to invest in human and material resources for scientific analysis, risk assessment of safety risks, and work process risks detection in safety accidents and evaluation. Based on these results, we develop company-wide prevention measures.

Key Issue 4: A Trust-based Relationship with Customers

Operation of Safe Flights

Safety is a top priority for us. Everyone at Korean Air makes the utmost effort to improve upon safety in all flight operations and maintenance engineering.

As a result, we were awarded the Ministerial Prize as the top safety operator among large airlines for 2011 on December 28, 2011 because of our leading accident-preventive maintenance and safety operations. In October 2011, Airbus selected Korean Air as the best on-time performer among 24 global carriers that operate the A380-600. This has led to Korean Air gaining a solid reputation for its top safety operations.

Korean Air is an active member of several international airline alliances, such as the IATA, AAPA, FSF, and SkyTeam, for which it is a member of the board committee or working group. We also closely cooperate with the Ministry of Land, Transport and Maritime Affairs (MLTMA), the Korean Air Force, and KAIST for safe flight operations. In addition, we participate in the IATA’s Safety Audit for Ground Operations (ISAGO), which was formed by the IATA to improve quality of operational process and the safety of ground operations. We also became an ISAGO2 pool member in April 2008. Furthermore, we share audit reports with our ground operations for the efficient and systematic controlling of ground operations to prevent accidents.

Korean Air adopted its SafeNet system in October 2009. Based on a safety management IT system, SafeNet preemptively detects and monitors safety hazards, and qualitatively analyzes and evaluates these factors. The highly efficient crisis management function of SafeNet was given an excellent evaluation and selected as the best innovative IT system in 2010 by the U.S.-based global system developer EtQ.

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Key Issue 3: Flight and Ground Safety Management System

Learning a hard lesson from London's Stansted Airport tragedy in 1999, Korean Air has made tireless efforts to promote air transport safety. After inviting international aviation safety experts as the chief in command of safety and security, we also adopted a Fleet Manager system under the control of the Safety & Security Team for differentiated flight safety control by type of aircraft. We also computerized our safety control system. Cockpit crews are now mandated to submit Air Safety Reports (ASR) via an IT system, and an internal inspection on abnormal flight operations is tracked via our safety management system, which is called SafeNet. As such, safety control based on this IT system allows us to keep a database of safety information, allowing us to react differently to safety management in the past, but we now react proactively to safety management. While we concurrently conduct reactive measures by detecting and eliminating safety risk factors one by one, we also keep monitoring the risk factors by type to understand overall occurrence trends and properties. Based on our accumulated database, we can make proactive safety management decisions to prevent recurring risk factors.

We have now completed computerizing past safety information and current data which are controlled through our IT system, improving our flight operations through a preemptive management system. Although it is the best policy to eliminate all risk factors, there are inevitable factors or natural disasters that are bound to occur. Thus, Korean Air prioritizes safety risks through its IT system. In the future, we will continue eliminating these risk factors and will thoroughly control more trivial risk factors. In short, we will not stop making efforts towards absolute safety operations through a preemptive management system.

Evaluation of Domestic and International Safety Quality

Korean Air has an internal quality evaluation program within its operational division. We also develop and put in place regular and ad-hoc safety quality evaluation plans company-wide. We also repeat quality evaluations on our shortcomings (airports).

Our aircrafts meet all 900 international safety guidelines, including those of the IATA Operational Safety Audit. As a result, Korean Air became the first airline company in Korea to receive an IOSA certificate from the IATA in January 2005, and has maintained the same certificate through three renewal verifications.

In addition, we have been participating in the (IASO) program since April 2009, cooperating and sharing information with the aviation industry and related authorities for international safety control standards and the improvement of safety quality and ground operations worldwide.

The U.S. Department of Defense has a safety certification program called the Airline Transportation Program, which classifies safety practices of civilian airlines for its employees and U.S. military to use for business trips. The Air Carrier Survey and Analysis Team under the Commercial Airline Review Board pays visits to airlines for due diligence every two years and runs a paper screening process every six months. Korean Air passed all safety criteria in due diligence in July 2011, obtaining the certificate from the U.S. Department of Defense.

Strengthening Preventive Security Measures for Passenger Safety

Korean Air has strengthened its preventative security activities to preemptively protect its passengers and aircraft from any illegal actions. To that effect, we analyze security information on our travel destinations every month and then grade their aviation security level. In the event of any security issues such as a terrorist attack, we quickly take the appropriate measures in collaboration with authorities at local branches in the national security department.

By sharing information with authorities who are in charge of national security, we are able to develop responsive measures instantly. We also participate in several international organizations for security reasons and apply these measures to our management practices by benchmarking globally recognized practices to develop the required security system.

In order to install and raise security awareness in our employees, we implement regular training and recurrent training on security practices every year. In particular, we provided special training for the success of the 2012 Seoul Nuclear Security Summit.
Health & Safety on Flights

In preparation for an emergency on flight, Korean Air’s flight attendants are required to be trained in CPR and other first aid guidelines. All our aircraft are equipped with an assortment of first aid equipment to provide appropriate first aid in any emergency. On the ground, the Emergency Medical Call System runs around the clock, providing medical advice in the event of in-flight emergencies and support for the safe transportation of distressed passengers. In addition, we monitor the spread of epidemics via air travel and collaborate with domestic and international authorities and organizations in the event of outbreaks or epidemics to prevent the spread of such diseases via air travel.

Meticulous Hygiene Control of In-flight Meals

In-flight meals require special attention from preparing, loading, storing, and serving. Korean Air’s in-flight meal catering center was the first Korean catering service to win the HACCP (Hazard Analysis Critical Control Points) from the Korea Food & Drug Administration. From the purchase of ingredients to cooking, storing, setting, loading, and cleaning, the center’s state-of-the-art computerized system and facilities check food materials from different sources, accepting only materials that have passed domestic and international hygiene standards as well as the company’s own hygiene criteria. In 2008, Korean Air opened the Food Safety Research Center at Inha University, where experts with degrees in various fields of food science study and collaborate with domestic and international authorities and organizations in the event of outbreaks or epidemics to prevent the spread of such diseases via air travel.

Privacy Protection System

Customer Privacy Protection

From top management to employees of Korean Air, everyone is well aware that customer privacy is a critical factor to the continuity of business. With that said, all of us at Korean Air make a concerted effort to protect customer information. In 2002, we established a department to exclusively deal with customer privacy protection, and the department has been handling privacy protection ever since. Also, customer privacy officers are assigned to every department that has access to our customer information. Every Korean Air employee working at customer contact points is obliged to attend a customer privacy protection training session on line and on other designated occasions. The company also runs hacking simulation on a regular basis.

Korean Air also relays useful information on protecting personal information to other companies, as it serves in the vice-chairman position of the Korean Council on the Protection of Personal Information (KCPPI), a private organization for protecting personal information that was launched in 2010. In 2005, we also received the Information Security Management System (ISMS) certificate, issued by the Korea Internet Security Agency (KISA), which is still valid. In 2012, Korean Air was selected as an excellent practice of privacy protection by the KCPPI and received the Presidential Prize.

The annual average of customer complaints remain under five cases per year and the number lowered to two cases in 2011. The two cases involved customers who complained that they were still receiving email alerts even after they unsubscribed and that we allegedly provided private information to the family of the customer. In the future, we will heighten our control over customer privacy protection practices.

For greater customer convenience, Korean Air ambitiously upgraded its IT system for flight booking, ticketing, and transport to a system called Amadeus Altea Customer Relations Management (CRM) Solutions. In June 2011, a team was created for the new passenger service system project. The team consisted of 180 members, and it was the largest task force team in Korean Air history for the development and testing of a new system that included employee training and pilot service. The project is still ongoing, and with a total investment of USD 100 million over three years, the new system is expected to fully launch in May 2014.

The new passenger service system is part of Korean Air’s effort to becoming one of the world’s leading airlines, and is matched with next-generation aircraft and an enterprise resource planning (ERP) system. When completed, Amadeus Altea CRM Solutions will take an integrated approach to all customer service, from booking and boarding to upgrading our service quality.

Amadeus Altea Customer Relations Management Solutions

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Inviting Customers to Make TV Commercials

Korean Air ran "A Place of Our Own" TV commercial film campaign under the theme of Beautiful Korea from July to October 2011. The campaign was about discovering beautiful places in Korea and to promote the country's cultural heritage to instill pride in Koreans. Planned in four phases – "Launching," "Main Theme," "Inviting" and "UCC" – the campaign was well received for its innovative marketing idea. In particular, the "Inviting" theme commercial was highly praised for inducing interactive communication with customers by inviting customers to make their own commercials and share them through SNS.

Korean Air Future Artist Olympiad

The "Korean Air Future Artist Olympiad" is a children's drawing contest that was initiated to give children hope, to let them dream about the sky and airplanes, and to broaden their view of the world. Launched in 2009, the Olympiad is an annual competition for elementary school students from across the nation, contributing to the development of art education for children. The first place winner's picture is painted on the exterior of Korean Air planes. The winner is also given free tickets to travel overseas. The theme of the third competition in 2011 was "Where is the most beautiful place in Korea that you would bring a friend from another country?" The first winning drawing is now painted on our planes, which are flying around the globe and promoting beautiful Korean places to the world.

Korean On-Air

As part of its global cultural sponsorship program, Korean Air sponsors a Korean language guide service at overseas museums such as the Louvre, the British Museum and the State Hermitage Museum. At the same time, Korean Air runs a special program called Korean On-Air, where we broadcast live the challenges of younger people who are learning about global culture and introducing Korean culture to the world to promote creativity and originality for future generations. The first sponsorship was made in 2009 when we sponsored two Koreans studying in Strasbourg, France, who produced and distributed Korean guidebooks at tourist attractions in the area. In May 2010, we subsidized Ko Eun-bi, who traveled to 14 American cities over 46 days, to publish her backpacking trip story. The third sponsorship was made to a Korean university group called KeibiKeibi from Keimyung University who put on nine performances of Korean traditional dance at the Edinburgh Fringe Festival from August 5-16, 2011. The fourth program was launched in January 2012 to sponsor six Korean students from Korea Aerospace University as part of an exchange program. They were a club introducing Korean food through a program called the Korean Food Teaching Club (KFTC). In the future, Korean Air will continue with this Korean On-Air program to encourage an enterprising spirit in younger people, while introducing Korean culture to the world and communicating with our customers.

Family/UM Care Service

Korean Air offers special help to customers who are new to long-haul flights and minors traveling alone. The Family Care Service offers special aid for boarding to unaccompanied elderly passengers 70 years of age or older, female passengers with two or more infants or children under the age of 7, as well as transfer passengers who face linguistic problems. The UM Care Service is for unaccompanied minors to ensure they travel safely from the moment they board until they join their guardians at the destination. The Flying Mom Service ensures that the UM feels at home during the flight. Offered for long-haul international flights that are five hours or more, Korean Air’s flight attendants take care of the in-flight conditions of the UM and write a letter describing the food the child ate, how they slept, their overall health and other general conditions of the UM to the guardians or parents at the destination. The service won the top prize in the in-flight service category at the Mercury Awards in 2007.

Customized Catering Service

Upon prior request, Korean Air provides special in-flight meals to customers with allergies, or religious or age issues which prevent them from eating normal in-flight meals. Special in-flight meals include infant/ toddler meals, kids’ meals, vegetarian meals, dietary meals (diabetes, low-salt, low-fat), religious meals and other special meals. Customers with health issues are provided with a dietary meal that is prepared on the consultation of medical and nutrition experts. Religious meals include those for Muslims, Hindus, and Jews.
KEY ISSUE 4
THE GREEN
THE GREEN

Vision
We are proud to enrich people’s lives through the harmony of the aviation industry and the environment.

Our Commitment
- We are modernizing our fleet and improving flight operation procedures to reduce greenhouse and noise emissions.
- We are applying stricter internal standards in compliance with domestic and international environmental laws and regulations.
- We are minimizing our environmental impact through preventive environmental management, and we are continuing to improve our performance.
- We are continuing to improve our operational efficiency to conserve resources and energy.
- We are training and educating employees to inspire them with environmental activities.
- We are closely communicating and cooperating with business partners to encourage green management.
- We are transparently disclosing all information on our green management performance and efforts.
- We are making use of a global network to protect the planet and contributing to the development of local communities.

KEY Performance Indicator

<table>
<thead>
<tr>
<th>Indicator</th>
<th>2011 Performance</th>
</tr>
</thead>
<tbody>
<tr>
<td>Reducing CO₂ emissions by conserving jet fuel</td>
<td>Saved 137,270 tons of jet fuel in 129 cases, reducing CO₂ emissions by 432,451 tCO₂.</td>
</tr>
<tr>
<td>Energy Conservation</td>
<td>Saved 22,871 tJ of energy and 1,181.5 tCO₂eq of greenhouse gases through 26 initiatives which include more efficient facilities, more efficient air conditioning, facility improvements, and operational improvements. These efforts have saved Korean Air KRW 320 million in energy expenses.</td>
</tr>
<tr>
<td>Voluntary Agreement on GHG Reductions by the Aviation Sector</td>
<td>From August 2010 to July 2011, we implemented VA provisions with the aim of cutting GHG emissions by 2.5 percent of the base year (2007-2009 average), and achieved 3.1 percent higher fuel efficiency.</td>
</tr>
<tr>
<td>Global Reforestation Projects</td>
<td>Planted 10,000 trees in Baghamon, Mongolia, and 78,100 trees in China’s Kubuqi Desert.</td>
</tr>
</tbody>
</table>
Our Impact on the Environment

At Korean Air, we make every effort to minimize our environmental impact, while meeting the growing demands for air transportation so as to achieve sustainable growth. We continue to monitor the environmental impact of our normal business activities such as greenhouse gas emissions and the generation of pollutants.

**Input**

- **Fuel Consumption by Air Transport Business (unit: Tca)**
  - Jet Fuel: 2009 2010 2011 Change (%)
  - B-7(A): 15,269 17,791 18,014 -1.32
  - B-7(AL): 282,247 245,151 262,658 7.14
  - Gas/Diesel: 283,833 284,347 291,664 2.57

- **Direct Energy Consumption for Ground Operations (unit: MWh)**
  - Boiler: 2009 2010 2011 Change (%)
  - Hydronic fan: 18,911 20,542 21,345 3.87
  - Gasoline: 11,061 11,071 11,069 -0.01
  - Gasoline: 11,687 11,587 11,399 -1.62
  - By-product gas No. 1: 18,741 20,542 18,345 -10.70
  - Boiler kerosene: 35,925 37,018 17,130 -53.72
  - Gas/Diesel: 260,859 264,247 281,864 6.67
  - B-B oil: 16,269 17,741 15,814 -10.86

- **Electricity & Hot Water (unit: MWh)**
  - Generation: 2009 2010 2011 Change (%)
  - Electricity & Hot Water: 137,062 144,366 143,875 -0.34

- **Recycling rate**
  - 2009: 1.97, 2010: 1.87, 2011: 1.64, Change: -0.22

- **Total amount of water used**

- **Direct energy consumption for ground operations**

- **Recycled amount**

- **Recycling rate**
  - 2009: 1.97, 2010: 1.87, 2011: 1.64, Change: -0.22%

**Output**

- **GHG [Scope 1] Emissions by Air Operations (unit: TCO2e)**

- **GHG [Scope 2] Emissions by Ground Operations (unit: TCO2e)**

- **Total amount of water used**

- **Recycled amount**

- **Recycling rate**
  - 2009: 1.97, 2010: 1.87, 2011: 1.64, Change: -0.22%

- **Direct energy consumption for ground operations**

- **Recycled amount**

- **Recycling rate**
  - 2009: 1.97, 2010: 1.87, 2011: 1.64, Change: -0.22%

**Waste Amount (unit: ton)**

- **Water Use (unit: %)**
  - 2009: 1.97, 2010: 1.87, 2011: 1.64, Change: -0.22%

- **Air Pollutant Emissions (unit: ton)**
  - 2009: Dust 25, 2010: 25, 2011: 25, Change: 0.00%

- **Amount of Water Pollutants (unit: ton)**
  - 2009: BOD 1.015, 2010: 0.958, 2011: 0.978, Change: 2.20%

- **Emissions Concentration vs. Legal Limits (unit: %)**

- **Greenhouse gas inventory applies Tier 2 IPCC 2006 National Greenhouse Gas Inventory Guidelines.**
  - CO2e is the sum of emissions of CO2 equivalents of CH4 and N2O.
Minimizing Our Environmental Impact

Environmental Management System

Korean Air meets international environmental management standards according to ISO 14001 certification in five sectors: Headquarters & General Division, Aerospace Business, Maintenance & Engineering, Catering Center and Hotel Division. We strive to prevent environmental pollution as much as possible by using eco-friendly resources, recycling waste resources, following environmental regulations and proactively preventing environmentally hazardous substances through the PDCA cycle.

Korean Air reviews its environmental impact every three years in order to monitor the environmental impact of its business activities, products and services and to minimize its environmental impact on local communities. The reviews are made on air pollutants, waste and wastewater control, soil pollution, and hazardous substance control at all our business premises to ensure safe and healthy workplaces. The latest review was made in 2011 and the findings detected 46 cases of environmental impact at 20 of our business premises. The findings have been reflected in our environmental goals and plans for improvement of the following year.

Environmental Management Strategy, Goals, & Achievements

Korean Air strategically develops and implements environmental goals and detailed execution plans at each division every year. In 2011, we fell short of GHG emissions reduction goals at Ground Operations due to the high target and increased energy use as a result of increased business activities.

<table>
<thead>
<tr>
<th>Strategy Goals</th>
<th>No. of Initiatives</th>
<th>Performance</th>
</tr>
</thead>
<tbody>
<tr>
<td>Reducing GHG emissions from aircraft</td>
<td>129</td>
<td>Accomplished</td>
</tr>
<tr>
<td>Improving the GHG emissions process</td>
<td>9</td>
<td>Accomplished</td>
</tr>
<tr>
<td>Reducing the emission of pollutants</td>
<td>10</td>
<td>Accomplished</td>
</tr>
<tr>
<td>Reducing waste emissions</td>
<td>7</td>
<td>Accomplished</td>
</tr>
<tr>
<td>Increasing waste recycling</td>
<td>2</td>
<td>Accomplished</td>
</tr>
<tr>
<td>Applying an eco-friendly process</td>
<td>8</td>
<td>Accomplished</td>
</tr>
<tr>
<td>Promoting environmental communication</td>
<td>Eco Office campaign</td>
<td>7</td>
</tr>
</tbody>
</table>

Note: No. of initiatives: number of detailed initiatives implemented by each department to achieve a given target

Assessment of Environmental Impact

Korean Air reviews its environmental impact every three years in order to monitor the environmental impact of its business activities, products and services and to minimize its environmental impact on local communities. The reviews are made on air pollutants, waste and wastewater control, soil pollution, and hazardous substance control at all our business premises to ensure safe and healthy workplaces. The latest review was made in 2011 and the findings detected 46 cases of environmental impact at 20 of our business premises. The findings have been reflected in our environmental goals and plans for improvement of the following year.
Environmental Risk Management

Korean Air has established a contingency plan and behavior guidelines at all airports which it operates in Korea in the event of an aircraft accident. We have an emergency network and control devices for saving people’s lives as well as controlling environmental pollutants in the event of an aircraft accident. Preparing different environmental risk scenarios by type, we run mock drills to minimize losses in the event of an actual case. For aircraft accidents, we operate an environmental countermeasure center to prevent pollution arising from any possible wreckage. In the case of an environmental risk situation with high potential for environmental complaints and social disturbance over the issue, we have in place an environmental emergency team. As for other environmental pollution cases, such as oil leakage from a storage tank or environmental pollution arising from the outbreak of a fire, we run an environmental management system (EMS) organization for instant response and countermeasures.

Protecting Biodiversity

Korean Air is fully aware of its role as an airliner in protecting biodiversity and actively participates in international drives to protect biodiversity. Korean Air prohibits the air transport of endangered species, rare species and protected species through its internal bylaws. In 2010, the year of biodiversity, we produced a video called “Many Species, One Planet, One Future” in cooperation with the UNEP, awakening people to the importance of protecting biodiversity.

Ozone Depleting Substance Control

Korean Air has phased out ozone depleting substances categorized by the Montreal Convention, following all requirements set out by international conventions on the environment. From 2004 to 2008, we replaced seven CFC- contained detergents for aircraft maintenance with those without ozone depleting substances. From 2009 to 2010, we reduced CFC (chlorofluorocarbon) use by eliminating eight Ground Refrigeration Units (GRU) that use CFC refrigerants to cool off overheating aircraft electronic equipment. All chemical substances used by Korean Air are controlled under the Korean Air Chemical Management System (KCMS). However, since 2008 we have not calculated the amount of ozone-depleting substance emissions, as the amount is negligible. Korean Air autonomously conducts a review if chemical substances in use can be replaced with eco-friendly ones and maintains communication with producers to increase the use of eco-friendly products.

Handling Civil Complaints over Environmental Pollution

Korean Air established a standard procedure for communication under environmental management regulations, allowing the relevant department to respond instantly to any complaints over environmental issues. Minor issues are dealt with by relevant departments and major issues are referred to upper level and top management for a company-wide response. Complaints are analyzed for causes and education is carried out based on the results to prevent a recurrence of the same case. As a result, we have had no complaints over environmental issues for the past 10 years.

Mitigating Climate Change and Our Environmental Impact

Korean Air closely cooperates with the IATA in addressing climate change, and has implemented four strategies internally to mitigate climate change.

Aviation Industry & Climate Change

Climate change is one of the most important environmental issues of today. Conventional thought is that the aviation industry is one of the main culprits. On the contrary, its share of contribution to the world’s CO2 emissions is only 2 percent. Still, greenhouse gas emissions from aircraft have an impact on the entire global community. As a result, the aviation industry makes the mitigating of climate change its top priority and makes various efforts to deal with it.

Risks and Opportunities of Climate Change to the Aviation Industry

Climate change poses both risks and opportunities to the global aviation industry directly and indirectly. Climate change results in an increased frequency of natural disasters such as typhoons and hurricanes, which lead to the shutdown of airports, irregular flight operations and even flight cancellations. Consequently, the extended ground standby duration undermines efficient fleet operations, causing additional costs. A decrease in passenger flights to a given destination due to a natural disaster has a direct influence on our business and sales revenue. Characteristically to the carbon-intensive aviation industry that consumes fuels to transport passengers and cargo, environmental regulations to address climate change inevitably generates increased costs to airlines such as emissions trading expenses. Consumer environmental awareness can also result in a decrease in market demand for air travel (e.g. people might choose a video conference over a business trip).

Nevertheless, Korean Air is determined to turn these risks arising from climate change into opportunities. Efforts to enhance fuel efficiency in response to climate change will save costs for the company. They will also provide us with many opportunities through GHG regulations to gain a competitive edge over competitors through maximized fuel efficiency and economic emissions credit. Moreover, our cutting-edge fleet and operational system and development of biofuel will also create new opportunities for the aviation industry.
**Climate Change Regulations**

**EU Emissions Trading Scheme (ETS)**

Starting from 2012, all aircraft of the 4,000 airlines around the world that fly in and out of Europe are obliged to obtain GHG emissions credits, then required to purchase credits for CO\(_2\) emissions in excess of regulatory standards through the emissions trading scheme. In response to this regulation, Korean Air developed an internal IT system and realigned its monitoring, reporting and verification (MRV) system. Having acquired third party assurance every year, we report our GHG emissions to local authorities (Germany’s Environmental Department). In order to reduce our greenhouse gas emissions on EU routes, we replaced existing B774 aircraft with higher fuel-efficient B773 and B772 planes on some routes and removed unnecessary seats from cargo transporters to reduce the aircraft weight. Korean Air will continue to increase the number of highly fuel efficient aircraft on EU routes in the future in response to the EU ETS.

**Energy & GHG Target Management**

Korean Air’s Low Carbon Green-Growth; GHS, and energy target management began in April 2010 under the basic law and enforcement decree. As part of the program, high energy-consuming companies who account for 60 percent of the nation’s GHG emissions are to set energy-saving targets and implementation plans. Following this procedure, Korean Air has reported its GHG emissions from its 40 business premises and domestic routes since 2007 to the Ministry of Land, Transport and Maritime Affairs (MLTMA), which has allotted a GHG emissions target for Korean Air. In order to achieve that goal, Korean Air developed its own greenhouse gas management program for real-time data collection of energy consumption and monitoring of GHG emissions, significantly enhancing the reliability of our database. Korean Air will also apply stricter guidelines on air conditioners in order to reduce greenhouse gas emissions.

**Voluntary Agreement (VA)**

Korean Air reached an agreement with the MLTMA and set its reduction goal at 2.5 percent of its annual average fuel efficiency for the past three years. We worked out the details of the plan and signed a voluntary agreement on reducing greenhouse gases. We ran about 140 fuel efficiency initiatives to achieve the goal under the VA and saw 3.1 percent improvement compared to 2011, the base year. Encouraged by this performance, we set the target for 2012 at 2.0 percent compared to the base year. We will continue to increase the number of new aircraft and improve operational efficiency to attain that goal.

The international aviation industry accounts for only 2 percent of total CO\(_2\) emissions generated by human activities. However, the figure is on the rise due to the growing demand for air transport. Thus, Korean Air joined hands with the IATA and declared the lofty vision of reducing the increased rate of CO\(_2\) emissions to zero by 2020 and to lower CO\(_2\) emissions to 50 percent by 2050 in comparison to 2005 levels. To attain these goals, Korean Air has 4 strategies: technology innovation, infrastructure innovation, improving operational efficiency and economic measures.

**IATA Roadmap for CO\(_2\) Emissions Reduction**

- 50% reduction from 2005 emissions levels
- Zero rate of increase in CO\(_2\) emissions by 2020

**Korean Air’s 4 Basic Strategies for Addressing Climate Change**

- Aircraft and engine technology R&D
- Alternative fuel R&D
- Emissions Trading Scheme
- Shortening flight distances by adjusting routes and flight schedule
- Shortening the aircraft waiting duration by improving infrastructure
- Fuel efficiency flight operations
- Optimization of routes and schedule
- Improving ground work efficiency
- Optimizing routes and speed
- Improving ground work efficiency

**Economic Measures**

- Fuel efficiency flight operations
- Optimization of routes and schedule
- Improving ground work efficiency

**Addressing Climate Change**

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Aviation Sector

<Fuel Management Strategies>

Weight Management
- Reducing the weight of aircraft, calculating the exact payload and using lighter equipment and service items for passenger and cargo services.

Fuel Management
- Improving the unit fuel efficiency.

Functional Improvement
- Enhancing efficiency in flight operation by improving thrust and drag.

Economic Flight Operations
- Improving fuel load policy, optimizing routes in consideration of conditions such as weather, route and airport facilities, developing the optimal flight planning by selecting nearby alternate airports.

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<Fuel Management Organization>

- Functional improvement
- Weight management
- Economic flight operations
- Maintenance & Engineering Division
- Flight Operations Division
- Transportation (passenger/cargo) division
- Operations Control Division
Adopting Green Cargo Aircraft

Korean Air successfully introduced the next-generation passenger aircraft A380 in 2011. Encouraged by this success, we adopted next-generation cargo aircraft with maximized fuel efficiency in February 2012 which is called Green Cargo Aircraft. The B747-8F and B777F are eco-friendly aircrafts with a higher transport capacity and lower fuel consumption. Korean Air is the first airline in the world to have both types of planes. The B747-8F has a 5.7 m longer fuselage than the existing B747-400F, and it can load 134 tons of cargo, 24 tons more than the existing airplanes, with 17 percent better fuel efficiency and 17 percent less CO₂ emissions. The B747-8F is special to us because we took part in the manufacturing process of the aircraft; as Korean Air manufactured the special wing tip structures, the raked wing tips, and wing tip extensions, which significantly reduce air resistance. The B777F has the longest flight range among twin engine cargo aircraft, flying 0.045 kilometers with a maximum load of 103.0 tons of cargo, and with 16 percent higher fuel efficiency than the existing B747-400F. In addition to these two cargo aircrafts, Korean Air plans to purchase seven more B747-8F models by 2016 and five more B777F models by 2015.

Biofuel

The global aviation industry is paying a great deal of attention to the technological, economic and sustainability potential of bio jets as an alternative fuel source and has implemented a number of R&D activities on these jets. Pilot operation has proven the technical appropriateness of bio-jets and is currently running a feasibility study in terms of its economic and sustainability value. Many airlines have completed pilot operations of the fuel section and some airlines, including KLM and Lufthansa, currently operate scheduled flights to some routes with aircrafts fueled by bio-jets. Korean Air is keeping up with the IATA’s bio-jet phase-in policy and follows their guidelines. At the same time, we are collecting information on industrial trends in collaboration with fellow members of SkyTeam and the industrial sector. Korean Air plans to use bio-jets at the appropriate time and when the need becomes apparent. Also, Korean Air will wait until bio-jets are commercialized and achieve economic stability with the required infrastructure and industrial network which first needs to be established between bio jet producers and aircraft manufacturers.
Noise

Korean Air’s Aircraft Meet ICAO Chapter 4 Requirements

The ICAO first introduced noise regulations in 1969, and has since constantly raised the intensity of its regulations. At the moment, most international airports demand airlines to meet Chapter 3 requirements. Any aircraft obtaining certification for operation since January 2006 is required to meet Chapter 4 requirements, which chapter has 10EPNdB lower noise requirement than Chapter 3 requirements on the sum of noise measured at three points. All 140 of Korean Air’s fleet satisfy the highest Chapter 4 requirements of the ICAO (including aircraft authorized before 2006). The Korean Aviation Act separates ICAO Chapters 2, 3 and 4 into six classes of noise level, and Korean Air’s fleet currently reaches grade 6, the quietest level.

Noise Abatement Policies

Committed to preventing and alleviating noise pollution and the impact on surrounding communities of its operations, Korean Air pays a noise charge on every one of its flights. The noise charges are allocated to budgets at related airports for preventing noise and supporting noise countermeasures like installing soundproof facilities in residential areas near airports. In 2011, Korean Air paid KRW 4.3 billion in noise charges to airports around the world. In addition, Korean Air sends children from local communities to Jeju Island as an acknowledgement of its noise footprint around Gimpo Airport.

Ground Operations

Energy

Korean Air has signed a voluntary agreement with the Korean government on reducing energy consumption and greenhouse gas emissions not only in its flight operations but also with its buildings. In 2011, we reduced GHG emissions by 1,181 tCO₂eq through 26 initiatives, saving KRW 235 million in annual expenses.

For instance, we maintained the indoor temperature at below 24°C in winter and above 26°C in summer following government recommendations, significantly cutting our air conditioning energy expenses. We also replaced boilers, freezers, and pumps with higher efficiency facilities, installed high-efficiency lights, and improved facilities such as disrupting pipelines.

Moreover, in March 2011, we installed a paint boot for painting and drying aircraft components and energy-saving air conditioners that recover more than 70 percent of waste heat from ovens and humidity controllers. These facilities have cut down on GHG emissions by 1,181 tCO₂eq annually.

Eco Labeling, LEED

Korean Air is preparing to acquire an eco-labeling on its renovation of the Wilshire Grand Hotel in Los Angeles and is constructing a new building of the new K2 Hyett Regency. Called Leadership in Energy and Environmental Design (LEED), this labeling is authorized by the U.S. Green Building Committee (USGBC) to buildings that were constructed in an eco-friendly way, from design to engineering to operations, all of which minimize a building’s environmental impact.

Minimizing the Environmental Impact of Aircraft Paint

We reviewed the effectiveness of the clear paint that was used on the colors of our aircraft and found it had nothing to do with preventing ultraviolet waves from decoloring aircraft paint. Thus, since 2011, we have worked to remove the coating process from the aircraft maintenance manual and have been reducing the use of paint and reducing weight. This effort saved 372 gallons of chemical substance usage and 456 tCO₂eq of GHG emissions.

Moreover, in March 2011, we installed paint booth for painting and drying aircraft components and energy-conserving air conditioners that recover more than 70 percent of waste heat from ovens and humidity controllers. These facilities have cut down on GHG emissions by 100 tCO₂eq annually.

Reducing GHG Emissions and Air Pollutants with Ground Support Type of Batteries

We applied electric-powered batteries to forklifts that transport components and heavy weights within the Tech Center at the Busan Aerospace Business Division, reducing greenhouse gases and air pollutants. The battery powered transporters at the Tech Center are operated on contract with the Korea Airport Service (KAS). Out of the 39 forklifts, 36 are battery-recharged ones, while the remaining three are powered by an engine to transport heavy equipment and raw materials.

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<2011 Energy Conservation Practices>

<table>
<thead>
<tr>
<th>Case</th>
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<th>Investment (KRW million)</th>
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Influence of Wastewater on Nearby Water Bodies and Ecosystems

Korean Air’s main business operations are at airports in Gimhae, Incheon, and Gimpo. Wastewater from its business operations are treated at internal wastewater treatment plants and discharged only when they meet the 50 percent stricter internal requirements than legal limits. In order to minimize the impact of wastewater on nearby bodies of water and ecosystems, we monitor the water quality and clean nearby rivers nearby on a regular basis.

First, we treat wastewater from the Aerospace Business Division at Gimhae Airport and discharge it only after lowering the average chemical oxygen demand (COD) under 18.6 ppm to the nearby Seolman River, which eventually meets downstream with the west Nakdong River before flowing into the ocean.

Secondly, we treat the wastewater from our 3 operations at Incheon International Airport to lower the COD to stricter internal requirements than the average 100 ppm before discharging it to water in the vicinity. The Incheon International Airport Corporation annually monitors the marine ecosystem to protect the environment and makes sure that the discharge is not harmful to the marine ecosystem before water is discharged to the ocean beyond the northern sea dike.

Thirdly, we have two business premises at Gimpo Airport, where we treat wastewater to lower the COD under an annual average of 5 ppm, meeting internal requirements by more than 90 percent. The treated water is then sent into a sewage line near the airport, which leads to the sewage pipes of Gimpo Airport and the Gonghang-dong area. Finally, it is discharged to the Han River after it is treated again at a wastewater treatment plant southwest of Seoul.

Environmental Expenses

<table>
<thead>
<tr>
<th>Year</th>
<th>Management expenses</th>
<th>Outsourcing expenses</th>
<th>Legal expenses</th>
<th>Subtotal</th>
<th>Environmental facilities investment</th>
<th>Total</th>
</tr>
</thead>
<tbody>
<tr>
<td>2009</td>
<td>3,092,861,148</td>
<td>4,035,513,008</td>
<td>5,247,793,653</td>
<td>12,376,167,809</td>
<td>- 650,000,000</td>
<td>12,376,167,809</td>
</tr>
<tr>
<td>2011</td>
<td>3,772,788,681</td>
<td>4,135,893,630</td>
<td>4,871,422,516</td>
<td>12,786,106,037</td>
<td></td>
<td>12,786,106,037</td>
</tr>
</tbody>
</table>

(Unit: KRW)
Vision
Under the firm belief that a company should share its profits with the society in which it operates, Korean Air continues to fulfill its corporate responsibility.

Our Commitment
• We fulfill our responsibility to society as a corporate citizen that grows alongside each society it operates in.
• We sustain sound growth through the efficient operation of resources and contribute to the sustainable development and welfare of local communities.
• In the operation of our aviation and logistics business, a national backbone industry in Korea, we continue to contribute to the economy through an efficient logistics infrastructure.
• In compliance with laws, regulations and ethics codes, we respect and promote local laws, regulations, customs, cultures and values, contributing to the cultural development of local communities.

KEY PERFORMANCE INDICATOR

<table>
<thead>
<tr>
<th>Indicator</th>
<th>2011 Performance</th>
</tr>
</thead>
<tbody>
<tr>
<td>- Investment in medical centers and marine industries as part of community programs</td>
<td></td>
</tr>
<tr>
<td>- Inviting children from local communities affected by our noise footprint to Gimpo head office and Jeju Island</td>
<td></td>
</tr>
<tr>
<td>- Participation in local knowledge contribution activities such as “Reach for the World,” “English Camp at Airport,” and “Aerospace Science Class”</td>
<td></td>
</tr>
<tr>
<td>- Delivering briquettes and living necessities to elderly citizens living alone and low-income families in the neighborhood of the Gimpo head office</td>
<td></td>
</tr>
<tr>
<td>- Supporting health check-ups and household medicine to underprivileged people</td>
<td></td>
</tr>
</tbody>
</table>

Education
- Signing an MOU with the Ministry of Education, Science and Technology to promote donations to educational causes

Mecenat Programs
- Third competition of the “Korean Air Future Artist Olympiad”
- Projects to foster prospective photographers
- 18th annual Korean Air Travel Photo Competition

Employee Volunteerism
- “From ‘9’ to campaign”
- New employee volunteering at social charities

Disaster Relief
- Disaster relief supplies to flood victims in Thailand
- Disaster relief supplies to tsunami victims in Japan
Sharing starts when seeds are sown. Korean Air’s social contribution begins with every one of its employees making a small contribution to society, just like sowing small seeds throughout the land.

Seeds grow roots and branch out. Each branch bears the fruits of prosperity and creates a caring mindset. A mind focused on sharing brings hope to those in need.

Social Volunteer Steering Committee & Volunteer Corps

- Head of Volunteer Corps: (General Affairs executive)
- 6 members (including 2 working-level staff)
- 1 facilitator (General Affairs Team manager)
- 2 Audits (accounting, audit)

23 KOREAN AIR’S VOLUNTEER CORPS (4,000 members)

Social Contribution Programs

- Promotion of company-wide volunteerism
- Inducement programs
  - Declaration of campaign theme
  - Making pledges events
  - Interviews with volunteers (company’s internal broadcasting)
  - Volunteer memoir competition
  - Special lectures by social welfare experts
- Promotion programs
  - Encouraging employee donations from their pay
  - Selecting themes for monthly volunteerism
  - All employees (individual volunteerism)
  - New employees join the “Wings of Dream” volunteer corps

Volunteerism
- Donating less than KRW 1,000 from paychecks
- Bazaars
- Habitat movement
- Breast Cancer Prevention campaign
- One Company-One Village sisterhood
- “We Start”, “Beautiful Store” and Volunteerism

- Sports Sponsorship
  - Spreading international sports events
  - Sponsoring sports players (Excellence Program)
  - Korean Air Table Tennis Team
  - Korean Air Jumbos Pro Volley Ball Team
  - Korean First Men’s Speed Skating Team

- Cultural Sponsorship
  - Sponsoring international sports events
  - Sponsoring sports players (Excellence Program)
  - Korean Air Botanical Garden at Kubuqi Desert, China
  - Korean Air Forest in Baganuur, Mongolia
  - Participation in the eco city project in Songdo New Town
  - Distributing saplings on the 5th of April every year

- Disaster Relief
  - Transporting disaster relief supplies
  - Disaster relief activities

- Environment

- Education

- Sports

- Culture & Art

- Corporate Citizenship

- Green Management

- Key Issue 5
  - 4,000 members
  - 23 Korean Air’s Volunteer Corps
  - Promotion of company-wide volunteerism
Korean Air takes a long-term approach in its commitment to education. Korean Air has been investing in education by taking a long-term approach in its commitment to education around Korea. In fact, Korean Air’s founder believed that the most valuable business in life is all about fostering talent. Following his philosophy, we have sponsored a number of universities and academic institutes in Korea, and over the past 13 years, we have donated KRW 220.9 billion to Inha and Jeongseok Academic Institutes every year. In 2003, we completed the nation’s largest digital library, the Jeongseok Memorial Library, as well as the HiTech Hall at Inha University. In February 2006, we completed the second dormitory at the university, helping improve academic conditions. As part of a global industrial-academic collaboration initiative, we sponsored the construction of the Pratt & Whitney Institute for Collaborative Engineering (PWICE) at the University of South California (USC). We also induced quadripartite industrial-academic collaboration among Inha University, Korea Aerospace University, USC and Airbus.

Inher Academic Institute (Inha University, Inha Technical College, Middle High school attached to college of education Inha University)

Inher Academic Institute has been running Inha University, Inha Technical College, Middle High school attached to college of education Inha University under its arm since 1988. In 2003, Korea’s leading digital library, Jeongseok Memorial Library, was completed at Inha University and the institute led the construction of an international industrial-academic R&D institute at Inha University and USC for the R&D of the high-tech aerospace industry and the development of application technologies.

Jeongseok Academic Institute (Jeongseok University, Jeongseok Graduate School of Logistics, Korea Aerospace University)

Established in 1979, Jeongseok Academic Institute has been operating Korea Aerospace University, Jeongseok University, Jeongseok Graduate School of Logistics, and Jeongseok Aviation Technical High School. Helping contribute to the development of the Korean aerospace industry, Korea’s first technical college established under a company in 1988, Jeongseok University is home to a number of globally competent talent versed practically and theoretically. In 2006, Korea’s first logistics-specialized academic institute, Jeongseok Graduate School of Logistics, was also established.

Korean Air sponsors the Korean language guide service at three world famous museums: the Louvre in Paris, the British Museum in London, and the State Hermitage in St. Petersburg. Starting in 2008, we have phased in this service, sponsoring the replacement of PDAs with new ones at these museums. This sponsorship was well-reputed for raising national pride and promoting Korean culture to the world. In recognition of this contribution, the Minister of Culture and Sports conferred an appreciation award on Korean Air, a first for a Korean company.

In March 2008, trained flight attendants began providing a special introduction to local museums and art museums during flights to Paris, London, Amsterdam, and Madrid. Our flights bound to Incheon are also introducing Korea’s famous attractions, such as the National Museum of Korea and the National Museum of Contemporary Art Korea to international passengers, which has garnered a great response. We have also sponsored a number of international art exhibitions in Korea such as Van Gogh, Monet, Moise de Drag and Louvre and cultural festivals including the 11th Bucheon Fantastic Film Festival.

In the future, we will continue to expand our sponsorship for Korean language services in the world’s most famous museums, raising national pride as we sponsor many more cultural events.

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KEY ISSUE 5

Educational Work

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KEY ISSUE 5

Corporate Citizenship

Under the slogan ‘Wings of Touch, Wings of Hope’, Korean Air proactively engages in programs that contribute to local communities through volunteerism.

Under the General Affairs Department, we set up a CSR Team which oversees company-wide volunteerism and CSR activities. All Korean Air employees donate a small portion of their paychecks (under KRW 1,000) that goes towards a fund for social causes, with the company matching all contributions made by employees. In addition, there are 22 volunteer corps, including Gonihoe and Se-Ryu, within the company. The members of these groups help teenage household heads and provide free meals to elderly people living alone. They also arrange cultural and artistic events for underprivileged children on a regular basis. In addition, they participate in the Habitat for Humanity program, the One Company-One Village sisterhood program and flea markets.

Korean Air and its volunteer corps supported disaster relief supplies to damaged areas after the 2004 Indian Ocean earthquake and tsunami, the 2005 Sumatra earthquake, the 2007 Tsuan oil spill in Korea, the 2008 Sichuan earthquake, and other earthquakes in New Zealand and Japan.

Korean Air’s Global Volunteerism

Medical services for child patients around the world
In 2007, we sponsored the medical operation of children with cardiac diseases in Mongolia, Vietnam, the Philippines and Korea in collaboration with Good People. Starting in 2008, we also participated in the Iraq Relief & Reconstruction Project, and have been providing medical services to local child patients annually.

Global Volunteerism by Shinwha

In 2006, the corps visited six villages in the jungle near Pengang, Malaysia and gave medical services, haircuts and ran kids’ programs. In 2007, the activity was expanded to Dumai, Indonesia.

Love Program in China

We deliver hope to local children by donating books and bookshelves to elementary schools in Beijing, Wuhan, and Xian, China. We also built the Korean Air Dream Library and donated PCs.

Disaster Relief Supplies

Transportation

<table>
<thead>
<tr>
<th>Year</th>
<th>Description</th>
</tr>
</thead>
<tbody>
<tr>
<td>1998</td>
<td>Transported relief supplies to flood victims in Huei, China</td>
</tr>
<tr>
<td>[Aug. 1999]</td>
<td>Transported relief supplies to Turkey after a devastating earthquake (B747-400F cargo aircraft)</td>
</tr>
<tr>
<td>[Oct. 1999]</td>
<td>Transported relief supplies to earthquake victims in Taiwan (A300F cargo aircraft)</td>
</tr>
<tr>
<td>[Sep. 2002]</td>
<td>Transported relief supplies to victims in Gangneung who were devastated by Typhoon Rusa (A330-300)</td>
</tr>
<tr>
<td>[Apr. 2004]</td>
<td>Transported relief supplies to victims after the huge explosion at Yeongdeung Station in North Korea (two B747-400 special aircraft)</td>
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Jan. 2005 | Transported relief supplies to victims of a tsunami in Southwest Asia

Aug. 2005 | Transported relief supplies to refugees after Hurricane Katrina hit the U.S.

Jun. 2007 | Transported the remains of victims from a plane crash in Cambodia with an A330-300 jumbo jet

May 2008 | Transported relief supplies to the victims of a cyclone in Myanmar

May 2008 | Transported relief supplies to victims of the Sichuan earthquake (B747-400)

Mar. 2010 | Provided clean water to victims of the earthquake in Christ Church, New Zealand

Mar. 2011 | Provided clean water and blankets to victims of the Great East Japan Earthquake

Activity Descriptions

- Habitat for Humanity: In partnership with Habitat Korea, Korean Air employees and their families participate in building houses for homeless families (providing KRW 770 million in construction expenses and 42 international air tickets up until 2011)
- Share your change campaign: All Korean Air employees voluntarily donate change under KRW 1,000 from their monthly paychecks and the company then matches that amount
- Pink Ribbon breast cancer prevention campaign: Offering a Korean language service on audio guide devices at the Louvre, the British Museum and the State Hermitage Museum
- Sky Love Bazaar: A cabin crew volunteer corps hosts a bazaar with souvenirs and specialties from around the world and donates all proceeds to charities
- One Company-One Village: Providing medical services and helping farmers every summer through a village called Myeongdong-ri
- Reforestation in Mongolia: Creating a botanical garden by planting trees in collaboration with an NGO
- Aviation Medical Center: A group of doctors from Korean Air’s Aviation Medical Center provides medical services in local communities
- Sponsoring a Korean language guide service in museums internationally
- Offering a Korean language service on an audio guide device at the Louvre, the British Museum and the State Hermitage Museum
- One Company-One Troop: Starting in June 2012, we began sponsoring and providing exchanges with the Capital Division (162 people)
As an advocate of the positive energy that sports bring to society, Korean Air has been contributing to the development of sports in Korea for years. Everybody at Korean Air made a concerted effort to win the bid to host a Winter Olympics in Korea, which the country got for the 2018 Games after two failed bids. Also, Korean Air is the first Korean company to run its own professional speed skating team and sponsors athletes such as Lee Seung-hoon and Moh Tae-beom. In addition, our Excellence Program provides airline tickets to sports stars who have raised national pride. We sponsored the 2011-2012 Short Track World Cup, which was organized by the International Skating Union, to help bring more national attention to winter sports. We were also an official sponsor of the 2011 Qatar Peace and Sports Table Tennis Cup as a messenger of peace beyond race, ideology, and religion. In the future, Korean Air will remain a firm supporter of Korean sports and carry out its duties as a responsible global corporate citizen.

Korean Air plants trees in Mongolia and China in order to prevent desertification and yellow dust storms. We planted 56,500 trees on a land size spanning 27.40 ha in Bagansuur, Mongolia from 2004 to 2011 and 1.8 million trees over land spanning 6 million ㎡ in the Kubuqi Desert in China between 2007 and 2011, helping create the Korean Air Botanical Garden. We take pride in that we contributed to a friendly partnership between Korea and China and in reducing yellow dust storms, which cause severe damage to Korea every spring. From 2009, we have been taking part in a global initiative to make the urban area of Los Angeles greener, donating a total of USD 160,000 to the Million Trees LA Foundation over that time. Furthermore, Korean Air participates in the Songdo Green Urbanization project and supported nationwide efforts to register the volcanic soils and lava caves of Jeju as UNESCO Natural World Heritage sites. We also actively implement various environmental protection policies while introducing next-generation, eco-friendly airplanes, setting the model for green management.
### UN Global Compact

The UN Global Compact is a strategic policy initiative for businesses that are committed to aligning their operations and strategies through 10 principles related to the areas of human rights, labor, environment and anti-corruption. Korean Air joined the UN Global Compact in July 2007. The core values of the Compact are in line with our commitment to ethical and transparent management practices and to fulfilling our social responsibilities. We will continue to embrace and support the 10 universally accepted principles of the UN Global Compact, as listed below.

#### PRINCIPLES

**HUMAN RIGHTS**
- Principle 1: We support and respect the protection of internationally proclaimed human rights.
- Principle 2: We make sure we are not complicit in human rights abuse.

**LABOR**
- Principle 3: We uphold the freedom of association and the effective recognition of the right to collective bargaining.
- Principle 4: We uphold the elimination of all forms of forced and compulsory labor.
- Principle 5: We uphold the effective abolition of child labor.
- Principle 6: We uphold the elimination of discrimination in respect of employment and occupation.

**ENVIRONMENT**
- Principle 7: We support a precautionary approach to environmental challenges.
- Principle 8: We undertake initiatives to promote greater environmental responsibility.
- Principle 9: We encourage the development and diffusion of environmentally friendly technologies.

**ANTI-CORRUPTION**
- Principle 10: We work against corruption in all its forms, including extortion and bribery.

### UN Global Compact Compliance at Korean Air

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| HUMAN RIGHTS  | Principle 1: We support and respect the protection of internationally proclaimed human rights. | - Compliance with the UN Global Compact 10 principles and International Labor Organization Conventions  
- Training on business ethics and sexual harassment prevention | 8-10, 26-28 |
|               | Principle 2: We make sure that we are not complicit in human rights abuse.  |                                                                                                                                                    | 16-17          |
| LABOR         | Principle 3: We uphold the freedom of association and the effective recognition of the right to collective bargaining.  | - Upholding the freedom of association and collective bargaining rights  
- No forced labor or child labor under stipulations as provided in the Korean Labor Standards Act and the ILO conventions  
- No case of violations  
- Expanding female and disability employment  
- Hiring international talent without discrimination based on nationality, culture, or religion | 34-45          |
|               | Principle 4: We uphold the elimination of all forms of forced and compulsory labor. |                                                                                                                                                    |                |
|               | Principle 5: We uphold the effective abolition of child labor.               |                                                                                                                                                    |                |
|               | Principle 6: We uphold the elimination of discrimination in respect of employment and occupation. |                                                                                                                                                    |                |
| ENVIRONMENT   | Principle 7: We support a precautionary approach to environmental challenges. | - Strict compliance with GHG emissions regulations at all our business premises  
- Company-wide ISO 14001 certification  
- Carbon inventory system and GHG emissions reduction initiative  
- Adopting cutting-edge, eco-friendly aircraft and engines with higher fuel efficiency and less noise | 56-73          |
|               | Principle 8: We undertake initiatives to promote greater environmental responsibility. |                                                                                                                                                    |                |
|               | Principle 9: We encourage the development and diffusion of environmentally friendly technologies. |                                                                                                                                                    |                |
| ANTI-CORRUPTION | Principle 10: We work against corruption in all its forms, including extortion and bribery. | - Enactment and declaration of the Ethics Charter and compliance with the 10 principles of the UN Global Compact  
- Ethical education and whistleblowing program  
- Adopting the Compliance Program | 16-17, 21-22 |
Awards and Associations

2011 Awards

**Category** | **Association** | **Award** | **Date**
--- | --- | --- | ---
**Economy** | 2011 K-BPI – topped the airline category (13 consecutive years) by the Korea Management Association (KMA) | May 09, 2011
| 2011 Brand Star Award Korea (1st in the airline category) for three consecutive years | May 22, 2011
| 2011 Top airline with in-flight duty free sales service at the GPH Awards in the Asia/Pacific region by the Duty Free News International | May 17, 2011
| Asia’s Best First Class Service Airline at the World Travel Awards 2011 Asia/Australia | Sep 28, 2011
| Brand of the Year for 2011 by the Korea Advertising Society | Oct 14, 2011
| Wins one award in five categories at the 2011 Korea Advertising Awards by the Korea Federation of Advertising Associations (KFAA) | Nov 03, 2011
| 2011 The most trusted brand by Korean consumers | Jan 11, 2011
| Best 100 Awards by the Korea HSBS Association | Feb 23, 2011
| Topped the domestic and international airlines category of the 2011 National Customer Satisfaction Index (NCSI) by the Korea Productivity Center | Mar 28, 2011
| No. 1 in the Global Customer Satisfaction Index by the Japanese Management Association Consulting | June 23, 2011
| 2011 Plus Happiness CSR Awards | June 01, 2011
| Best Operator of the Airbus A320-800 | Oct 28, 2011
| 2011 CSR Awards by the Chinese CSR Organizing Committee | Dec 15, 2011
| No. 1 in the airline category in the 2011 Korea Sustainability Index (KSI) by the Korea Standards Association | Oct 09, 2011
| No. 1 in the transportation category of the 2011 Green Ranking | Dec 27, 2011

**Society**

**Category** | **Association** | **Award** | **Date**
--- | --- | --- | ---
| No. 1 in the transportation category of the 2011 National Customer Satisfaction Index (NCSI) by the Korea Productivity Center | | |
| 2011 K-BPI – topped the airline category (13 consecutive years) by the Korea Management Association (KMA) | | |
| 2011 Brand Star Award Korea (1st in the airline category) for three consecutive years | | |
| Asia’s Best First Class Service Airline at the World Travel Awards 2011 Asia/Australia | | |
| Brand of the Year for 2011 by the Korea Advertising Society | | |
| Wins one award in five categories at the 2011 Korea Advertising Awards by the Korea Federation of Advertising Associations (KFAA) | | |
| 2011 The most trusted brand by Korean consumers | | |
| Best 100 Awards by the Korea HSBS Association | | |
| Topped the domestic and international airlines category of the 2011 National Customer Satisfaction Index (NCSI) by the Korea Productivity Center | | |
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| 2011 Plus Happiness CSR Awards | | |
| Best Operator of the Airbus A320-800 | | |
| 2011 CSR Awards by the Chinese CSR Organizing Committee | | |
| 2011 Aircraft Safety and Security Awards by the Ministry of Land, Transport, and Maritime Affairs | | |
| No. 1 in the airline category in the 2011 Korea Sustainability Index (KSI) by the Korea Standards Association | | |
| 2011 Carbon Management Industry award for the Carbon Disclosure Project | | |
| No. 1 in the transportation category of the 2011 Green Ranking | | |

Associations and Memberships with National/International Organizations

**Category** | **Association**
--- | ---
**Aviation** | International Air Transport Association (IATA), Asia-Pacific Airlines (AAPA), SkyTeam, Korea Civil Aviation Development Association
| Federation of Korea Chamber of Commerce and Industry (KCCI), The Federation of Korean Industries (FKI), Korean Management Association, Korea Business Council for Sustainable Development, Business Institute for Sustainable Development of Korea
| International Air Transport Association (IATA), Association of Asia Pacific Airlines (AAPA), SkyTeam, Korea Civil Aviation Development Association, Federation of Korea Chambers of Commerce and Industry

**Economy**

**Category** | **Association**
--- | ---
| Korea Business Council for Sustainable Development, Business Institute for Sustainable Development of Korea Chamber of Commerce and Industry (KCCI), The Federation of Economic Organizations, Korea-Japan Economic Association, Korea Listed Companies Association, Korea Exchange, Korea Customs Logistics Association, International Management Institute, Gangwon-gu Branch of KCCI, Korea International Trade Association, Pacific Economic Council (PEC), Korea U.S. Economic Council

**Society**

**Category** | **Association**
--- | ---

GRI Index

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Third Party Assurance Statement on Korean Air’s 2012 Sustainability Report

To All Stakeholders at Korean Air

The Korea Productivity Center (hereinafter the “Inspector”) was commissioned by Korean Air to review its 2012 Sustainability Report (hereinafter the “Report”).

Accountability and Independence

Korean Air takes full responsibility for the information and comments contained within this Report, and are responsible for providing assurance statements. As an independent agency, we are not engaged in producing the Report and have no relationship with Korean Air, which would otherwise hinder our independence.

Assurance Standard

Our assurance is in accordance with Type I moderate assurance engagement as defined by AA1000AS (2008). We also verified the Report confirmed with principles of inclusivity, materiality, and responsiveness in relation to AA1000AS (2008) assurance standards. Furthermore, we validated if reported materials complied with GRI (Global Reporting Initiative) G3.1 guidelines.

Scope

The assurance was made based on Korean Air’s 2011 performance, but the scope of our responsibility did not include assessing the reliability of such information as financial, performance, environmental data including greenhouse gas (GHG) emissions, links to websites, or aviation research data. Our onsite visits were restricted to the Korean Air head office in Gimpo. Consequently, additional assurance procedures could alter the results of our assurance.

Approach

Our assurance procedures included the following work:
1. Reviewing the frequency of the indicators and the description method of each GRI (G3.1) guideline indicator to check if GRI application level A requirements were satisfied
2. Identifying if the content and quality comply with GRI G3.1 guideline principles
3. Reviewing the selection of key issues and the propriety of the described content contained within this Report through media research and benchmarking analyses
4. Reviewing the propriety of details and errors expressed in the Report through comparative analysis with other sources
5. Conducting onsite visits to the head office in Seoul, identifying supporting key data and information, and reviewing internal processes and systems

Conclusion

The Inspector confirmed that Korean Air’s sustainability activities and performance were well reflected in this Report. We also confirmed that the Report satisfied GRI application level A requirements, which the Company independently declared.

1. Inclusivity: Stakeholder Participation

Korean Air classifies its stakeholder groups as employees, business partners, customers, the government, shareholders & investors, and local communities. Through this assurance procedure, the Inspector confirmed that Korean Air consistently maintains diverse communication channels to collect stakeholder opinions. With internal stakeholders, the company has maintained interactive communication with its employees through OurBridgeteam, consulting hotline, and Harmony communication campaign. With external stakeholders, the company has been actively communicating with its customers through SMS, its website and real-time chatting service, and has been commenting on governmental policies through public hearings and association memberships. In addition, it has been cooperating with business partners through seminars and education seminars, while also listening to their grievances.

In addressing customer issues, the company has been operating a multi-lingual platform for the voice of customers, and has been addressing customer issues by disclosing customer issues to the entire workforce for future improvement. These efforts are highly appreciated.

On the other hand, the details of issues raised through communication with business partners, industrial agencies, and NGOs were not disclosed. In the future, it is recommended that the company check and evaluate its sustainability management from the point of view of external stakeholders, such as stakeholder panels.

We also recommend the integrated management of IoV- and GRI-based communications.

2. Materiality: Selection and Reporting of Key Issues

Korean Air operates several communication channels to identify sustainability issues such as benchmarking, stakeholder surveys and global initiatives. In addition, the company’s media research covers not only positive but negative coverage as well, allowing it to effectively respond to its sustainability issues. The key issues were prioritized from issues identified through stakeholder surveys. We confirm that the Report fairly discloses all key issues. In particular, the Report analyzes and provides details of the impact of the company’s fleet modernization on its sustainability management. The Report also provides statements on the aviation industry’s risks and opportunities arising from climate change and covers the company’s proactive response to domestic and international environmental regulations. In the future, we recommend more comprehensive information regarding the company’s waste management practices, including recycling resources. We also recommend more sophisticated management of stakeholder relations by adding more industrial issues to the report and more detailed coverage of material risk methodologies and processes.

3. Responsiveness: The Organizations Response to Issues

We confirmed that Korean Air analyzes the risks and opportunities every year in line with its business strategies and develops and monitors key performance indicators on its management activities. By setting key performance indicators by strategic tasks, the company has been able to keep track of annual achievements and review the performance of executives in this regard. We acknowledge the company’s efforts to align sustainability management strategies with business strategies by connecting business performance indicators with sustainability performance indicators. However, the company needs a more integrated strategy for its social contribution, mutual growth and environmental management for more systematic and comprehensive sustainability management practices. The Inspector recommends that the company develop a company-wide scheme to manage the performance and goals of sustainability management by area. It is our recommendation that the company develop a comprehensive sustainability management strategy for the integrated management of performance and goals in triple bottom line form and to continue tracking the goals and achievements of key performance indicators in line with business strategies and long-term sustainability strategies in future reports.

Recommendations

We recognize Korean Air’s efforts to enhance sustainability, and recommend the following to improve upon future versions of this report and the level of sustainability management.

1. We recommend a more balanced reporting practice by disclosing the company’s responses and future plans for improvements to negative media coverage.
2. We recommend developing and applying more systematic materiality test methodologies by reflecting the risk management process and prioritizing business strategies for future reports.
3. We recommend managing key performance indicators and including them in future reports. In particular, we recommend a more systematic management of indicators comparable with peer competitors such as individual training hours, social contribution hours, and the intensity of environmental data.
4. We recommend developing sustainability management strategies for a better organized management of performance goals and goals, and operating a special organization (i.e. Sustainability Management Commission) that directly reports to top management.
5. We recommend establishing an enterprise integration system for the management of diverse sustainability management performance indicators, which it can then utilize in future versions of this report.

The Korea Productivity Center's Sustainability Management Center is qualified to conduct independent assurance work as an assurance agency and is officially certified by Accountability, which established the AA1000, an international standard related to stakeholder participation and assurance. Moreover, its Assurance Committee consists of professionals who have completed a professional education and have experience in consulting and sustainability management assurance.

July 2012
Korea Productivity Center
Chairman & CEO
Jin Hong

Kim, Dong soo
KPC director
Soo, Jong-seok
Team manager
Park, Joo-mi
expert advisor

Key Issue 1 - gReEn
Key Issue 2 - pEOplE
Key Issue 3 - VAluE
Key Issue 4 - JoVE

Key Issue 1: ENVIRONMENT
Key Issue 2: PEOPLE
Key Issue 3: VALUE
Key Issue 4: JoVE

The Third Party Assurance Statement on Korean Air’s 2012 Sustainability Report
7. Prioritize the following economic issues of Korean Air’s sustainability.

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<tr>
<th>Details</th>
<th>Very high</th>
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<tr>
<td>Setting a clear business strategy</td>
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<td>Corporate governance</td>
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<td>Sales growth</td>
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<td>Operational efficiency</td>
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<td>Non-listed expansion</td>
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<td>Future growth engines</td>
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<td>Job creation</td>
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<td>Fair distribution of economic value</td>
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<td>Enhancing brand equity</td>
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<td>Risk management</td>
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8. Prioritize the following environmental issues of Korean Air’s sustainability.

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<th>Details</th>
<th>Very high</th>
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<tr>
<td>Environmental management system (ISO14001 certificate)</td>
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<td>Energy efficiency</td>
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<td>Noise abatement</td>
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<td>Addressing climate change (GHG reduction)</td>
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<td>Minimizing environmental impact (ground)</td>
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<td>Waste management</td>
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<td>Fleet modernization</td>
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<td>Green purchases</td>
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<td>Environmental protection activities in local communities</td>
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<td>Response to global environmental regulations</td>
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9. Prioritize the following social issues of Korean Air’s sustainability.

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<tr>
<td>Customer satisfaction</td>
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<td>Customer privacy protection</td>
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<td>Fair evaluation and compensation of employees’ performance</td>
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<td>Human rights and labor-management relations</td>
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<td>Communication with employees</td>
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<td>Employee competency building</td>
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<td>Employee benefits</td>
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<td>Employee Health and Safety</td>
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<td>Mutual growth with business partners</td>
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<td>Fair transactions</td>
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<td>Social contribution activities</td>
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<td>Health and safety for customers</td>
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10. Please feel free to share your opinions and suggestions about Korean Air’s sustainability management activities and the structure or content of this report.
Previous Reports

Sustainability reports

2006

2007

2008

2009

2010

2011
SUSTAINING EXCELLENCE