



2010

KORAIL

SUSTAINABILITY

REPORT



A RAILROAD SYSTEM TO BE PROUD OF CREATING A HAPPIER AND HEALTHIER FUTURE THROUGH ADVANCED RAILROAD MANAGEMENT

KORAIL is a recognized leader in determining how the future of Korea will unfold. One of our goals is to help the country develop into a global leader in the field of railroad transportation. KORAIL is making constant improvements to its facilities and its customer services. Another of its primary goals is to enhance its role as a globally-oriented, environmentally friendly and state-run enterprise that all its customers can trust and respect.

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YESTERDAY



RAILROADS THAT LEAD THE WAY
TO THE FUTURE

20 km per hour was the speed of Korea's very first train. The 33.8 km-long Seoul to Incheon line, which opened in 1899, wasn't just a new and exciting mode of transportation. At that time, railroads were a primary means of introducing people to new products, new ways of doing things, and new ways of thinking. Without them, modern life as we know it would not have been possible.

The Korean economy started to grow in company with its railroads. They also contributed dramatically to the growth and spread of Korean culture.





T O D A Y



LEADING THE WAY TO SUCCESS

Automobiles have ruled the world for a very long time, and coping with traffic has become more and more complicated every day.

Many people began to think that the era of trains was over, but KORAIL didn't. Instead, we laid the groundwork for new and innovative developments. As a result, Korea has grown into a leader in the global railroad industry, becoming only the fifth country in the world to operate a high-speed train system and the fourth to manufacture high-speed passenger cars.

KORAIL's role in creating a new era in the railroad industry has produced enviable results. For example, KTX's total number of passengers surpassed the 200 million mark in 2009. In addition, we have been able to develop our very own, independently-generated technologies, which we used to build the KTX-Sancheon train.





T O M O R R O W



HELPING TO BUILD A BETTER FUTURE

Even though our trains go very fast, our passengers always feel relaxed riding in them. Even though they have a long and honored tradition, our trains use some of the world's most advanced technologies. They are also one of the easiest ways to achieve environmentally friendly, green growth.

At KORAIL, we are constantly making innovations to increase the efficiency of our operations and offer our customers greater value. For example, we are building railroad stations that satisfy the real needs of people. We are also improving our metropolitan rail services to make them even more pleasant and efficient.

By taking these steps, we will firm up our position as a globally-oriented transportation and logistics company, making Korea a world leader in the development of state-of-the-art railroad technologies.

WE WILL CONTINUE TO REALIZE SUSTAINABLE GROWTH BY SHARING THE VALUE AND VISION OF RAILROADS WITH STAKEHOLDERS.

TO OUR MANY STAKEHOLDERS AROUND THE WORLD

First of all, I would like to express my heartfelt thanks to you for your steady and constant support of KORAIL which prepares further 100 years to provide the world's best green service under the theme of "the world's best national railroad."

Since the first train whistle blew in Korea in 1899, KORAIL has been a driving force behind the development of the national economy and a trusted and reliable means of transportation for the Korean people. Now we have evolved into a modern-day, environmentally friendly transportation company that offers customers world-class service and always fulfills its corporate social responsibilities.


KORAIL is committed to sustainability management and the protection of the environment. In addition to joining the UN Global Compact in 2007, we have been publishing an annual sustainability report outlining our economic, social and environmental performances.

Countries around the globe have started building railroad again. This is happening because the world is focusing on low-carbon, green growth and energy savings as a means of addressing such pressing environmental issues as global warming. As you may already know, trains emit much fewer CO₂ emissions and consume much less energy than cars, on a comparative basis.

KORAIL will continue to offer Koreans and visitors from around the world the comfort and benefits of a world-class railroad. Our goal is to make railroad the most popular means of transportation in Korea. We will do this by harnessing our many strengths and by pursuing change and innovation ceaselessly.

Our company began operating the KTX-Sancheon train six years after the introduction of the first KTX bullet train. We also completed the second phase of the Seoul-Busan High-Speed Railroad, meaning that people can now travel anywhere within Korea in two hours or less. In addition, we expanded the reach of our service area by opening the KORAIL Airport Railroad, the GyeongJeon Line, and double-tracking the Gyeongchun Line.

We also signed a MOU for railroad transport and implemented the "Green Mileage" program, which offers incentives to companies according to their transportation performance. In addition, we began offering a door-to-door delivery service, and added environmental standards to our charter of customer service. In addition, we raised our on-time ratio to 97% from 96%, and shortened the time needed to buy a train ticket from five minutes to three. All of these improvements illustrate our commitment to offering a world-class service that cannot be replicated anywhere else.

A professional portrait of Huh, Joon-Young, President & CEO of KORAIL. He is a middle-aged man with dark hair, wearing glasses, a black suit, a white shirt, and a red patterned tie. He is standing with his arms crossed against a dark grey background.

Huh, Joon-Young
President & CEO

CEO'S MESSAGE

In order to further its goal of offering customers a constantly increasing range of services, KORAIL is turning its stations across the nation into local community centers that will take the initiative in enhancing local cultures.

Many of our stations are already being used as cultural and artistic spaces, including Seoul Station, with its Open Concert Hall. Honorary stationmasters have been named at thirty-one stations that we no longer operate, helping to turn them into community and cultural hubs. In addition, we are creating a "green travel" culture by developing ecological and cultural train travel programs. These include a rail cruise, "Haerang," "Naeiro," a Sea Train, a Bike Train, a Music Café Train, and a Wine and Cinema Train.

We are also promoting railroads as a popular means of transportation through the GLORY (Green Life of Railroad Yearning) campaign, in which stations, local governments, and representatives of local residents participate. The purpose of this effort is to promote green growth and help to ameliorate environmental problems. It also helps strengthen the economies of local communities across the nation.



KORAIL is putting its utmost efforts into turning stations across the nation in cultural spaces for local communities and centers to enrich local residents' lives.

In order to fulfill its corporate social responsibilities as a state-run company, KORAIL is taking steps to flesh out the central government's policies. We are also committed to strengthening our operational capabilities through innovation and "outside the box" thinking.

Another positive step that KORAIL took was to select five hundred interns and hire 126 of them as full-time workers in an effort to help reduce youth unemployment. We have also made rail travel simpler and more enjoyable by equipping our cars with nursing rooms, diaper-changing spaces, and special seating for pregnant women and families with babies. As a result, the Ministry of Gender Equality and Family gave us an "AA" grade in its 2010 Family-Friendly Company Certification System.

KORAIL has also formed mutually beneficial relationships with its business partners. This includes signing agreements for win-win growth and fair trade with 874 of them for the first time among state run companies. In addition, we are following the central government's suggestions for improving our structures. As a result, we are reducing our number of ticketing offices and restructuring stations with low profitability.

We are also making improvements to our human resources management and compensation systems, including instituting a performance-based annual salary system and introducing a maximum wage level. In addition, our management and labor people managed to carry out conflict-free collective bargaining for the first time ever. This resulted in the signing of a mutually-agreeable contract that includes the institution of a "time-off" system.

We will continue to work our hardest to become the world's best railroad company, leading the way in the global railroad market by constantly innovating our businesses and faithfully fulfilling our corporate social responsibilities.

First, we will concentrate on increasing our profitability. This will include adding to our sales by strengthening the connections among our various services, using social networks to promote our activities, and expanding our railroad network and logistics infrastructure. In addition, we will create profit-enhancing, life-related and cultural spaces by facilitating the evolution of our stations into privately financed, multi-functional buildings that harmonize with the development of areas near them. We will also continue with our strategy of entering into overseas high-speed rail projects.

Secondly, we will continue to achieve cost reductions and make our human resources management operations more efficient. We will pursue the latter goal by consigning our non-core businesses to other operators and making improvements to our attendant service system. We will achieve the first one by increasing the efficiency of our train operations. This will include changing the operating system for our conventional trains and enhancing our cargo transport system.

Thirdly, we will create a friendlier image of railroads by fulfilling our corporate social responsibilities and adding to the satisfaction levels of our customers and employees. We will also build positive and constructive partnerships with small- and medium-sized enterprises. In addition, we will make our facilities more accessible for the disabled and carry out specialized social contributions programs through the GLORY campaign.

Other steps that we will take include making our services safer and more efficient. We will do this by implementing an advanced safety management system and improving and adding to our safety-related facilities. We will also hire more people who face significant barriers to employment. In addition, our working environment will be made warmer and more welcoming through the expansion of our employee benefits systems. This will include the Voice of KORAIL (VOK) System, which handles



customer complaints about our services and employees.

In addition, we will strengthen our foundations for sustainable growth through the GLORY campaign and by making improvements to our business structure. This will include promoting trains as a convenient and reliable means of transportation by making the customized GLORY campaign more community-friendly. We will also continue to nurture the development of Global KORAIL-Certified Railroad Professionals who will take the lead in advancing our future. In addition, we will keep on developing advanced railroad technologies, such as next-generation, high-speed train operation systems. We will also streamline the business structures of our subsidiaries, strengthening their competitiveness by rationalizing their operations and encouraging them to focus on their core businesses. In addition, we will create more harmonious labor-management relationships by encouraging labor and management to work together for their mutual self-interest.

Our excellent and reliable railroad system is a source of pride for all Koreans. In addition, providing the country with an advanced railroad transportation industry will result in a happier and healthier future for all of us and our descendants. Railroads are an extremely efficient means of realizing the development of a regionally-balanced national economy.

In its bid to become a world leader in a new "golden age" of railroads, KORAIL is placing a premium on sustainability management and winning the trust of its customers and stakeholders. As a global transport company that is leading the way in the field of low-carbon green growth, we will become an acknowledged trailblazer in the world's railroad industry.

In closing, I look forward to your continuing support and encouragement going forward.

Thank you.

June, 2011
President & CEO **Huh, Joon-Young**

* KORAIL supports the ten principles of the Global Compact in respect to human rights, labour rights, the protection of the environment and anticorruption.

SUSTAINABILITY MANAGEMENT HIGHLIGHTS IN 2010

1

GLORY Campaign



GLORY stands for "Green Life Of Railway Yearning." The aim of the "GLORY Movement" is to promote green growth in Korea by encouraging more people to take the train. This will also lead to increased growth in local economies. KORAIL's headquarters and twelve regional administrative centers are taking a leading position in forwarding the organization's aims.

2

Launch of KTX-Sancheon Operation



The "made-in-Korea" KTX-Sancheon, the world's fourth bullet train, began operations on March 2, 2010. Its ultra-streamlined nose maximizes energy efficiency by minimizing air resistance, allowing it to reach speeds of 300 km per hour in a little over five minutes. In addition, its repair and maintenance functions have been made easier and more energy efficient through the use of an aluminum alloy in its cars and motors.

3

Revision of Customer Service Charter



KORAIL revised its Customer Service Charter to ensure that its standards are more environmentally friendly and in agreement with the Korean government's green growth policies. This included a commitment to raise our on-time ratio to 97% from 96% and to reduce the maximum time needed to buy a ticket from five minutes to three.

4

A Harmonious Labor-Management Relationship



KORAIL signed a collective agreement with the Korea Railroad Workers' Union that rationalizes its operating practices and respects the rights of both management and labor. It includes a two-year wage freeze, reduces the number of full-time employees seconded to the union office to fourteen from sixty-four, changes their status from paid to volunteer, and establishes 33,000 hours as the upper limit for the time-off system. In keeping with this spirit of harmony and mutual respect, KORAIL has introduced a number of mutually-beneficial activities, including town hall meetings, and a task force whose mandate is to make improvements to the overall operating system. In addition, communications were strengthened by enhancing the roles of the company's support and main business departments. "We will strive to upgrade our train service to the maximum by establishing this win-win labor-management model," said Huh Joon-Young, president of KORAIL.

KORAIL obtained a grade of "AAA," the highest rating possible, in the 2009 KoBEX SM for two consecutive years. It was awarded by the Institute for Industrial Policy Studies of the Ministry of Knowledge Economy. In addition, KORAIL ranked first in the "railroad and subway" category in the 2010 Korea Sustainability Contest conducted by the Korean Standards Association under the aegis of the Global Reporting Initiative. We also won a prize for the excellence of our sustainability report (in the "public/NGO" category).

**Awarded Highest Grade
in Sustainability Management Survey**

5



Travelers can now go anywhere in Korea by rail in two hours, thanks to the completion of the second phase of the bullet train project linking Seoul and Busan. It runs seventy-four trips every weekday, and eighty-six trips on weekends. Several new stations were built to make the service more userfriendly, including ones at Osong, Gimcheon (Gumi), Singyeongju, and Ulsan. Another plus for customers is that KORAIL has not raised its fares for this improved service. In addition, the completion of the KORAIL Airport Railroad project has added dramatically to the convenience of overseas travelers.

**Completion of Second Phase of Seoul-Busan
High Speed Railroad and Airport Railroad**

6



**Named Best-Ever Customer Service
Provider**

7



KORAIL earned the highest-ever score in a Ministry of Strategy and Finance survey measuring customer satisfaction with public organizations. A total of 136 organizations were included in the study.

Win-Win Partnerships and Fair Trade

8



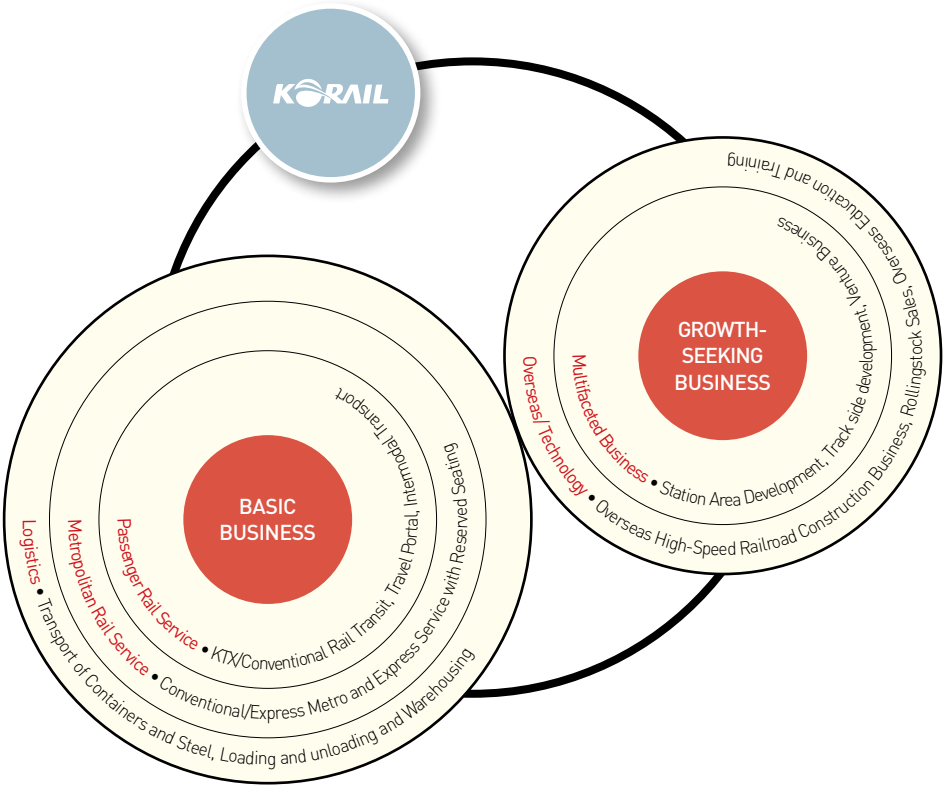
In November 2010, KORAIL held a signing ceremony to celebrate the completion of win-win relationships and fair trade agreements with 874 of its partner firms. KORAIL has been offering its suppliers practical business supports since establishing its GLORY Win-Win Growth Center in October, 2010. This includes purchasing products from small companies and enhancing its contracts and regulations.

PURPOSE OF ESTABLISHMENT

KORAIL was founded to contribute to the growth of the Korean railroad industry and enhance the nation's economy. Pursuant to the Basic Law on Rail Industry Development and the Korea Railroad Corporation Act, it is tasked with improving the professionalism and efficiency of the country's railroad management. KORAIL is a public company, owned in its entirety by the government of Korea.

KORAIL is engaged in the following businesses. First, it carries both passengers and freight. It is an intermodal freight carrier, meaning that it encompasses other forms of transportation. It is also involved in the production, sale, maintenance, and leasing of rolling stocks and other railroad equipment, as well as the development of property and other assets near its stations. In addition, it performs maintenance and repair operations on rail facilities that have been commissioned by the central government, local administrations, and public organizations.

MAIN BUSINESS AREAS OF KORAIL



Passenger Rail Service



Metropolitan Rail Service



Logistics



Multifaceted Business

CORPORATE STATUS

GENERAL STATUS

(As of December 31, 2010)

Company Name	KORAIL (Korea Railroad Corporation)	
Date of Establishment	September 1899 (KORAIL was founded on January 1, 2005)	
Corporate HQ	242 Jungangno, Dong-gu, Daejeon City, Korea	
President & CEO	Huh, Joon-Young	
Organization	Corporate HQ	5 headquarters, 8 offices, 2 units (61 depts)
	Affiliated Organizations	12 (2 institutes, 2 offices, 2 centers, 6 works offices)
	Regional HQs	12 (77 depts), 3 rollingstock maintenance depot (9 depts)
Total Number of Employees	29,958	
Total Assets	19,812.3 billion won	
Total Liabilities	9,658.0 billion won	
Total Sales	3,682.5 billion won	
Net Profit	380.8 billion won	

OPERATIONS AND FACILITIES

(As of December 31, 2010)

Total Rolling Stocks	18,410 (including 1,110 KTX cars)	
Number of Routes	88	
Total Route Length	3,557.3 km (High Speed: 368.5 km) *	
Total Track Length	8,426 km (Main Tracks: 6,285.9 km, Side tracks 2,140.1 km) **	
Number of Stations	652 (80 managing stations, 538 subordinate stations, 30 signal stations, 4 signalbox)	
Number of Business Sites	266 (39 crew office, 29 rollingstocks, 107 civil engineering and architecture facilities, 91 electrical engineering and signaling)	
Number of Trips per Day	KTX	172
	Conventional Trains	425
	Metro	2,331
	Freight Trains	299
	Total	3,227
Daily Capacity	KTX	30 million passenger km
	Conventional Trains	22 million passenger km
	Metropolitan Trains	38 million passenger km
	Freight Trains	25.7 million passenger km

* This is the total length of KORAIL's 88 routes, counting double-tracked routes as single-tracked ones.

** This is the total length of all of KORAIL's tracks (main, side, and industrial line tracks).

The lengths of sections with doubled and quadrupled tracks have been doubled and quadrupled.

CHANGE OVER PAST 111 YEARS

TRAIN SPEEDS

20km/h
↓
305km

NUMBER OF STATIONS

7
↓
652

NUMBER OF TRIPS PER DAY

4
↓
3,227

COMPANY HISTORY

Sep. 1899 Korea opened its first-ever railroad, a 33.8 km-long line running between Noryangjin and Jemulpo.

Sep. 1963 Korea National Railroad established as a subsidiary of the Ministry of Transportation



Aug. 1974 Seoul subway lines from Seoul to Suwon and from Guro to Incheon opened

Jun. 1992 Construction of Gyeongbu High-Speed Railroad started

Apr. 2004 KTX (Korea Train Express) service launched

Jan. 2005 Establishment of KORAIL



Oct. 2006 Hosted UIC Asia Meeting

Apr. 2007 Recorded 100 millionth KTX passenger

May 2008 Hosted regular UIC meeting and WCRR (World Congress on Railroad Research) gathering

Aug. 2009 Vision of becoming "The World's Best Railroad" announced

Nov. 2009 Hosted General Meeting of UIC Asia

Mar. 2010 Operation of KTX-Sancheon line started

Nov. 2010 Second phase of Seoul-Busan High-Speed Railroad project completed



Dec. 2010 Double-tracked line between Samnangjin and Masan completed

Double-tracked line between Seoul and Chuncheon completed

KORAIL Airport Railroad completed

MANAGEMENT VALUES

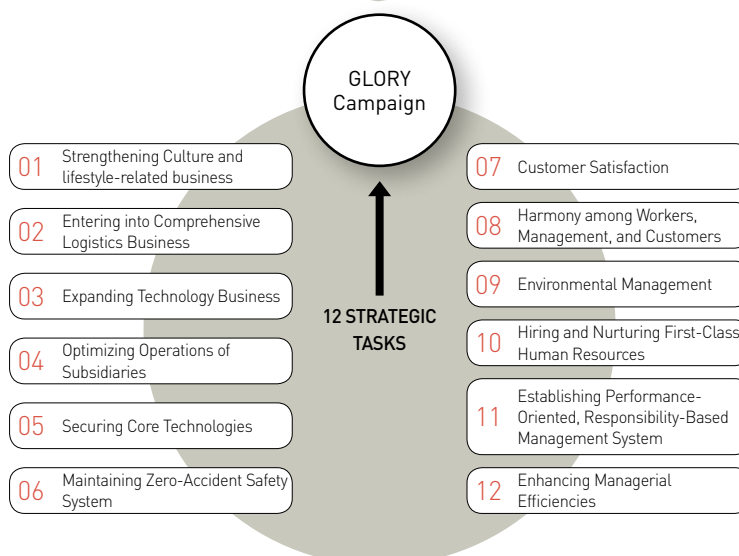
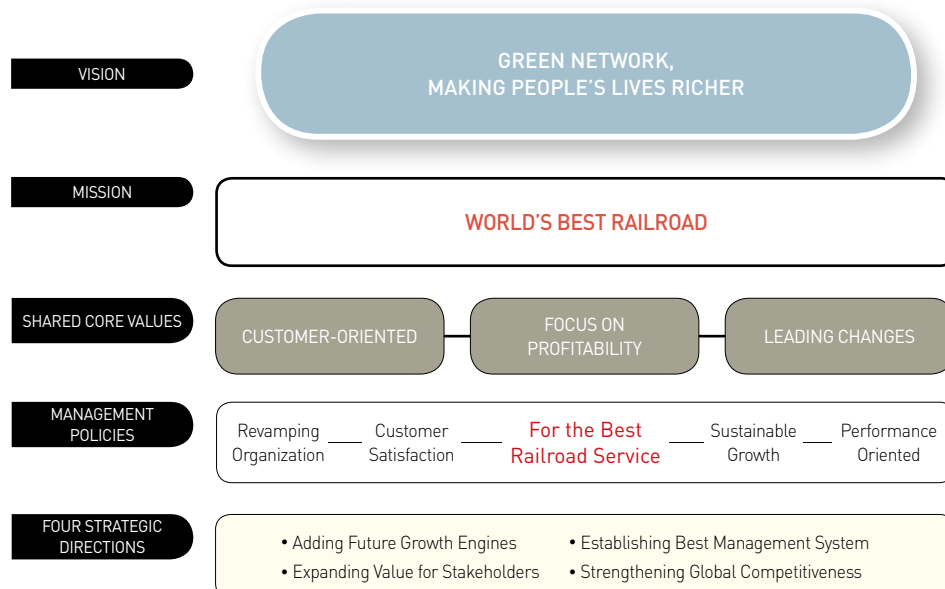
VISION AND MID- TO LONG-TERM BUSINESS STRATEGIES

KORAIL is committed to protecting the environment and helping people lead happier and healthier lives. The company's new vision, "The World's Best Railroad," is designed to reflect its three main goals: offering its stakeholders the world's very best railroad services, fulfilling its social responsibilities on the foundation of management self-sufficiency, and becoming a global comprehensive logistics company. It was announced in August, 2009.

In 2010, the company reflected such variables in its operating environment as low-carbon green growth and increased investments in railroads. This was done by improving its mid- to long-term business strategies connected to its corporate vision. At the same time, we established the company-wide GLORY Campaign to help bring our vision to fruition.



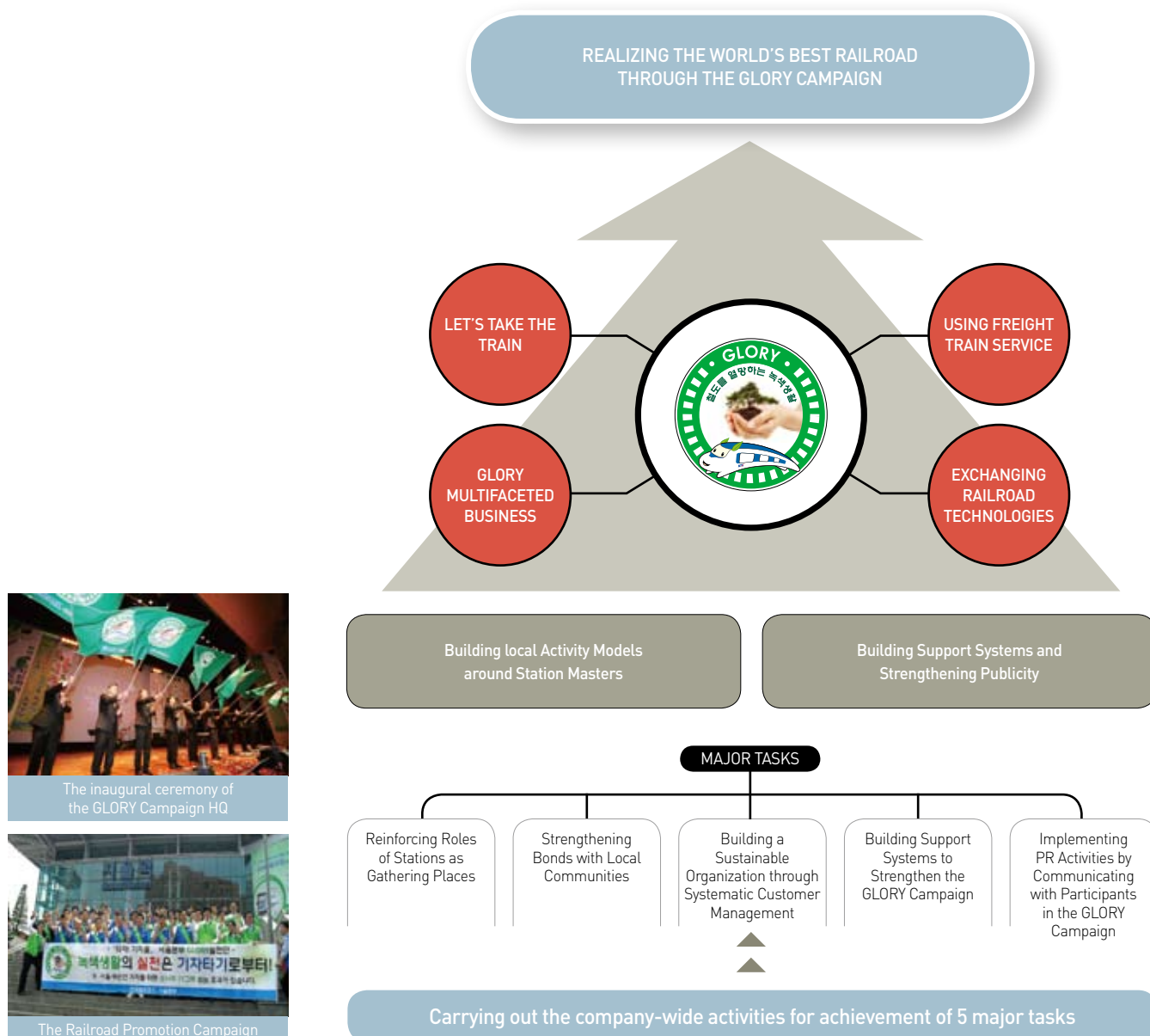
Vision Announcement



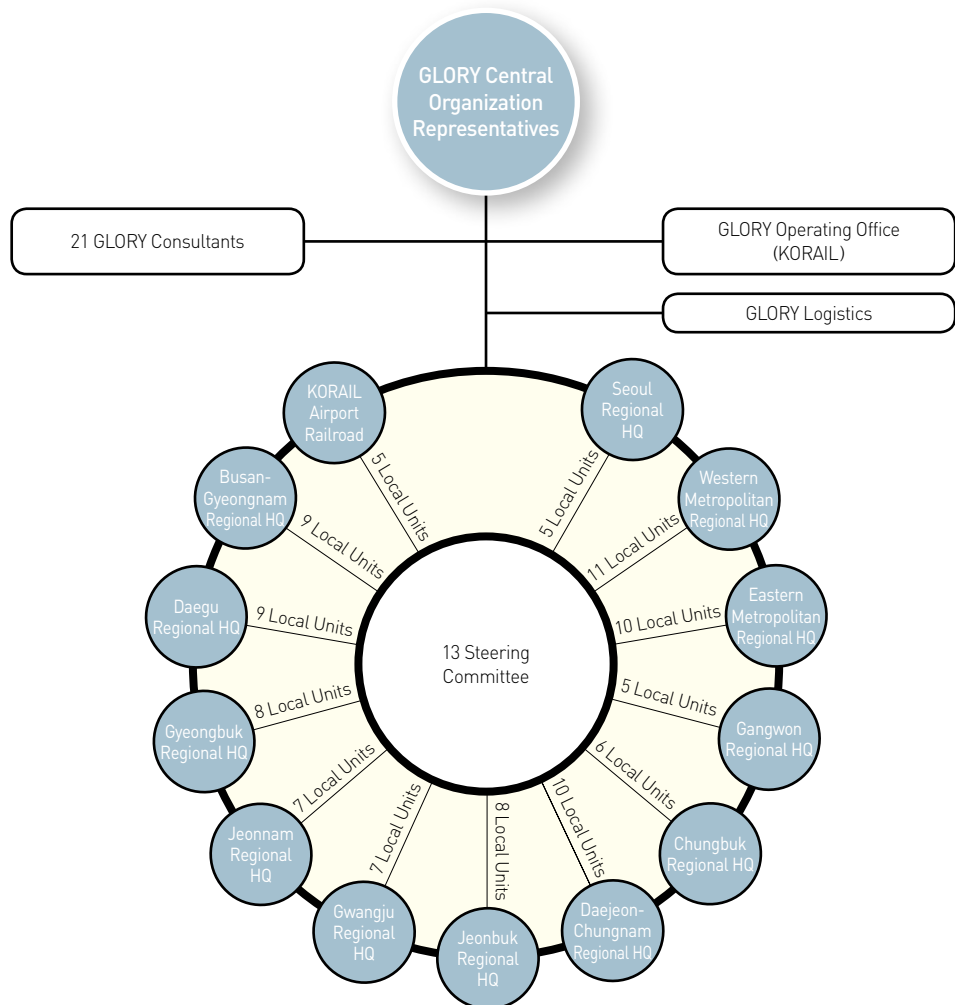
GLORY CAMPAIGN

The goals of the GLORY (Green Life Of Railway Yearning) campaign are twofold: to create a railroading renaissance by promoting the Korean people's use of railroads, and to expedite the development of the country's railroad industry. The latter goal will be achieved by changing employees' attitudes toward their jobs and improving their work processes.

KORAIL has developed an effective and efficient support system for sustainable and company-wide GLORY activities and a national green life campaign. It is carrying out various aspects of the GLORY Campaign that reflect the characteristics of each of its operating departments.

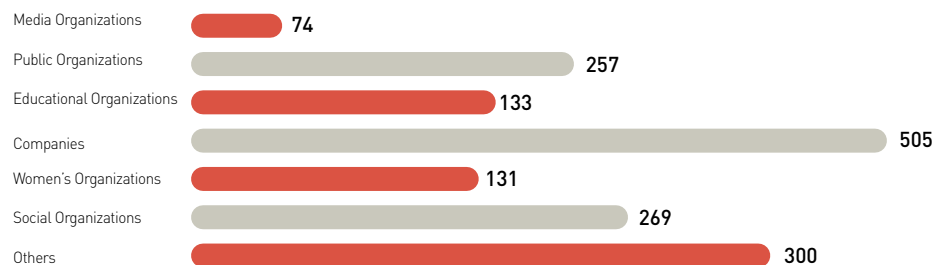


BUILDING THE ORGANIZATION KORAIL established a nation-wide organization to further the GLORY Campaign in September 2010. It includes a central headquarters and about one hundred local units spread across the country. The goal is to put our green life campaign into practice more systematically.



MEMBER ORGANIZATIONS OF GLORY CAMPAIGN

[Unit: Number of Member Organizations]



Total of **1,669** organizations and **148,293** people (as of March, 2011)

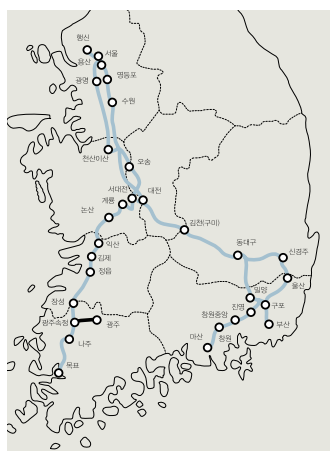
MAIN BUSINESS AREAS

CHARACTERISTICS OF THE RAILROAD INDUSTRY

The railroad industry is an advanced, technology-intensive business sector comprising rollingstocks, electricity, facilities, signals, information, and operations. In order to increase corporate value as network industry and a social overhead capital industry, it requires flexibility in operation—such as automation and computerization.

Railroads are rapidly growing in importance as environmentally friendly and extremely energy efficient modes of transportation due to environmental and energy crisis in the world. As such, they have a great potential to contribute to economic growth and a healthier environment. One of KORAIL's most important roles is to assist in the creation of "green values" in support of the central government's low-carbon and green growth policies.

PASSENGER RAIL SERVICE



A KTX line map



The KTX-Sancheon train

The passenger rail service is KORAIL's most important business area and passenger HQs is in charge of this area. Its nation-wide network (including the KTX, Saemaul, Mugunghwa, and commuter rail lines) consists of 368.5 km of high-speed track and 3,557.3 km of conventional track as of the end of December, 2010. KTX trains run 172 trips a day on weekdays (218 on weekends), while our conventional passenger trains run 425 trips a day on weekdays (421 on weekends).

The KTX began operations in 2004. Its total number of passengers exceeded 200 million within five years. It is a highly influential means of transportation that changes people's lives and creates new cultures.

The KTX-Sancheon is a "made in Korea" train using independently developed technology and featuring a unique design and enhanced amenities with safety and cutting-edge technology. It began operating in March, 2010. Its highly advanced technology has enabled KORAIL to take the lead in the overseas railroad market.

The coverage area of the KTX grew dramatically when the second phase of the Seoul-Busan High Speed Railroad project was completed in 2010. When that happened, connections between the conventional railroad and the KTX were improved to offer riders more convenience.

METROPOLITAN RAIL SERVICE

The Korean people's use of trains as an everyday mode of transportation is increasing as a result of ever-higher oil prices. Besides saving them time and money, KORAIL's metropolitan rail service is safe and environmentally friendly. This service connects cities and is at the heart of the Seoul metropolitan mass transit system.

KORAIL operates twelve metropolitan rail lines, totaling 478.9 km of service line. They accommodate 2,331 different trips, and carry 2.6 million passengers every day. The ten urban lines include the Gyeongbu Line (running for 98.8 km between Seoul and Cheonan), the Gyeongin Line (27 km between Guro and Incheon), the Gyeongwon Line (42.9 km between Cheongnyangri and Soyosan), the Jungang Line (71.2 km between Yongsan and Yongmun), the Gwacheon Line (14.4 km between Namtaeryeong and Geumjeong), the Ansan Line (26 km between Geumjeong and Oido), the Bundang Line (27.7 km between Suseo and Bojeong), the Ilsan Line (19.2 km between Jichuk and Daehwa), the Janghang Line (19.4 km between Cheonan and Sinchang), and the Gyeongui Line (46.3 km between Seoul and Munsan).

The company opened the Gyeongchun Line, which runs for 81.3 km between Sangbong and Chuncheon, in 2010. We also operate a 4.7 km-long line between Siheung and Gwangmyeong. It is reserved for shuttle trains that connect to the high-speed railroad. In addition, we launched a new express service on the Gyeongchun and Ansan lines.

Other enhancements to our metropolitan rail service included adding more express services to existing routes and increasing the number of weekend express services for passengers using the Gyeongbu and Gyeongin lines. In addition, we are planning to launch a double-decker express train, complete with reserved seating, in the second half of 2011 for the first time in Korea.



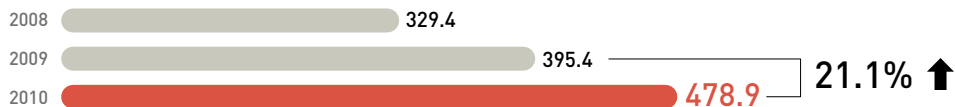
The opening of the Gyeongchun Line



Transporting 2.6 million passengers a day

EXPANSION OF METROPOLITAN RAIL SERVICE

(Unit: km)



LOGISTICS



Freight train



Railroad management center
in Busan port

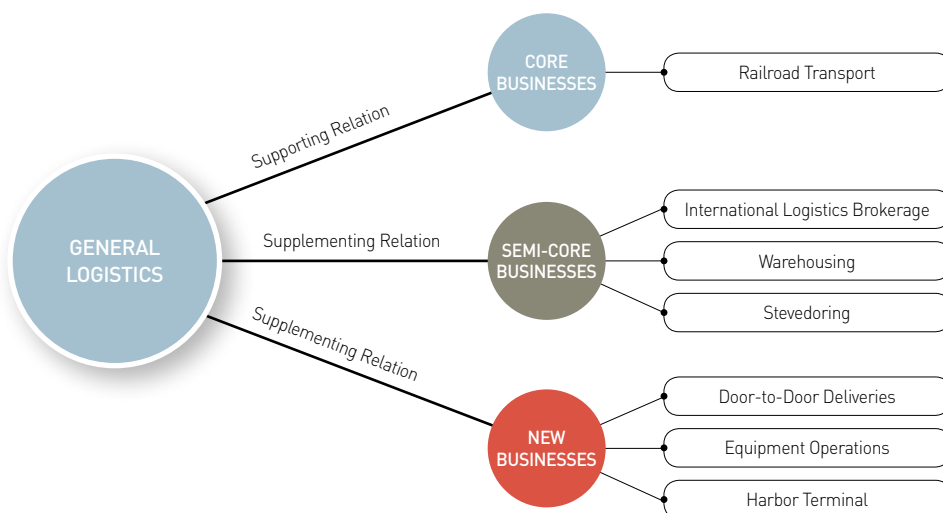
Railroad logistics has played a pivotal role in enhancing Korea's competitiveness in terms of both economic growth and the balanced development of the nation. Every day, KORAIL puts 299 trains into operation and handles over 110,000 tons of freight. It has 132 stations that are equipped to deal with freight cargo.

In 2010, KORAIL began developing a "green logistics" strategy as part of its response to the central government's "low-carbon green growth" policy. Our goal was to establish an environmentally friendly logistics system and add to our overall efficiency. We also promoted the increased use of railroad as a dependable and cost-effective mode of freight transport by providing 2.5 billion won in subsidies and a three won per kg cost reduction to companies that chose to use railroad transport. In addition, we spearheaded an across-the-country campaign to promote the use of our GLORY Freight Train Service by establishing a logistics headquarters and regional action groups in collaboration with logistics companies, transport firms, and opinion leaders.

We made the paradigm of our marketing strategy market-centered such as development of diverse products and the expansion of the flexible fare system. Our goal was to create new demand in low-demand hours on the foundation of market surveys and analyses of customer needs. With the aim of overcoming limits of railroad logistics, we expanded the stable Door-to-Door service (Block Train: 18 to 31 times, Shuttle Cars: 234 to 275) in time by connecting BT with shuttle trucks.

In addition, we launched a door-to-door delivery service via main railroad and entered the stevedoring business, with both operations being looked upon as future growth engines. In addition, the company contributed to the advancement of the national logistics system by obtaining a right to manage railroad transport center (a year-on-year increase of 58.8 billion) within Busan Port emerging as a new container market within the Busan Metropolitan area and therefore, realizing a new business model connecting railroads and ports. Our campaign to become a global general logistics company also includes formulating a master plan for future logistics operations.

LOGISTICS BUSINESS PORTFOLIO IN 2015



MULTIFACETED BUSINESS



A birds-eye-view of the Yongsan International Business District

The term "total service" encompasses all our rail transport-related services. KORAIL is using the concept to illustrate its strategy of diversifying its profit structure and developing new growth engines.

STATION AREA DEVELOPMENT KORAIL is planning to develop its station spaces into customer-oriented, cultural and life-related spaces that will enhance customer satisfaction and add to its profitability. The establishment of a law on development of areas near stations in October, 2010 shortened periods of projects subject to urban management plans and made integrated multi-purpose high-density development possible.

KORAIL will add to the value of its assets by developing its properties near Yongsan Station and Seoul Station. Moreover, the company will offer advanced cultural and life-based services by continuing the railroad traffic card business, steady development of multi-purpose stations and station theme park projects by the end of 2012.

OVERSEAS AND TECHNOLOGY BUSINESSES

The establishment of viable overseas operations is essential to the development of railroad companies that are in business of creating the advanced technologies. KORAIL has been contributing to national policies and the national economy by pushing for the Official Development Assistance (ODA) project, and participation in high-speed railroad projects in Malaysia, Libya, the United States, and Brazil since 2007.

In order to lay the groundwork for participating in overseas projects, the company expanded its global business center to include the Overseas and South-North Korean Business Team, the International Affairs Department which is handling matters related to overseas offices and International Union of Railways and the Overseas Business Development Team (the Brazil Business Group and the Libya Business Group). From 2008 to 2010, the company nurtured a total of 163 global KORAIL Certified Professionals. We also operate an advisory committee on the international railroad business.

In addition, we are promoting the development of our technology business based on our advanced railroad operating technologies. This includes commercializing the technologies that were used to produce the KTX-Sancheon high-speed train and our world-class on-time operating ratios.

PARTICIPATION IN INTERNATIONAL RAILROAD PROJECTS

Number of Completed Projects: 3	Number of Projects in progress: 6
Malaysia: Technical Consultation on Electric Car Maintenance and Repair (KRW 1.85 billion)	Brazil: High Speed Railroad Construction between Rio and Sao Paulo
Libya: Railroad Staff Training (KRW 2.34 billion)	U.S.A: California High Speed Railroad Construction
Libya: Tripoli Subway Construction (KRW 0.66 billion)	Pakistan: Exporting used Rollingstock
	Indonesia South Sumatra: Railroad Construction
	Sri Lanka: Railroad Project
	Bangladesh: Rollingstock Training

ON-TIME RATIOS OF HIGH-SPEED TRAINS BY NATION (Based on 2009 UIC data)

Korea	U.K.	France	Belgium	Italy
99.8%	92.5%	79.0%	85.6%	90.3%

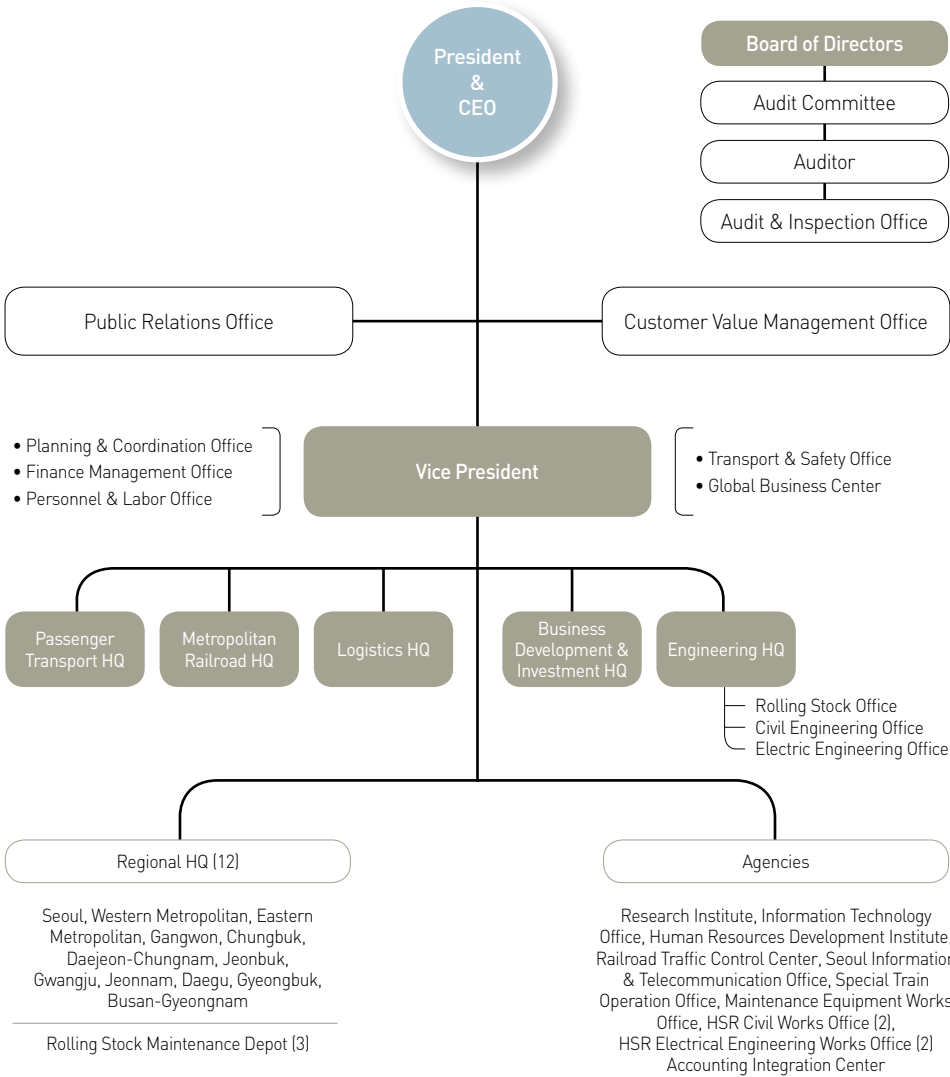
* The on-time ratio refers to the number of times trains arrive at their destinations no more than fifteen minutes late. In Korea, the standard is five minutes.

ORGANIZATION

KORAIL's national headquarters consists of five headquarters, eight special offices, and sixty-one departments. Its affiliated organizations include two institutes, two departments, two centers, and six offices. There are also twelve regional headquarters, with 77 departments, rollingstock maintenance depot consisting of three special offices, and nine departments. The company is an efficient customer- and performance-oriented organization with a wide variety of core capabilities. Two of its main goals are the advancement of railroads as a whole and solid, steady, and sure sustainable growth.

Because of the growth of its business due to the completion of the second phase of the Seoul-Busan High-Speed Railroad and the double tracking of the Gyeongchun Line, KORAIL decided to establish an organization to specialize in railroad safety and operational efficiency. In addition, it reduced the likelihood of risks and strengthened its internal accounting control processes by integrating the accounting work carried out by each region into a single and centralized facility.

ORGANIZATIONAL CHART

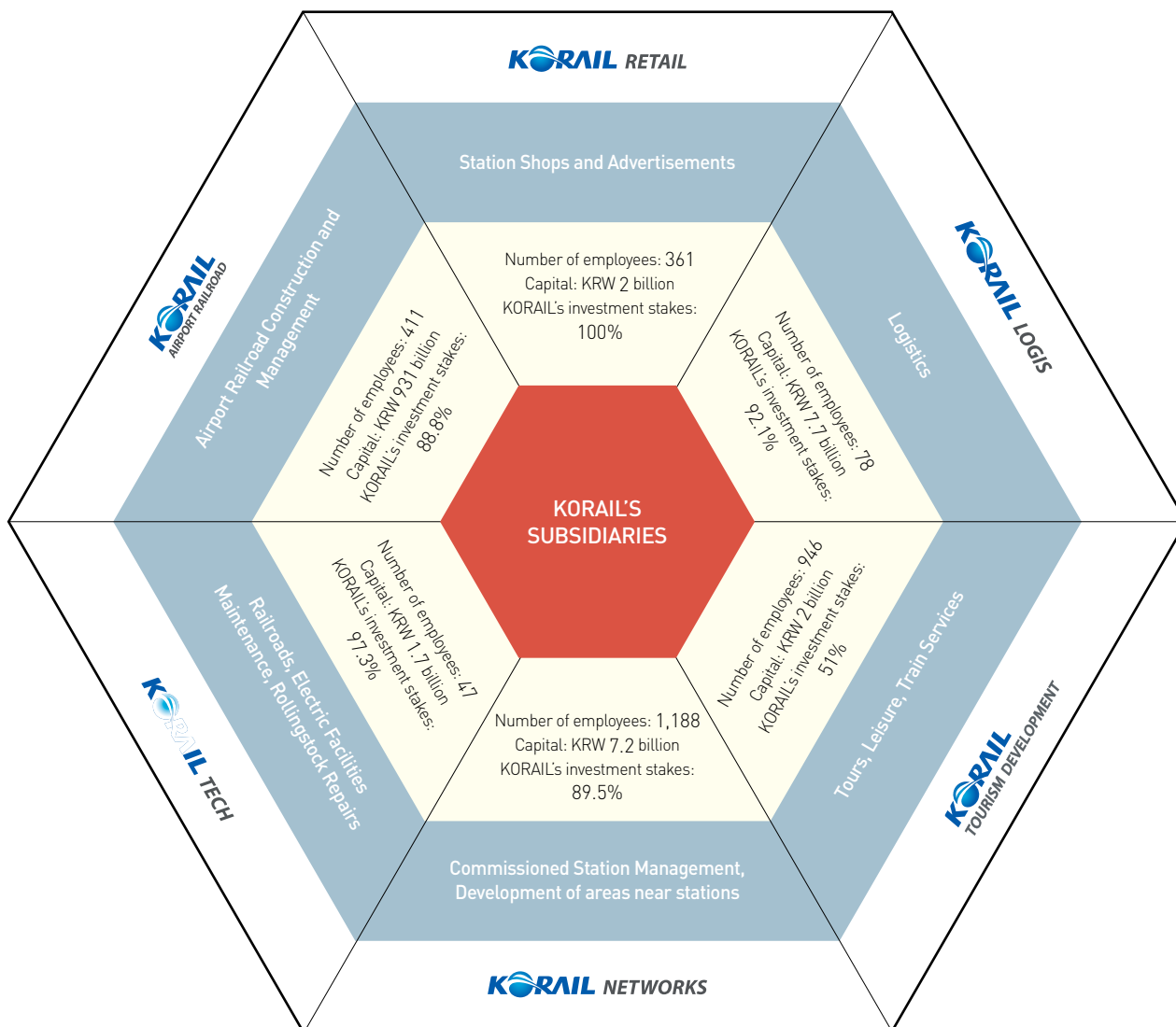


SUBSIDIARIES

KORAIL's six subsidiaries are tasked with creating synergies in such areas as lower costs and increased efficiency. In addition, the company has established a series of mid- to long-term business plans. It is implementing them through an integrated management process that is connected to company-wide strategies to cope with the introduction of the International Financial Reporting Standards (IFRS).

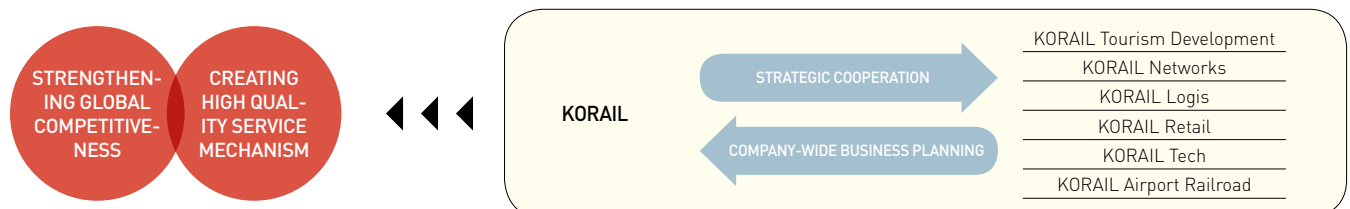
In order to enhance its global competitiveness and offer its customers the ultimate in high-class services, KORAIL and its six subsidiaries have drawn up a mid- to long-term plan to realize win-win growth through life-related and cultural businesses, a general logistics service, and joint overseas projects.

We will implement strategies befitting the character of our subsidiaries by devising shopping mall business strategies, entering into the hotel business, convenience store business, developing measures to enhance the tourism business at our customer centers, and formulating a strategy to integrate attendant services and sales.





INTEGRATION PLAN FOR KORAIL AND ITS SUBSIDIARIES



OVERSEAS OFFICE

KORAIL has established an office in France. Its purpose is to conduct technology exchanges, participate in training programs with the Société Nationale des Chemins de fer français (SNCF), and procure parts for KTX more efficiently. It also analyzes and reports on European railroad policies, business information, and trends in railroad technology. In addition, it is tasked with building cooperative relationships with international railroad organizations, such as the UIC.

FRANCE

- Participating in technological exchanges and training programs with SNCF and procuring parts for KTX
- Forming cooperative relationships with international railroad organizations, such as the UIC
- Analyzing European railroad policies, business information, and trends in railroad technology
- Conducting research on overseas materials for KORAIL and providing support to company headquarters



●
STRUCTURE OF BOARD OF DIRECTORS (BOD)

KORAIL's management system is open, transparent, and responsible. Its Board of Directors (BOD) consists of seven executive directors, including the president, along with eight non-standing directors with extensive experience and expertise in railroad technology and policies. The chairman of the BOD is the most senior non-standing director. One of his / her main responsibilities is to guarantee the independence of the BOD. The BOD ensures fairness in its decision-making by having more non-standing directors than executive directors.

The president has been appointing the BOD's internal executive directors since December 2009, due to the revision of a law regarding the management of a public organization. The Minister of Strategy and Finance appoints external directors through the recommendations of the Executive Recommendation Committee and the Public Organization Management Committee.

BOARD OF DIRECTORS



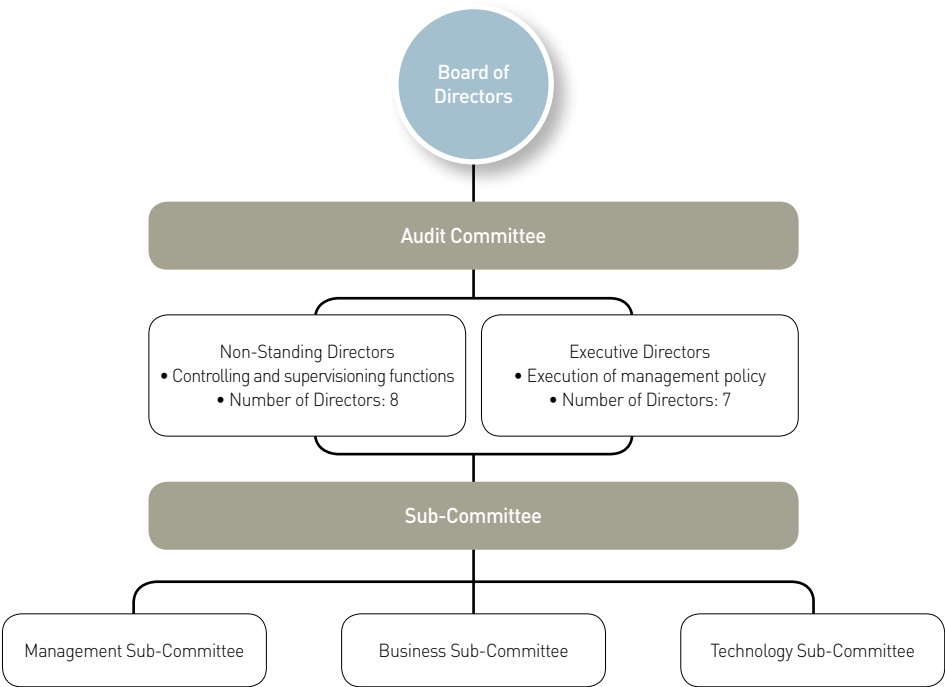
A regular BOD meeting



An on-spot BOD meeting



Directors' experience of employees' work



Meetings of the BOD are held on every fourth Thursday, and their results are reported at the next meeting. The BOD met eleven times in 2010. Its attendance rate was 95.9%.

EXECUTIVE DIRECTORS AND NON-STANDING DIRECTORS

[As of December 31, 2010]

EXECUTIVE DIRECTORS	Huh, Joon Young	President & CEO	President of Secure Net Co., Ltd; Traffic Review Officer in the Public Security and Traffic Bureau of the National Police Agency; Twelfth Chief of the National Police Agency; Head of the Planning and Management Office of the Ministry of Foreign Affairs and Trade; Korean Consulate-General to Hong Kong
	Park, Won kwan	Auditor	General Secretary of Committee to Investigate Pro-Japanese Anti-National Acts; Policy Director of the Grand National Party; Policy Research Fellow for the Grand National Party
	Sim, Hyeog Yun	Vice President	Railroad Policy Officer of the Aviation and Railroad Administration of the Ministry of Land; Director of the Busan Aviation Administration Office of the Ministry of Construction and Transportation; Director of the Civil Aviation Safety Authority under the Ministry of Construction and Transportation
	Lee, Cheon Se	Senior Executive Director of Passenger Transport HQ	President of the Daejeon Branch Office and the Southern Gyeongbuk Regional Office; Head of the High-Speed Railroad Project; Director of the General Rail Division
	Jo, Seong Yeon	Senior Executive Director of Metropolitan Railroad HQ	Head of Information Technology Group; Head of Railroad Information Group
	Lee, Keon Tae	Senior Executive Director of Logistics HQ	Head of Busan and Gyeongnam HQ; President of Busan Branch; Head of Logistics Business Group, and Manager of High-Speed Railroad Sales and Marketing
	Kang, Byoung Soo	Senior Executive Director of Engineering HQ	President of the Northern Seoul Metropolitan Branch Department; Head of Audit Office; Director of Personnel and Labor Relations; Staff member of Office of Nuclear Energy of the Ministry of Science and Technology
NON-STANDING DIRECTORS	Kim, Kwang Hee	Professor in the Department of Medical Social Welfare, Woosong University (most senior external director)	First President of Daejeon Metropolitan Rapid Transit Corporation; Vice-Mayor of Political Affairs of Daejeon Metropolitan City; Chairperson and Vice Chairperson of the Daejeon Congress Operating Committee
	Kim, Jun Ki	Professor of Graduate School of Public Administration at Seoul National University	Chairman of the Globalization Committee of the Korean Society of Public Enterprises; Visiting Professor at Duke University; Manager of Public Organization Management Evaluation Group
	Lee, Mun Hee	Vice President of Seoyeong Engineering Co., Ltd.	Research Fellow at Daehan Construction Policy Research Institute; Head of Seoul Urban Railroad Design Department; Manager of Seoul Water Management Division; Head of Seoul Audit Team
	Bae, Moo Jong	Chairman of the Korean National Police Veterans Association Funeral Service Company	Auditor of the Police Mutual Aid Association; Director of the Jeju Regional Police Agency; Official in the Presidential Secretariat
	Lee, Dong Sung	Chairman of Alt Plus E&C	Advisor to Seventeenth Presidency Preparation Committee; Professor at Kyungwon, Hanyang, and Myeongji Universities; Member of the Anti-Corruption and Civil Rights Commission; Director of the Ministry of Construction and Transportation
	Paeng, Jung Goang	President of Euijeongbu Right Railroad Company	Head of Planning and Inspection HQ at the Korea Transportation Safety Authority; Head of Planning and Coordination HQ at KORAIL; Head of the Seoul HQ of the National Railroad Administration.
	Kim, Jae Won	Professor of Economics at Hanyang University	Member of Standing Committee of the Third Korea Tripartite Commission; Chairman of the Korean Labor Economic Association; Senior Researcher at the Korea Development Institute
	Lee, Jong Hoon	Head of Daegu Branch of the Seonjin Accounting Firm	Director of the Daegu Branch of the Angeon Accounting Firm; President of Youngwon Trade Jamaica

ATTENDANCE RATE OF BOD MEMBERS

(Unit: %)



KORAIL also operates a Management Strategy Committee. Its function is to facilitate the handling of agenda items before they come before the BOD. It discusses agenda items that will come before the BOD with relevant company departments and determines whether any of them will be problematical. This enhances the efficiency of the BOD by reducing the revision rate of agenda items that come before it.

MEETINGS OF BOD AND MANAGEMENT STRATEGY COMMITTEE

Category	Times	Items	Key Items
BOD	11	34	<ul style="list-style-type: none"> Replacing the right of repurchase with real estate trust in second land purchase contract for development of Yongsan International Business District (draft) Investment into underground parking lot for Gumi Multicomplex Station (draft) Plan to develop lot near Yeongdeungpo Station (draft)
Management Strategy Committee	22	62	<ul style="list-style-type: none"> Review of discussion items for BOD

COMPENSATION AND EVALUATIONS

Directors are remunerated in accordance with regulations included in BOD resolutions. Remuneration for executive directors and non-standing directors are based on their rank-based. The upper limit for the remuneration of directors in 2010 was KRW 1.3 billion but the actual total was KRW 1 billion.

Directors' wages include a basic salary, a performance-based bonus, and a retirement payment. The basic salary is based on guidelines set by the Minister of Strategy and Finance in compliance with the Public Organization Management Law.

Payments of performance-based bonuses are made to the president of KORAIL in accordance with his contract and made to executive directors except for the president within a 100% range in compliance with results of management evaluation and results of management performance evaluation set by the president.

The payment of performance-based bonuses for the company's executive auditors is based on regulations contained in the Public Organization Management Law. Non-standing directors are paid KRW 30 million a year as allowances for their activities such as attending BOD meetings.

NON-STANDING DIRECTOR SYSTEM

Non-standing directors are all specialists in their fields such as economics, management or laws. Since KORAIL's president is barred from becoming the chairman of the BOD, the most senior non-standing director has been serving in that post since February 2010. Non-standing directors discuss company matters and make decision regarding them. They also determine the makeup of the Management Sub-Committee, the Business Sub-Committee, and the Technology Sub-Committee.

Because of their expertise, KORAIL's non-standing directors play a major role in ensuring the company's success. They visit the company's work sites and attend lectures on the work to understand more about the railroad business.

We secure reliability of policies and contribute to producing good business results by reflecting suggestions of external directors on management policies through major activities to participate in management meetings and official events.

AUDIT COMMITTEE

The revision of the Public Organization Management Law in December 2009 made it obligatory for semi-market-type, state-run companies whose total assets stand at KRW 2 trillion or more to have an audit committee.

The Audit Committee consists of one executive director and two non-standing directors. One of the two external directors serves as the chairman of the Audit Committee. In addition, one of the two non-standing directors should be an accounting and financial expert who is able to accurately audit the overall management of KORAIL. The Audit Committee carries out audits of KORAIL and its subsidiaries, reports the results of general and special audits to the BOD, surveys of business and assets of KORAIL and its subsidiaries and asks for reports on business and approves appointment of non-standing directors.

MAJOR DELIBERATION AND RESOLUTION MATTERS

Reporting violation against the laws and the articles of incorporation

Demanding BOD stop illegal acts

Requesting directors and subsidiaries to report business status

Appointing chairman

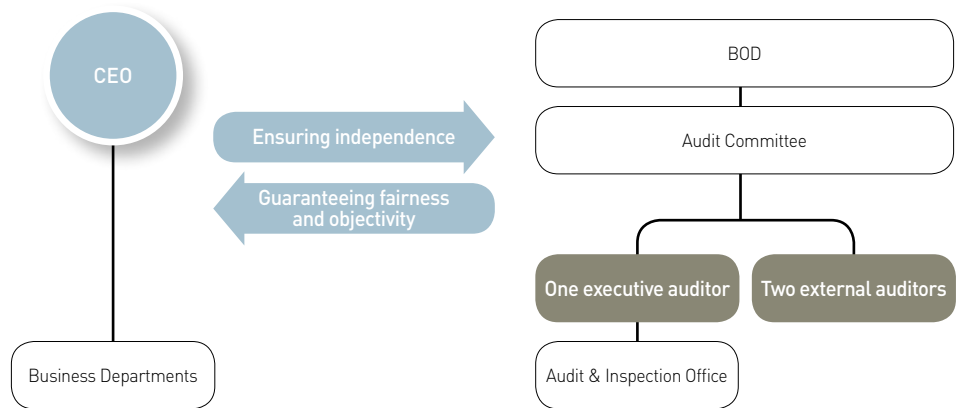
Approving appointments of, changes in, and dismissals of external auditors

Mapping out annual audit plan

Establishment of ethical regulations and legal compliance

Regulations on Audit Committee and establishing, revising, or abolishing elements of auditing standards

AUDIT COMMITTEE



SPECIALIZED SUB-COMMITTEES

KORAIL has established 3 specialized sub-committees. When specialized knowledge is needed, the BOD transfers its deliberative function to the relevant one.

SPECIALIZED SUB-COMMITTEES

Management Sub-Committee	Business Sub-Committee	Technology Sub-Committee
Personnel organization Three non-standing directors / Relevant executive directors	Personnel organization Three non-standing directors / Related executive directors	Personnel organization Two non-standing directors / Related executive directors
Major functions Establishing company's business plans, including goals and strategies	Major functions Profit-related matters, such as new businesses, sales, and transport	Major functions New technology-related matters, such as HR development and R&D

FUTURE PLAN

KORAIL revised operation regulations, built an operation system and strengthened non-standing directors' specialties in consideration of change in the business environment to make the BOD contribute to business activities. Moreover, the company will make more suggestions by raising the attendance and presentation rates and strive to secure self-controlled responsibility-based management by supplementing its weakness and sharing successful cases with others.

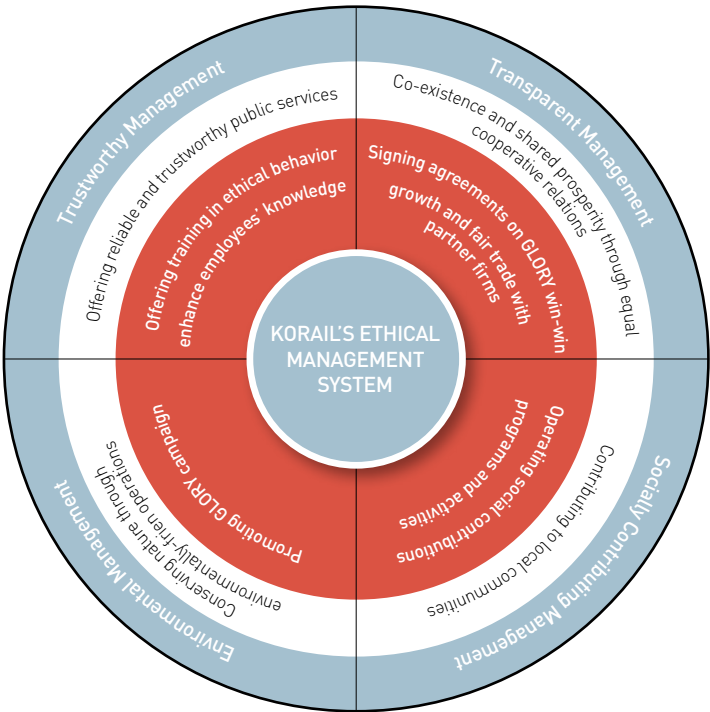
ETHICAL MANAGEMENT

ETHICAL MANAGEMENT

Ethical management is essential for KORAIL to realize its goal of stable and sustainable growth. The company has increased its efforts to revamp its organization on the foundation of anti-corruption and integrity management solutions, and beefed up its ethical management system and competitiveness.

All of KORAIL's management activities are based on the voluntary observance of its Code of Ethics. In addition, it is planning to establish a "voluntary review index" to reward employees who display exemplary ethical behavior.

CORE STRATEGIES FOR ETHICAL MANAGEMENT



KORAIL'S ETHICAL MANAGEMENT SYSTEM



● OPERATION ORGANIZATION

KORAIL advocated sustainable management, transparent management and ISO26000 by strengthening a supervising role of ethical management to eradicate corruption and operating an anti-corruption-specialized organization. We will become an exemplary state-run company that always fulfills its corporate social responsibilities.

● TRANSPARENT MANAGEMENT COMMITTEE

The Transparent Management Committee evaluates KORAIL's anti-corruption regulations and activities. It is composed of seventeen members, including the chairman (the most senior executive director), the heads of the company's various regional headquarters, and the head of the Vehicle Management Group. In 2010, the council reviewed eight cases at three meetings.

1st Meeting	2nd Meeting	3rd Meeting
Appointing members of Transparent Management Committee and discussing direction of committee	Four items such as reporting plan to assess individual integrity	Four items such as assessing integrity of employees in sectors vulnerable to corruption

● ETHICAL MANAGEMENT PROGRAM

KORAIL is building a world-class ethical network by adopting the guidelines of the UN Global Compact. President Huh took office as a director of the UN Global Compact Korea in April, and presented the results of its activities to the UNGC's Leaders Summit 2010 in June. In addition, the company reflected ten principles in the four sectors of the UNGC such as human rights, labor, the environment and anti-corruption on its GLORY campaign. We expanded the meaning of "corruption" to include violations of the Code of Conduct. We attempt to prevent corrupt activities through constant monitoring.

KORAIL is developing a strong anti-corruption and ethical culture through various ethical policies and programs, such as the Clean KORAIL Festival. In addition, ethical behavior has been made an important element of its employee evaluations.

Employees attended special anti-corruption lectures and expressed their will for integrity four times under the CEO's declaration on enhancing integrity. 2,300 employees took part in twenty-three lectures on ethical behavior by an executive auditor. The company ran a customized school for employees' strong integrity for 4,453 employees of 20 units. The company strives to enhance the ethical behavior of all its employees—most particularly those who are in the positions that make them vulnerable to corrupt activities and members of the executive. As a result, the company's overall ethical behavior score stood at 8.90, while that for executives was 9.86.

OVERALL ETHICAL BEHAVIOR SCORE

(Unit: Points)



ETHICAL BEHAVIOR SCORE OF EXECUTIVES

(Unit: Points)



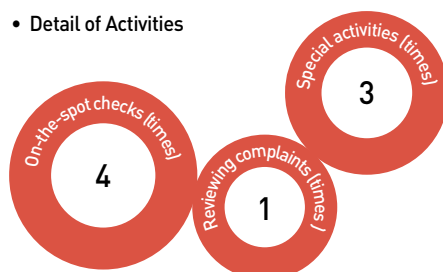
ETHICAL EDUCATION AND THE OMBUDSMAN SYSTEM

KORAIL developed a cyber ethical management course in October 2010. Its content is custom-tailored to reflect the company's business activities. 1,407 employees enrolled in it. There is one program for KORAIL's employees, and another for its partner firms. The company saved 420 million won thanks to the operation of this program. It also developed an Ethical Management Checking System to evaluate the level of ethical behavior of its employees in their work-units. This includes a monthly ethical level check and feedback on weak sectors.

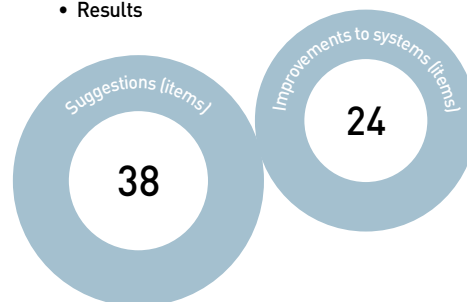
KORAIL introduced an ombudsman system in 2006—a first for a Korean state-run company. It operates as a third-party verification system to evaluate subcontracted work and product procurements. In 2010, the company enhanced the transparency of its major businesses by promoting the ombudsman's activities. In December, the Anti-Corruption and Civil Rights Commission selected KORAIL as an excellent company in the "ombudsman system" category.

KORAIL OMBUDSMAN ACTIVITIES IN 2010

• Detail of Activities



• Results



Ethical Management Checking System



Cyber Ethics Education

FUTURE PLAN

KORAIL has practiced ethical management with a strong focus on promotion of corporate ethics and internal corporate capabilities. KORAIL has checked its level every year. To this end, we devised measures to promote our social corporate responsibilities such as making grounds for organization and systems and developing its KORAIL-CSR diagnosis index after devising detailed CSR strategies. Furthermore, we will push for differentiated ethical management by reflecting evaluations of our ethical management on our business plans for next year.

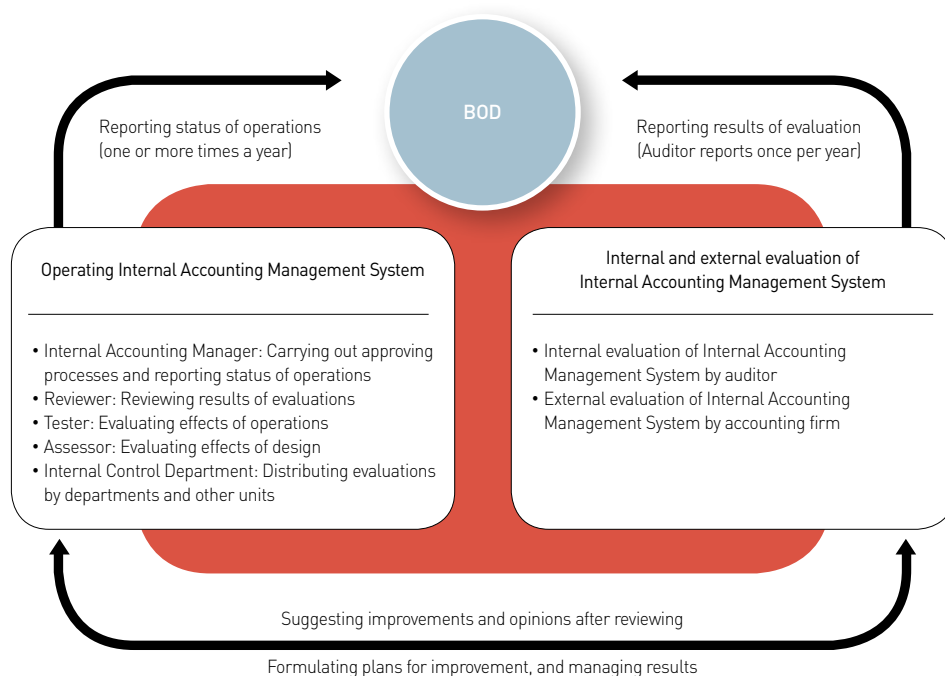
RISK MANAGEMENT



KORAIL operates a company-wide risk management system to analyze and assess risks and to achieve integrated risk management and always checks the KORAIL Information System by operating a constant monitoring system, "Manrigyeong." The company saved 2.1 billion won in costs and took administrative measures. To make this happen, we analyzed a huge amount of business information in real time [monitoring the KOVIS (KORAIL Vision & Innovation System) containing asset and article management, management of employees' work attitudes, purchase contracts, profit management and railroad fare information] and conducting audits of core risks and exceptional cases.

Members of KORAIL find risks through CSA (Control Self Assessment), devise improvement measures and control them on their own. The company conducted stage-by-stage evaluations to secure objectiveness on this. In addition, with an eye toward reinforcing the operation of the internal control system, the company evaluated the status of the internal accounting management system. The company found matters to be improved by conducting evaluations through the internal accounting evaluation system and a manual. The company also received a review of this from an external accounting firm.

SYSTEM TO EVALUATE INTERNAL ACCOUNTING MANAGEMENT SYSTEM



* Constant Monitoring System [Manrigyeong]:

A system which reports any exceptional cases (a sign of irregularities) by inspecting a huge amount of computerized data from information systems such as the KOVIS: KORAIL Vision & Innovation System (KORAIL's ERP) completely and monitoring core risks in trade, processes and systems of all entities to be audited. KORAIL's financial risk management (FRM) System is designed to manage financial risks systematically. It can carry out simulation analyses and derive an optimal financial structure in response to changes in economic circumstances, such as financial risks.

SUSTAINABILITY MANAGEMENT

RAILROADS HAVE BEEN MAKING OUR LIVES EASIER AND MORE CONVENIENT FOR THE PAST HUNDRED YEARS.

THEY WILL CONTINUE TO DO SO FOR CENTURIES TO COME.

KOREA'S RAILROADS MAKE THE NATION RICHER AND MORE POWERFUL.

THEY ALSO ADD TO THE HAPPINESS AND SECURITY OF ITS PEOPLE BY HELPING TO MAKE THE ENVIRONMENT GREENER AND CLEANER.



● PLANNING AND COORDINATION OFFICE

Establishing, coordinating and promoting strategies as eco-friendly railroads company-wide and making efforts to communicate with BOD and relevant organizations.

● PASSENGER TRANSPORT HQ

Managing passenger transport business, core profit source for KORAIL. Pushing ahead with various cooperative projects to turn stations into centers of communities by holding wide array of cultural projects.

● CUSTOMER VALUE MANAGEMENT OFFICE

Pushing for strong company-wide business innovation such as management of corporate social responsibilities and enhancing roles of railroads as eco-friendly means of transportation to make KORAIL fulfill its social responsibilities.



● FINANCIAL MANAGEMENT OFFICE

Making efforts for efficient use of resources through ERP and offering timely business information by building advanced accounting system.



● BUSINESS DEVELOPMENT & INVESTMENT HQ

Seeking to develop stations and areas near stations and railroads and push for multifaceted business such as distribution and advertisements to diversify railroad profit-making structure and to promote win-win growth through management of business of subsidiaries.

● PERSONNEL & LABOR OFFICE

Establishing and pushing for strategies to develop human resources for future of KORAIL and building sound labor-management relationships by expanding employees' benefits and abiding by Basic Labor Law.

● TRANSPORT & SAFETY OFFICE

Building various safety systems for safer and more convenient railroads and striving to expand railroad network for convenience for customers.



SUSTAINABILITY MANAGEMENT






One way that KORAIL engages in Sustainability management is by taking the lead in fulfilling its corporate social responsibilities.

DEFINITION OF STAKEHOLDERS

KORAIL defines its stakeholder groups in order to realize sustainable growth with all of them. Its key stakeholders can largely be divided into five groups: customers, employees, governments, subsidiaries and partners, local communities, and the mass media. All employees understand all of KORAIL's major issues with all stakeholders via various communication channels and create sustainable value by reflecting their opinions on business activities.

RELATIONSHIPS WITH INTERNAL AND EXTERNAL STAKEHOLDERS

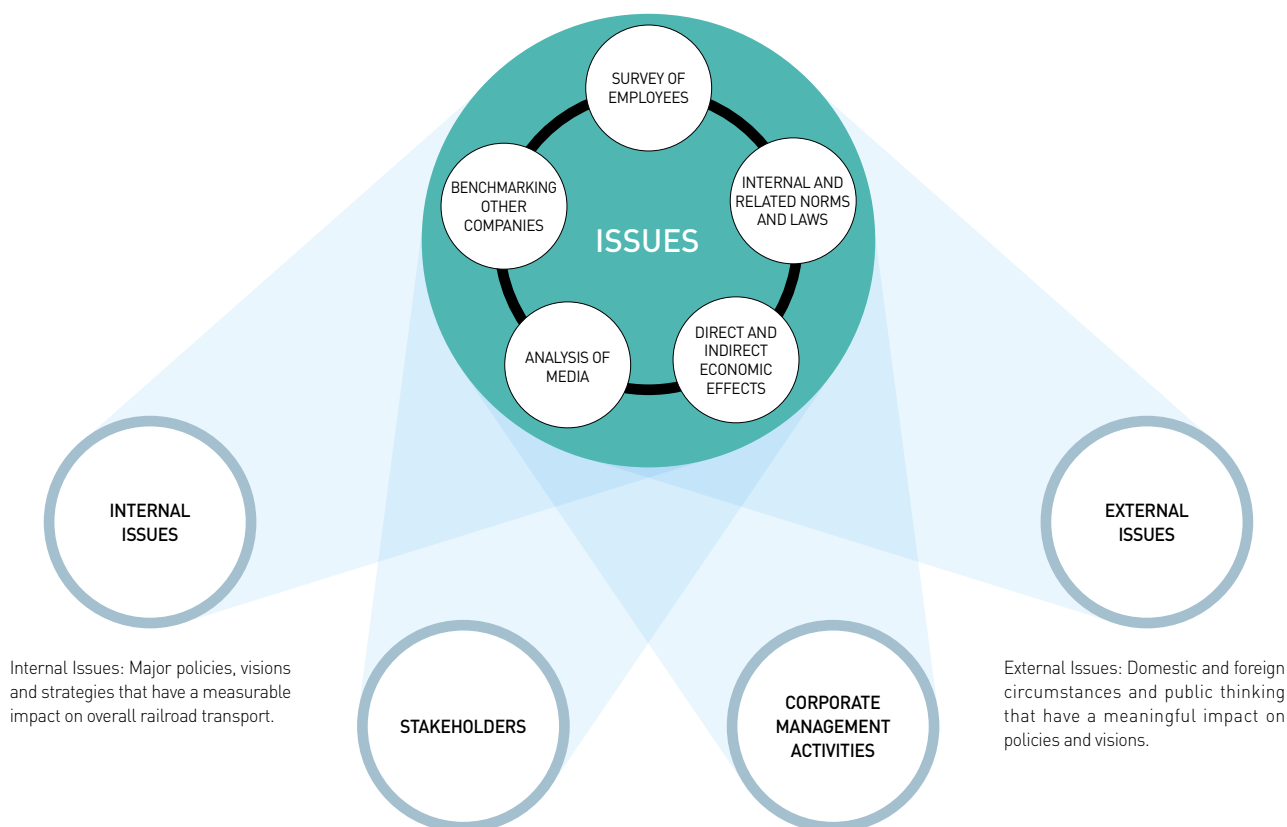


Major Stakeholders	Two-Way Communications Channel	Value
 CUSTOMERS	Customer Representative System, VOC, Customer Evaluation System, corporate blogs, survey of public organizations, monitoring of services, TV commercials	Offering trust-based public services
 EMPLOYEES	CEO's message / online chat room with CEO, live broadcasting of GLORY meetings, labor-management relationships, "If I were a CEO" Community, junior board	Instilling pride in employees and building a system in which employees respect one another
 BUSINESS PARTNERS	Weekly meetings with CEO, network of Small and Medium-Sized Business Administration, Clean Call System and Ombudsman System	Coexistence and shared prosperity through equal and cooperative relations and fair trade
 LOCAL COMMUNITY	Social contribution activities, web sites, open forum, 100-people railroad forum	Contributing to local communities through donations and voluntary services
 GOVERNMENTS AND RELATED ORGANIZATIONS	Government inspection of the company's administration	Turning traffic system into a railroad-oriented one and creating a railroad-friendly environment

EVALUATION OF SIGNIFICANCE

KORAIL's sustainability report is an important communications tool with its stakeholders. Because of this we undertook a significance evaluation to ensure that we dealt with the most important issues first. This evaluation dealt with the company's rules, relevant norms and laws, direct and indirect economic effects, benchmarking of overseas advanced enterprises, and media analyses.

COLLECTING STAKEHOLDERS' OPINIONS	▶ EXAMINING AND ANALYZING ISSUES	▶ IDENTIFYING ISSUES IN 2010	▶ PLANNING AND REFLECTING ISSUES IN REPORT	▶ REPORT VERIFICATION
<ul style="list-style-type: none"> Collecting opinions on 2009 sustainability report (sharing them with task-force team consisting of those in charge in their respective sectors) Analyzing issues in which stakeholders are interested in, and surveying employees 	<ul style="list-style-type: none"> Analyzing key items in GRI, ISO26000, SA8000 and internal and external materials containing evaluations of KORAIL 	<ul style="list-style-type: none"> Analyzing KORAIL's vision & mid- to long-term management strategies and identifying issues 	<ul style="list-style-type: none"> Determining structure of report and items to be included in it 	<ul style="list-style-type: none"> Ensuring accuracy and reliability of report via third-party verification



SUSTAINABILITY MANAGEMENT

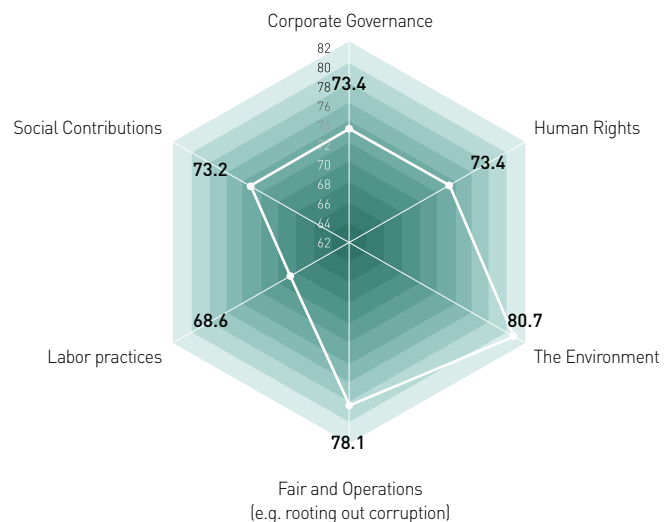
One way that KORAIL engages in Sustainability management is by taking the lead in fulfilling its corporate social responsibilities.

RAISING MAJOR ISSUES KORAIL analyzed various matters of significant interest to its stakeholders, as well as the effects of its business activities. We identified major issues in seven sectors: corporate governance, human rights, labor, the environment, fair and open operations, customers, and community involvement.






SURVEY OF EMPLOYEES

SURVEY OF EMPLOYEES KORAIL conducted a survey of all its employees to assess their awareness of the meaning of and need for sustainability management and their opinions on issues surrounding it. The results of the survey were reflected in the evaluation of significance and strategies to expand employees' awareness of sustainability management to push ahead with sustainability management in the future.



CORE PERFORMANCE INDICATORS

KORAIL manages core performance indicators in the economic, social, environmental, and safety sectors through a Balanced Score Card (BSC) and KOVIS (KORAIL Vision and Innovation System).

		INDEX	2009	2010	2011 Goal
● Economic 	Business Expansion	Total length of railroads (km)	3,377.9	3,557.3	3,815.2
		Double track ratio (%)	43.9	49.6	52.4
	Corporate Value	International credit rating (Moody's)	A2	A1	A1
	Innovative Management	Per-capita sales (unit: millions of won)	113	121	146
		Debt ratio (%)	88.8	95.1	100.9
		ROE (%)	3.49	1.92	3.5
	Creative Management	Overseas business sales (unit: 1 million won)	2.5	1.65	84
● Social 	Customer Satisfaction	Public Service Customer Satisfaction Index (PCSI) (point)	88.1	92.6	95.2
		Ratio of On-time Passenger Train Operation (%)	98.3	98.1	98.5
		VOC Processing Satisfaction Index (point)	75.5	72.7	81.0
	Stronger Managerial Transparency	Integrity Index (scored out of 10 points)	8.93	8.90	9.10
		Attendance rate of BOD (person, %)	93.6	95.9	96.1
		Public disclosure rate (%)	88.2	90.5	91.2
	Stronger Partnership	Purchase of products from small and medium-sized companies (unit: 100 million won)	8,810	7,387	8,402
		Purchase of tech. developed products companies (unit: 100 million won)	149	188	326
		Purchase of products developed on condition of their purchase (unit:100 million won)	279	114	120
	Social Contribution Activities	Social volunteer work (time per capita)	9.32	12.67	13.25
		Purchase of products made by the disabled (unit:100 million won)	11	12	16
		Purchase of products made by companies whose CEOs are women (unit:100 million won)	542	520	503
	Human Right	Proportion of disabled employees (%)	3.50	3.1	3.2
		Proportion of female employees (%)	8.10	8.2	8.3
	HR Development	Education time (per person)	89	85	87
● Environment & Safety 	Environment	Soil clean-up work (unit: millions of won)	767	909	2,248
		Purchases of environmentally-friendly products (unit: 100 million won)	72	103	90
		Proportion of electrification rate (%)	55.9	60.4	62.7
	Safety	Operational accidents (case/1 million km)	1.981	1.616	1.599
		Industrial accidents (case)	76	63	65



KORAIL IS MORE THAN JUST A MODE OF TRANSPORTATION.



Railroads strengthen regional cultures and sustain regional economies. Innovations to logistics and transportation, and the globalization of Korean technologies, are one of KORAIL's most essential functions.

STABILITY INDICATORS

Classification	2008	2009	2010
Current ratio (%)	90.03	72.52	78.81
Debt ratio (%)	73.78	88.82	95.11
Debt dependency ratio (%)	36.69	39.45	41.80

PROFITABILITY INDICATORS

Classification	2008	2009	2010
Operating profit margin (%)	△ 20.31	△ 19.44	△ 14.36
Ratio of net profit to net sales (%)	14.15	18.38	10.34
ROA (%)	3.21	3.49	1.92

GROWTH INDICATORS

Classification	2008	2009	2010
Sales growth rate (%)	1.71	△ 2.83	4.36
Total asset growth rate (%)	12.62	16.25	6.45

KEY ECONOMIC PERFORMANCES

KORAIL will lay the foundation of sustainable growth pursuing profitability and public interest.

SUMMARY

● As the government promotes low-carbon green growth, increasingly more and more people have positive views of railroads. In line with an increase in investment into railroads such as the expansion of the high-speed railroad networks, it is necessary that KORAIL should enhance its efficiency and improve its business a great deal.

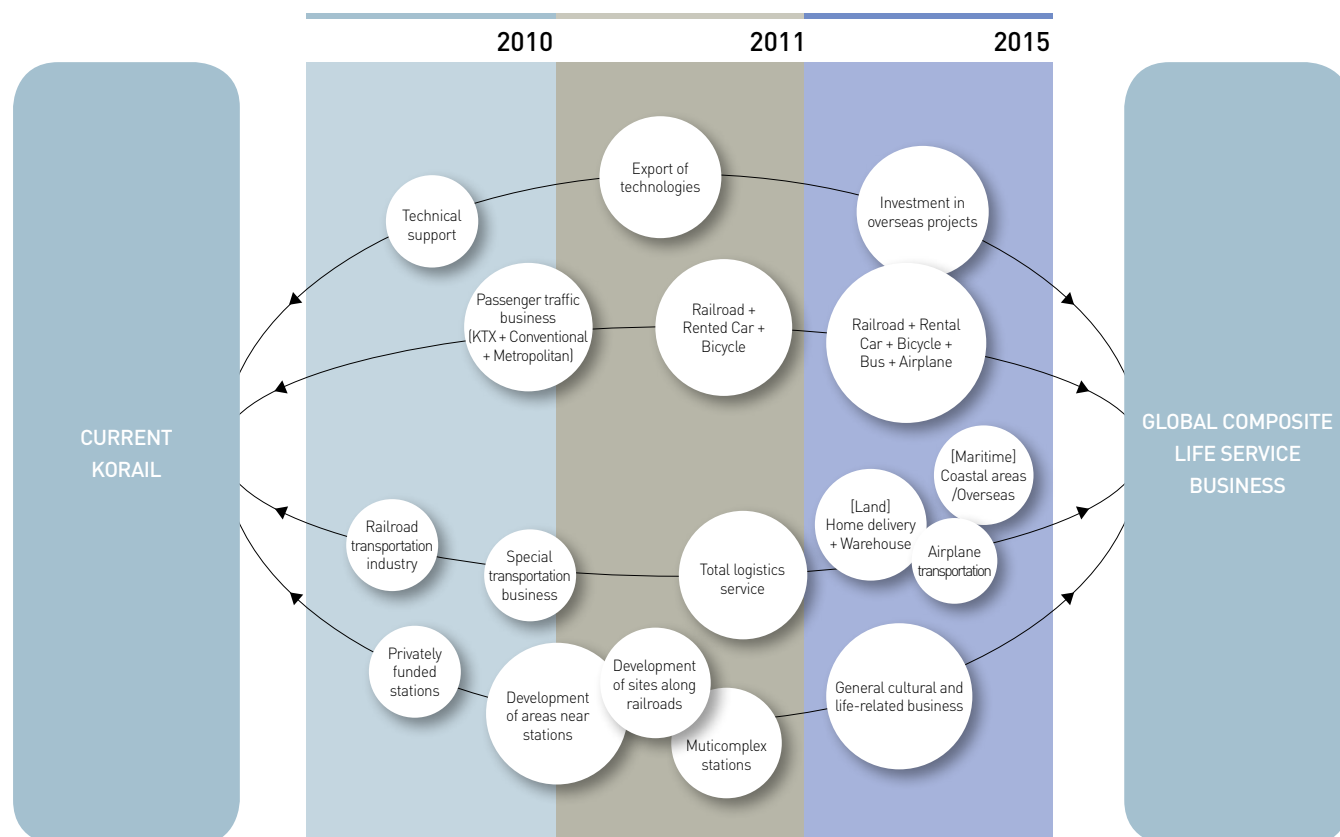
According to such change in the business environment, KORAIL is engaging in a strong innovation drive in order to enhance the effects of strategies and reinforce its role as an environmentally-friendly means of transportation. We are making steady efforts to be the world's best railroad company in order to earn more support from customers and the general public by building a growth structure with strong potential for growth while pushing for managerial efficiency and improvements to

the business structure. In addition, with the introduction of the IFRS, we are building an efficient management system at a group level for win-win growth between KORAIL and its subsidiaries.

KORAIL posted KRW 3,682.5 billion in operating profits and KRW 4,211.2 billion in operating costs, KRW 308.8 billion in net profit, chalking up KRW 528.7 billion in operating losses.

The company improved the profit and loss structure by completing the second phase of the high-speed railroad and changing the operating system around the KTX line. As a consequence, the ratio of sales cost improved by 5.5%p to 109.4% while the operating loss improved by KRW 157.4 billion, a new record high. The debt ratio stood at 95.1% despite the fact that the original goal was 99.8%.

KORAIL'S MID- TO LONG-TERM ROAD MAP



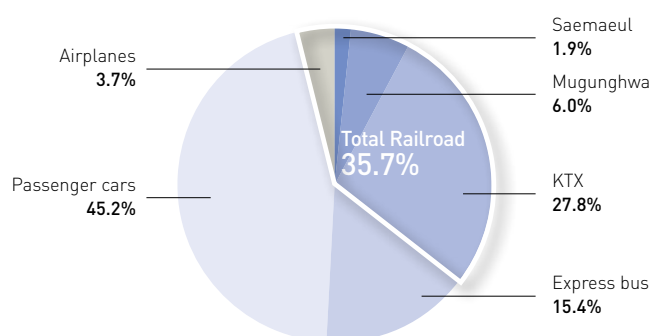
OPERATING PERFORMANCE FOR EACH BUSINESS

KORAIL will become the world's best railroad company
by upgrading our strategies.

TRANSPORT BUSINESS

● KORAIL is geared toward offering better transport services such as changing the transport system with the KTX system at the center and is making endeavors to promote its business by making the transport business efficient. In 2010, sales of the transport business rose 6.7% year on year to KRW 2,803.6 billion. This figure accounted for 76.1% of total sales of KORAIL. Main railroad trains transported 112,094,000 passengers (KTX: 41,349,000 passengers and conventional trains: 70,745,000 passengers) while metropolitan rail service dealt with 948,832,000 passengers in 2010. Thus, the number of total passengers stood at 1,060,926,000 while a total of 39,217,000 tons of freight were transported.

MARKET SHARES BY TYPES



* The figure is the combined market share of the Gyeongbu, Honam, Jeolla, Janghang and Jungang Lines.

* The market share of the KTX is 27.8%, ranking second after passenger cars. The market share of the entire railroads stands at 35.7%.

SALES OF TRANSPORT BUSINESS

(Unit: KRW 100 million)



SALES BY TRAIN SERVICES

(Unit: KRW 100 million)

Type	KTX	Conventional Trains	Metropolitan Railroad	Freight Train
Sales	11,387	6,125	6,607	3,917
Portion (%)	40.6	21.8	23.6	14.0

● PASSENGER RAIL SERVICE BUSINESS

KORAIL expanded the area of the KTX service due to the completion of the second phase of the Seoul-Busan High-Speed Railroad. On average, KTX trains run 172 trips on weekdays, 218 days on weekends per day and transported 134,000 passengers a day (a 30% increase from the year before).

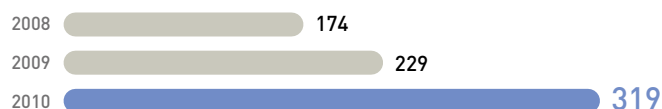
In addition, KORAIL conducted marketing actively such as developing tourism packages with local themes in cooperation with local governments. As a result of diversifying revenue sources by operating travel centers and posting tour managers at major stations and developing various tourist programs, the company earned KRW 31.9 billion in profits from tourist package sales.

In particular, sales of 'Naeilro' tickets for teenagers who want to travel to any stations on the KORAIL network, increased 2.4 times compared to the previous year. 'The First KTX Experience' package created demand for unsold seats during weekdays and resulted in KRW 900 million in profits and 100,000 passengers.

By developing customized railroad tourist programs for foreign tourists, the company enjoyed KRW 2.47 billion, up 200% from a year before. We also promoted sales of a rail cruise program, 'Haerang' and inked KRW 860 million, a year-on-year increase of 425%.

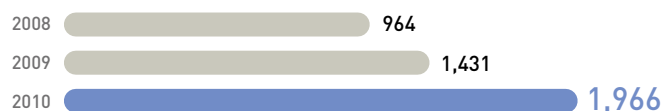
TOURIST PACKAGE PERFORMANCE-TRANSPORT PROFITS

(Unit: KRW 100 million)



TOURIST PACKAGE PERFORMANCE-PASSENGERS

(Unit: Thousand persons)



- KTX Gwangmyeong Station
- KTX-oriented railroad operation system
- Haerang, a rail cruise program won the excellent product prize from the JATA



KORAIL increased its profits by KRW 37.3 billion by managing seats efficiently through the YMS (Yield Management System). In addition to profits from the transport business, we generated KRW 250 million in additional profits.

● METROPOLITAN RAIL SERVICE BUSINESS

KORAIL has realized faster and more convenient service by expanding operations of express trains and varying patterns of the operation. In particular, the company increased convenience in the mass transit system by expanding the metropolitan rail service such as the opening of the double track of the Gyeongchun Line.

The company varied the metropolitan express train service (Express A and Express B) and actively responded to a sharp rise in demand for express train services such as launching an express service on the Ansan Line. We improved the connectivity of this service by preparing a flexible train operation system in consideration of the patterns of customers such as increasing the number of trains on weekends, extending operating time, operating late-night trains between Seoul and Incheon and building an efficient railroad-connected traffic system.

Transport volumes and profits of the metropolitan rail service have steadily increased every year thanks to our operation of various theme trains such as the Go Go Train, tours of Palmi Island in Incheon, City Tour and Experience Tour connected to tourist infrastructure and local events in areas near stations and joint marketing with local governments.

Moreover, we generate about KRW 3 billion in additional profits by pushing ahead with the multifaceted business by utilizing metropolitan rail service infrastructure such as station-naming marketing, producing special commemoration tickets and offering service to take care of trains cars of other organizations. Furthermore, we are putting our efforts into building the base for sustainable growth such as pushing for a private railroad project such like a light railroad.



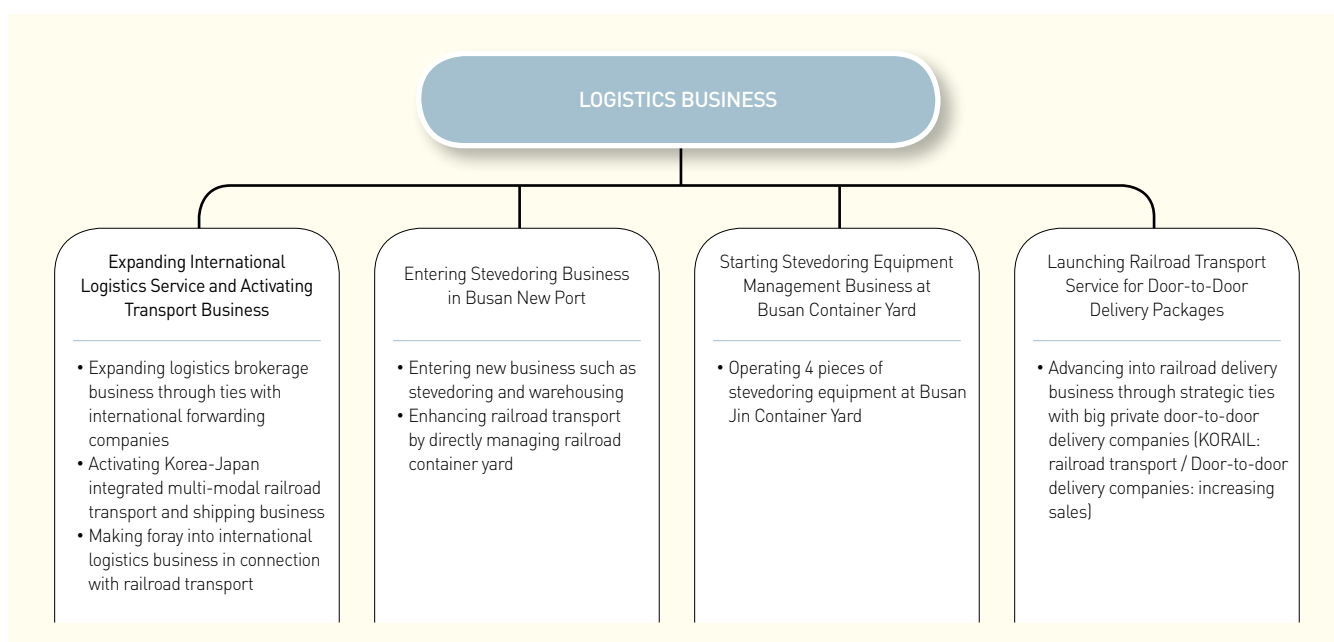
PASSENGERS OF METROPOLITAN RAILROAD SERVICE

(Unit: Thousand persons)



- Experience Train
- Go-Go Train of the Jungang Line
- Bicycle Train





● LOGISTICS BUSINESS

KORAIL endeavors to evolve into a global general logistics company by expanding from the current transport-oriented logistics business structure to new logistics businesses such as the logistics brokerage, warehousing, stevedoring and railroad-based home deliveries. The company built and expanded railroad logistics facilities in order to create new demands in 2010. It also improved and expanded logistics base stations. In addition, we will strive to cope with the ever-changing logistics environment and secure new growth engines by railroad-based connection between ports and inland container depots.

By responding to the government's policies for low-carbon green growth, we will make efforts to promote eco-friendly railroad-oriented logistics business. We pushed for a project which gives subsidies (KRW 1.75 billion from the government and KRW 750 million from KORAIL) to companies which use railroads instead of roads to transport their freight. Together with this, we introduced a green mileage system which turns railroad freight into CO₂ emissions and changes the CO₂ emission into mileage.

In addition, KORAIL cut down on costs by KRW 7.8 billion annually by improving freight cargo stations, decreasing railroad lines operated at a deficit and operating freight trains in consideration of transport demand. The company was able to reduce KRW 200 million in costs a-year by elevating the on-time ratio by 2.4%p through close relationships between the national headquarters and regional headquarters. Our B/T (Block Train) service handled 326,000 TEUs, 539,000 tons of general freight and enjoyed KRW 40 billion in sales. On the strength of such diversified efforts, the sales of the logistics business reached KRW 329.4 billion won in 2010.

FREIGHT TRANSPORT PERFORMANCE

(Unit: Thousand ton)



● Container Transport Train
● Container Loading



MULTIFACETED BUSINESS

● Profits of the multifaceted business come from renting KORAIL assets, such as conference rooms, distribution, advertisements, overseas business and commissions for recharging traffic cards. In 2010, KORAIL's multifaceted business posted in KRW 107.7 billion in operating profits, up 17.4% from the previous year and accounted for 2.9% of KORAIL's total sales.

SALES OF MULTIFACETED BUSINESS

(Unit: KRW 100 million)

Classification	2008	2009	2010
Sales	819	917	1,077
Portion	2.5%	2.6%	2.9%

The establishment of a law on the development of stations and areas near stations in October 2010 shortened periods of asset development projects and made high-density development possible.

KORAIL changed its organization with projects at the center to push for projects quickly and laid the foundation for sustainable growth by bringing in specialists in property development and feasibility studies. In the overseas business sector, we diversified profit sources by advancing into overseas markets such as a Libyan consulting project, participation in the high-speed railroad project in Brazil and America and Sri Lanka Consulting. We will pave the way for the expansion of our multifaceted business by making a foray into the low-risk consulting sector in the short term and expanding its areas to highly profitable business models such as BOT/Consignment in the middle term.

In addition, we will steadily develop new venture business such as the world's first system to mass-produce multi-branch type ties for railroads and a railroad theme park connected to the Trout Festival in Hwacheon in Gangwon Province. Furthermore, the company intends to contribute to generating profits by activating use of idle properties through asset surveys and inducing business sectors which can pay high rents. Furthermore, we will create more profits by developing new business models such as the railroad transportation card (GLORY Card), the TCR international multi-modal transport business and rental car business.



A birds-eye-view of the development of northern areas near Seoul Station

Our strategy for win-win growth with our subsidiaries contributed to generating profits, too. Sales of subsidiaries added up to KRW 646 billion, up KRW 23.1 billion thanks to the activation of the KORAIL Airport Railroad and an increase in the distribution business. PCSIs of all our subsidiaries rose thanks to the group's efforts for customer satisfaction such as operation of the CS Management Conference between KORAIL and its subsidiaries and service monitoring, contributing to stronger sales of the multifaceted business. We aim to post KRW 1.5 trillion in sales in 2015 by promoting win-win growth with our subsidiaries and devising strategies to maximize profits from the further development of our assets.



- GLORY Rail Bike
- KT character goods shop
- Pension with themes



STABILIZED MANAGEMENT OF ECONOMIC PERFORMANCE

We will strengthen its managerial stability and practice responsibility-based mgt. by responding to the future pre-emptively and improving financial structure.

PRE-EMPTIVE FINANCIAL RISK MANAGEMENT & STRENGTHENING RESPONSIBILITY-BASED MANAGEMENT WITH DIVIDED ACCOUNTING PRACTICES

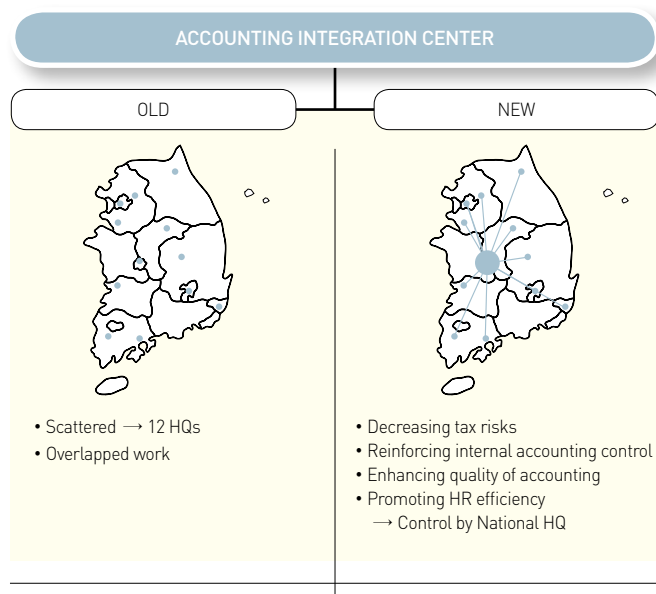
- KORAIL minimized financial risks by establishing an accounting integration center to cover business support tasks, which had been scattered to separate business units, regional units and subsidiaries. The SSC (Shared Services Center)-based integrated operation of the center led to accounting standardization and the blocking human errors, a decrease of 7.3%p in error rates of preliminary slips (17.2% to 9.9%) and KRW 790 million in costs.

On the other side, we expanded the scope of risk management to check risks of business partners by tightening standards on financial institutions for our financial management. The company also endeavored to manage risks and conflicts by improving the ERM organization to divide roles for business departments and functional units.

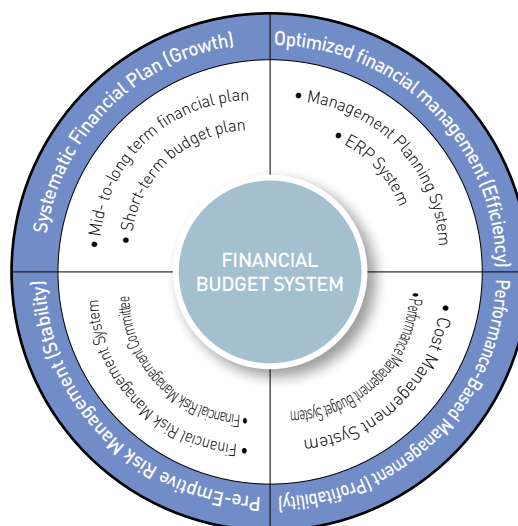
- KORAIL is the leading public corporation in Korea to produce financial statements through accounting practices by business sectors, in 2010. KORAIL evaluated business performances by producing financial and income statements by business sectors and assessing its financial conditions in accordance with accounting separation. By doing so, the company laid the foundation for responsibility-based management systems by business sectors.

KORAIL consigned a research project to an accounting firm to secure the reliability of its accounting division and prepare rational accounting division measures. The company divided its business into five sectors – the passenger rail business, the metropolitan railroad business, the multifaceted business, the logistics business and the consignment business.

Dividing accounting by business sectors was a preparation for the introduction of the IFRS accounting standards. This decision is expected to serve as a base for responsibility-based management, dealing with public disclosures by business sectors and elevating efficiency of asset use.



FINANCIAL BUDGET SYSTEM



- External economic uncertainties such as foreign exchange and interest rates continued in 2010 because of a financial crisis in Europe and a delay in the global economic recovery. A new ERP system is required with the introduction of changes in the accounting environment such as the introduction of the International Financial Reporting Standards (IFRS).

KORAIL has built a financial budget system in order to cope with the future preemptively and realize the vision of becoming the world's best railroad company and in 2015, re-formulated a mid- to long-term financial plan which aims to maintain its assets at KRW 27.2 trillion and its debt ratio below 120%. We began to build an IFRS-based financial system in November 2009 in preparation for the full implementation in 2011. We finished all operation preparations by redesigning the ERP System, reflecting individual conditions on the IFRS and building a connected system in November 2010.

ROAD MAP TO BUILD INTEGRATED MANAGEMENT SYSTEM

2013~2015

Stabilization • Operating integrated accounting
• Shortening settlement period

2012

Development • Building integrated accounting
• Conducting consolidation

2011

Building System • Reviewing integrated accounting
• Selecting and using one accounting firm only

2010

Laying Foundation • Individual Accounting System

SOCIAL PERFORMANCE



KORAIL SETS HIGH STANDARDS FOR HELPING OTHERS.



Our commitment to competent, open, and honest management ensures that our customers will reach their destinations safely and on time, that a healthy and harmonious corporate culture will be kept in place, and that our level of service will continue to surpass any and all expectations.

SUSTAINABLE CUSTOMER MOVING MANAGEMENT

Classification	2008	2009	2010
Public Enterprise Customer Satisfaction Index (PCSI) (points)	82.8	88.1	92.6
Satisfaction Index of VOC (points)	85.4	75.5	72.7
CS-related Education (time/persons)	81/2,292	138/4,584	236/8,854

* The VOC satisfaction point system was changed in 2009. Now there is a maximum score of twenty points and a minimum one of zero points.

EMPLOYEE SATISFACTION MANAGEMENT

Classification	2008	2009	2010
No. of disabled employees / Employment ratio (persons, %)	785/2.4	732/2.3	931/3.1
Organizational Culture Index (points)	72.74	72.15	75.59
Training budget / Employee Education (KRW 100 million / persons)	132/124,613	90/100,739	75/90,796

SHARING MANAGEMENT WITH LOCAL COMMUNITY

Classification	2008	2009	2010
Purchase of products made by the disabled (KRW 100 million)	11	11	12
Companies with women CEOs (KRW 100 million)	421	542	520
Social Volunteer Service per person (hours)	14.03	9.32	12.67

SUSTAINABLE CUSTOMER MOVING MANAGEMENT

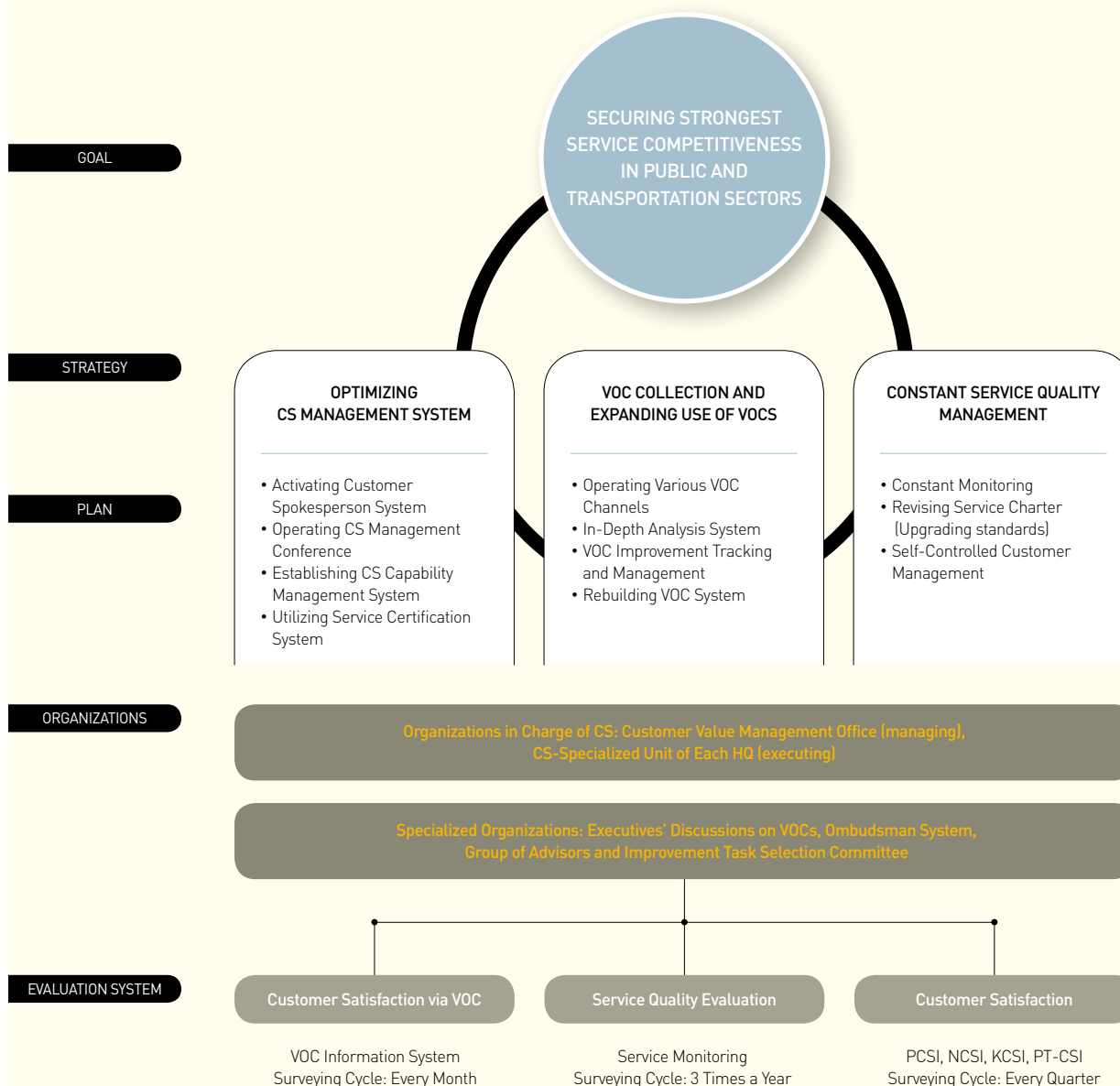
We will share the value and vision of railroad with our customers.
We will become the company loved by our citizens.

ESTABLISHING A CUSTOMER-ORIENTED MANAGEMENT SYSTEM

● KORAIL always places its customers' welfare before its own. As proof of this, customer satisfaction has been made our number one priority among our four major strategies for achieving our goal of becoming a world-leading railroad service provider.

We have established a customer service-oriented management system that transforms our words into action to offer travelers the finest possible service in terms of public service and transportation. It includes a CS Task Force and a CS Specialization Team that operate under the aegis of the Office of Customer Value Management.

CS MANAGEMENT SYSTEM



ENHANCING CUSTOMER SERVICE SKILLS

- KORAIL endeavors to improve its customer service competencies in a number of ways. This includes monitoring our front-line employees' work performances, analyzing and updating our CS training courses, and offering our employees CS educational sessions. Workers who exhibit excellent CS skills are rewarded for their abilities.

As a result of these efforts to improve our customer service skills, 4,135 out of total 64,451 VOC calls praised the kindness and competency of our employees, an increase of 1,128 from the previous year. In contrast, 3,855 people complained about our employees, 619 fewer than the year before.

POSITIVE CALLS

(Unit: Instances)

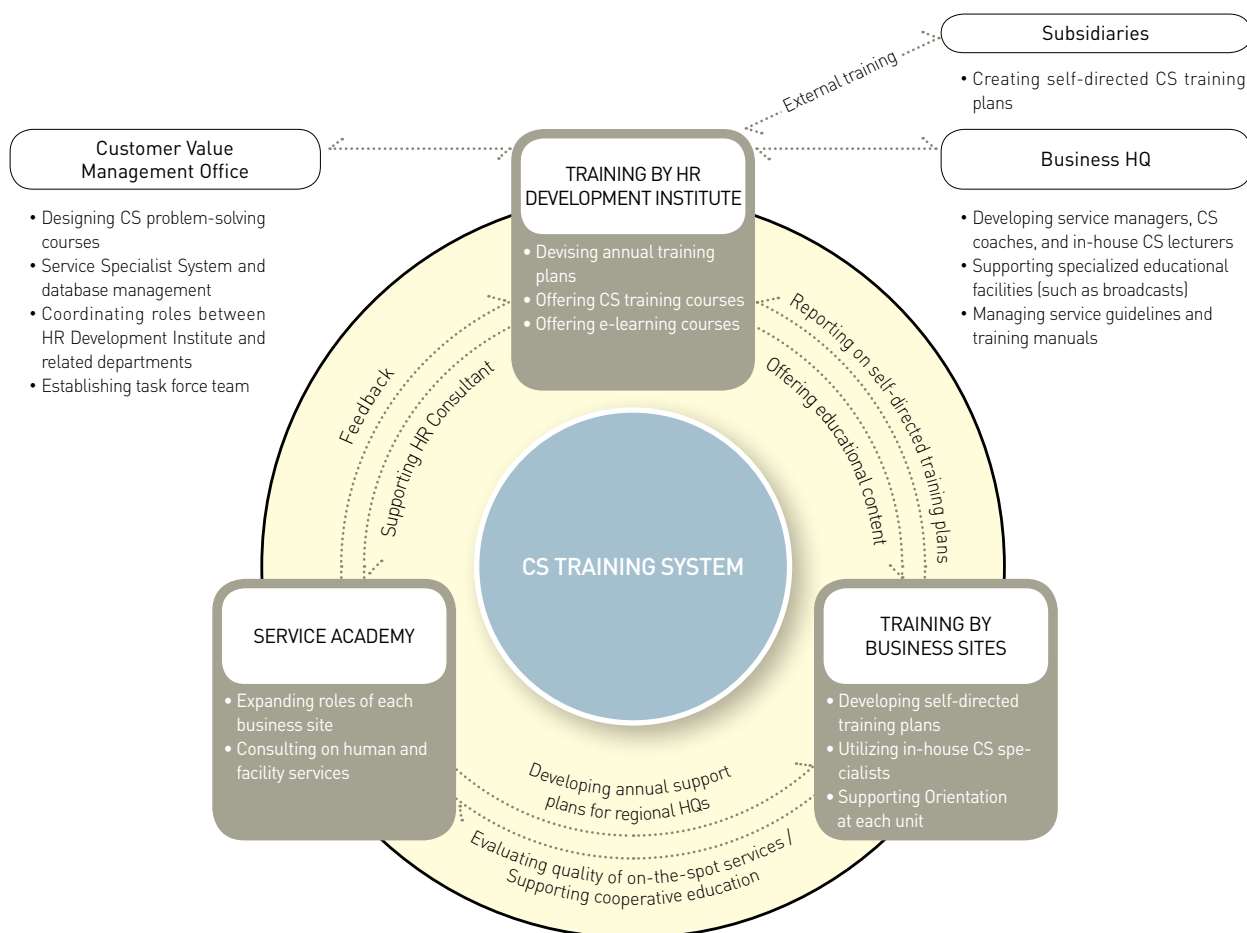


CRITICAL CALLS

(Unit: Instances)



BUILDING THE OPTIMIZED CS TRAINING AND COOPERATION SYSTEM



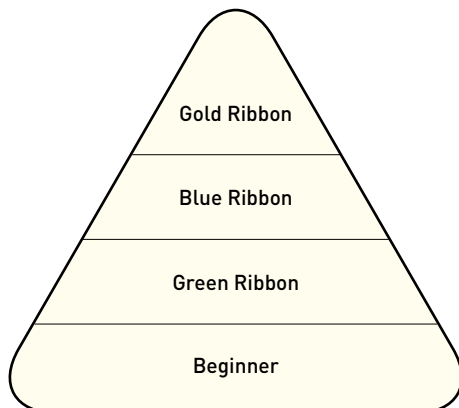
UTILIZING VOICE OF CUSTOMERS (VOC)




● SERVICE CERTIFICATION PROGRAM

Employees at KORAIL who possess outstanding service skills become mentors for other workers. The company uses its unique Service Certification Program (SEP) to ensure that these high-performing employees are working at an appropriate level. Their duties as mentors include giving their fellow workers on-the-spot training, laying the foundation of increasing service capabilities through volunteer participation breaking from previous "top-down" service education. There are four overall KORAIL employee levels: Beginner, Green Ribbon (basic skills), Blue Ribbon (general skills), and Gold Ribbon (professional skills), with employees moving up the ladder based on their work evaluations. Thanks to the invaluable service that these workers provide in their role as mentors, KORAIL hopes to raise the customer service skill sets of all its employees.

The SEP program began in 2009. In 2010, 9,111 employees were classed as Beginners, 1,932 as Green Ribbon, and 386 as Blue Ribbon.

KORAIL FOUR-STEP SERVICE CERTIFICATION PROGRAM



	Gold Ribbon	Knowledge and decision-making capabilities at service manager level
	Blue Ribbon	Specialized knowledge and performance capabilities in terms of service skills
	Green Ribbon	Basic knowledge in terms of service, plus the ability to carry out Moment of Trust (MOT) service tasks
	Beginner	Beginning stage of CS program acquiring knowledge of assigned tasks

● KORAIL's VOC operations have been especially designed for the railroad business. Voice of Customers is used to help KORAIL understand its customers' needs better and apply what it finds to make improvements to its management activities and service quality. We have added more VOC channels so that we can hear from more customers. This helps us to resolve any problems that customers are experiencing with our services in an effective and efficient manner.

VOC ANALYSIS SYSTEM

Regular Analysis

- Daily: Completed cases, type and classification & friendliness/unfriendliness
- Weekly: Weekly statistics, status of major VOC improvement tasks
- Monthly: Increase in use of VOC, delay rates & analyses of causes
- Quarterly: Types of analyses, statistical results, analyses & feedback
- Yearly: Collecting by types or channel and analyses & feedback

Analysis by Sectors

- Passenger service: KTX, Saemaeul, Mugunghwa
- Metropolitan rail service: Metropolitan Metro, transfer system
- Logistics: Freight transport service
- Business: Consignment service in collaboration with subsidiaries.
- Technology: Rollingstocks, electricity, facilities

Analysis by Regions

- VOC analyses by each managing station
- Analyses of VOC by each regional HQ

Analysis by Issues

- Collecting and analyzing VOC regarding specific issues (e.g. strikes and abnormal weather conditions)

In 2010, we widened our communication network even more by opening a Twitter account for KORAIL (@korail1899) and our CEO (@jyh0267). Some other changes that we have made to the VOC program include GLORY KORAIL, a smartphone application of reserving and issuing railroad tickets, and offering Wi-Fi at all our stations.

VOC CHANNEL

Type	Channel	Main Content
Participation by Customers	Internet Home Page (Customers' Corner)	VOC, customers' suggestions, releasing information, ombudsman and letters
	Customer Center (Call Center)	Accepting VOC by phone & information on train services
	Customer Representative	Complaints and suggestions
	Customer Satisfaction Center	Handling visiting people for civil petitions and accepting complaints.
External Survey	Mobile Phone (SMS)	Accepting customers' demand for improvement in train service
	CSI, Monitoring	Surveying cause of customer satisfaction & dissatisfaction
	Focus Group Interview	Finding items to be improved
	SNS, Blogs and Media	Collecting inconvenient points in train use
Participation by Employees	CS Supporters	Finding and reporting faults in services
	Suggestions	Receiving opinions directly from customers and making suggestions

STATUS OF VOC

Type	2008	2009	2010
Number of cases collected (cases)	54,040	51,573	64,451
Satisfaction Index (in points)	85.4	75.5	72.7
Response time (in hours)	20.1	22.2	21.5
Delays resolved (in %)	0.5	0.4	0.2

* The VOC satisfaction point system was changed in 2009. Now there is a maximum score of twenty points and a minimum one of zero points.

● EXPANDING THE ROLE OF THE OMBUDSMAN SYSTEM

The restructuring of the KORAIL Ombudsman System's website in January 2010 extended the office's activities from matters relating to corporate ethics to include customer satisfaction, guaranteeing the recognition of customer rights and interests. In 2010, the company received thirty-eight suggestions and proposals for improvement from the ombudsmen. They were incorporated into the company's operations through five field inspections and three special activities. The ombudsmen's suggestions and proposals are linked to the VOC System.

● CS SUPPORT PROGRAM

The goal of KORAIL's CS Support Program is to ensure high-quality customer service. All of the company's employee participate in it, helping to mitigate the possibility of service-related errors and deficiencies before they occur and demonstrating their awareness of the importance of customer satisfaction to the company's success.

OPERATION RESULT OF CS SUPPORT SYSTEM IN 2010

Type	Cases reported (number)	Ratio (%)
Total	4,994	100
Facility services		
Stations	2,360	47.3
Trains	1,994	39.9
Employees' services		
Poor	134	2.7
Praiseworthy	33	0.7
System improvement	360	7.2
Other	113	2.2

● CUSTOMER REPRESENTATIVES PROGRAM

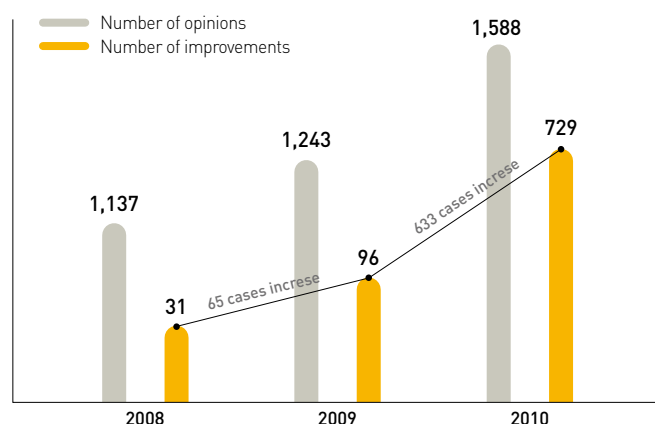
KORAIL's customer service-focused management activities begin with keeping in tune with its customers and communicating with them. The Customer Representatives Program is a good example. In it, a team of representative customers evaluate the quality of KORAIL's services. Their opinions are then reflected by the company through policy changes and system improvements.

The Customer Representatives Program has become a model for our customer-focused management system since its launch in 2007, and 1,134 people from various backgrounds were selected for membership in the fourth group in 2010. They made 4,054 suggestions, and we received another 1,588 online. Of these, 784 were selected and 729 were implemented.

MAIN ACTIVITIES OF CUSTOMER REPRESENTATIVES PROGRAM

Type	2008	2009	2010
Meetings and conferences at local headquarter	36	55	60
Advisory and volunteer activities	29	48	65
Service monitoring	-	730	4,054

OPINIONS AND IMPROVEMENTS THROUGH CUSTOMER REPRESENTATIVES PROGRAM (Unit: Instances)

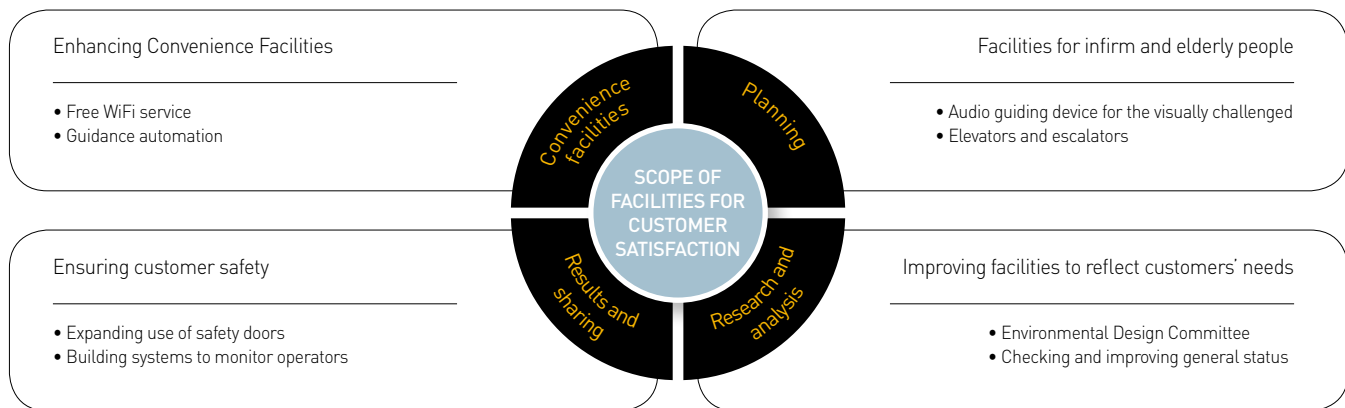


- The inauguration of the fourth-term customer representatives
- The certificate as a company with an excellent ombudsman system
- ● CS supporters



ACTIVITIES TO IMPROVE CUSTOMER VALUES

RAILROAD FACILITIES MANAGEMENT SYSTEM FOR ENHANCED CUSTOMER SATISFACTION



● G-BEST PROJECT

As part of its customer service program, KORAIL launched a Global Best (G-BEST) Project. Its goal is to ensure that customer value remains the company's highest priority. In addition, we have made our customer service strategies more efficient and systematic. We have also enhanced the quality of our customer services by categorizing customers according to their needs and completing the sixty-six sub-tasks that are included in the twelve projects that make up our four core operating strategies. As a result of these efforts, KORAIL scored 92.6, the highest mark ever achieved, in the Public Enterprises Customer Satisfaction Index.

● MULTIMEDIA SERVICES

One of KORAIL's most important activities is the building of a ubiquitous, high-end multimedia environment. This includes expanding its WiBro service to include all of the capital area's subway lines, providing wireless Internet services throughout the KTX trains and in the cafeterias of the Saemaeul and Mugunghwa ones, and making wireless Internet and DMB broadcasting services available to every rider on the KTX-Sancheon. We also provide free Wi-Fi services at 116 stations, and provide a laptop computer rental service at major ones, including Seoul and Busan.



- Building free wi-fi networks inside stations
- ● "GLORY KORAIL," a smartphone application
- ● ● A facility for customers on wheelchairs

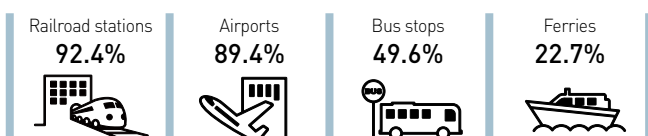


● SERVICES FOR THE UNDERPRIVILEGED

KORAIL is expanding its public roles by supporting underprivileged people in society. Specifically, the company is operating train services for residents in remote rural areas and giving discounts to weak people in society such as disabled people, senior citizens and children and increasing convenient facilities for them.

CONVENIENCE FACILITIES: RESTROOMS AND ELEVATORS FOR DISABLED PEOPLE, ETC

* Ministry of Land, Transport and Maritime Affairs



FACILITIES FOR THE PHYSICALLY CHALLENGED

Facilities	Stations	Number
Audio guiding devices	177	4,133
Braille blocks and leading passages	391	391
Elevators	196	685
Wheelchair lifts	69	169
Touchable maps	428	428
Breastfeeding rooms	118	122
Separate restrooms for disabled males and females	385	385

DISCOUNTS FOR UNDERPRIVILEGED PEOPLE

Type	KTX	Saemaeul	Nuriro · Mugunghwa	Remarks
Senior Citizens	30% (Mon to Fri)	30% (Mon to Fri)	• Mugunghwa: 30% • Commuting: 50%	Enforcement ordinance of Senior Citizen Welfare Law (Ministry of Health and Welfare) (Oct. 1, 2004)
Disabled People	(1 to 3 Grade) 50%	50%	Mugunghwa or lower: 50%	Enforcement ordinance of Disabled People Welfare Law (Ministry of Health and Welfare) Including one guardian per disabled person (for disabled people in 1 to 3 Grade) Since Jan. 3, 2006 (30% for disabled people in 4 to 6 Grade)
	(4 to 6 Grade) 30% (Mon to Fri)	30% (Mon to Fri)		
Children	50%	50%	50%	Children: Between 4 and 13 years old
Infants	Free of charge (Two infants per adult))			75% discount for seat reservation • Since Apr. 1, 2004 (KTX, one guardian per person) • Since Jan. 10 [Expanded to conventional trains and two infants per guardian]
People of National Merit	50% for all trains (6 times are free of charge)			Law on Compensating and Supporting People of National Merits • Law on Compensating and Supporting People who Contributed to National Independence (Ministry of Patriots and Veterans Affairs) • Law on Compensating and Supporting People who Contributed to May 18 Democratization Movement (Ministry of Patriots and Veterans Affairs)

● ENVIRONMENTALLY FRIENDLY TRAIN STATIONS

KORAIL's Environmental Design Improvement Committee consists of a team of outside environmental design experts. It is tasked with improving the overall railroad environment by ensuring that all of the company's facilities are in harmony with the surrounding natural environment. In 2010, KORAIL made 167 different improvements at 139 of its stations. This included renovating the restrooms at Seoul Station and background color improvements to the underground parts of Yeongdong Station. Going forward, KORAIL will establish formal standards governing the area of environmental design and put a comprehensive design plan in place.

- Environmentally designed facilities
- Renovating the restrooms, Seoul Station



● SAFE AND PUNCTUAL TRAIN OPERATIONS

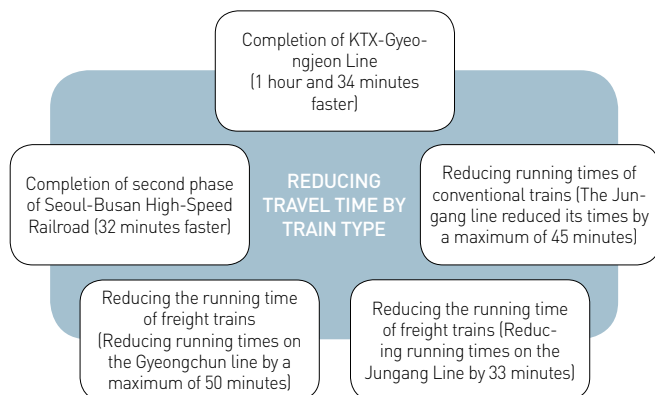
KORAIL's 2010 train punctuality rate was 98.1%, a decrease of 0.2%p from the year before. This reduction was due to the construction of new KTX way stations and other railroad improvements, as well as slower train speeds in places where anti-vibration equipment was being installed.

The company makes every attempt to shorten the time needed for construction operations that result in train slowdowns. It has also taken steps to limit factors affecting the accuracy of its train schedules, including the establishment of a consultative body on its train operations and holding discussions with the Korea Rail Network Authority.

TRAIN ON-TIME RATIO

(Unit: %)

Type	2009 Achievements	2010 Achievements	2013 Goal	2015 Goal
KTX	98.3	98.1	98.7	98.9
Conventional Trains	97.4	97.3	97.8	98.0



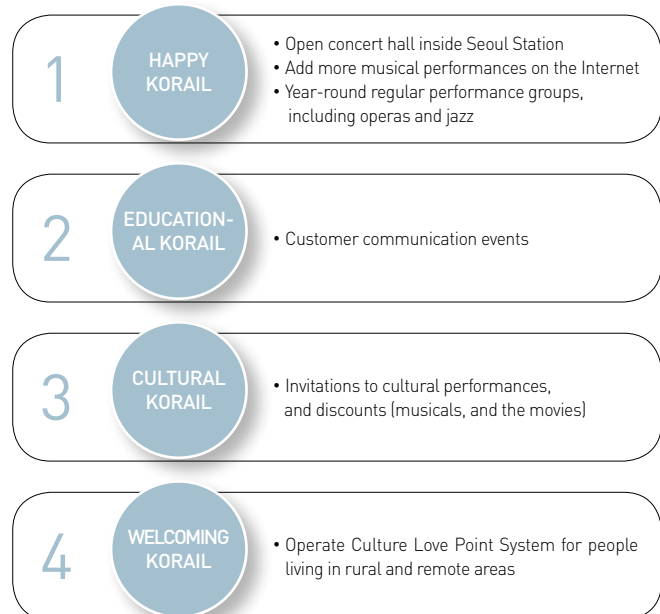
Service Line	Increases in Speed (in terms of average daily transport volumes)
KTX Gyeongbu Line	13.2% ↑ compared with the pre-commencement
KTX Gyeongjeon Line	63.3% ↑
Jungang Line of Conventional Trains	26.9% ↑
Gyeongchun Line of the Metropolitan Rail Service	445.5% ↑

● CULTURAL SERVICES

KORAIL sponsors a wide variety of cultural events at stations across the nation. It is also leading in the development of a reading culture by building special "reading zones." In addition, we operate themed and cultural experience trains. In October 2008, we introduced the Haerang Rail Cruise, a hotel-type, high-end tour train, enabling travelers to enjoy the convenience of lodging and cultural events at the same time.

We also operate "Cafe Trains" and the "KTX Cinema," a mobile railroad theatre. This is part of our attempt to position our trains as comprehensive cultural spaces that create added value, rather than a simple mode of transportation.

4 TYPES OF CULTURAL EVENTS



● LUNCH BOX RESERVATIONS/DELIVERY SERVICE

KORAIL provides travelers who reserve in advance with a customized lunch-box service, enabling them to enjoy a high-quality, properly-cooked meal at their convenience.



● Cultural performances at stations
● The lunch box reservation system



ACHIEVEMENTS OF CUSTOMER SERVICE SYSTEM

● KORAIL recently revised its Customer Service Charter. In order to keep pace with the central government's low-carbon, green growth policies, the company adopted a wide range of environmentally friendly programs. We also set a goal of exceeding the service standards set by many overseas railroad companies. This includes raising our on-time performance ratio from 96% to 97% and lowering the time needed to purchase a ticket from five minutes to three.

As a result of these efforts, the satisfaction rate of our customers has been improving continuously. In addition to our above-referenced, record-breaking score of 92.6 in the Public Enterprise Customer Satisfaction Index (PCSI), we received marks of seventy in the National Customer Satisfaction Index (NCSI), 67.5 in the Korean Customer Satisfaction Index (KCSI), and 75.9 in the Public Transportation Customer Satisfaction Index (PT-CSI). Most of these scores were higher than those received the year before.

CUSTOMER SERVICE HIGHLIGHTS

Item	Implementation Standards	Result		YoY Change
Safety	• Railroad accidents/casualties per 1 million km to be reduced by 10% or more	1.62	Achieved	0.36 ↓
On-Time Ratio	• Operate at least 97% of trains without any delays. KTX=5 minutes or less; Conventional trains = 10 minutes or less	*KTX: 98.1% *Others: 97.3%	Achieved	*KTX: 0.3%p ↓ *Others: 0.1%p ↓
Reliability	• Operate trains 100% as planned, except for extraordinary circumstances such as accidents or natural disaster	100%	Achieved	No change
Convenience	• Ensure more than 95% customers can buy tickets in three minutes or less	1.9 minutes on average	Achieved	0.2 minutes ↑
Comfort	• Maintain telephone response at CS Center above 80% on average	79.2%	Not Achieved	3.7%p ↓
Friendliness	• Maintain a comfortable atmosphere and resolve customers' problems in passenger cars	98.62 points	Achieved	0.91 point ↑
VOC	• Customer compliments regarding excellent service	4,136 instances	Achieved	1,129 instances ↑
	• Responding to customers' calls in a positive and proactive manner	95.6 points	Achieved	New
	• Gathering customer opinions via the Internet, postcards, telephone, and fax	64,451 instances	Achieved	12,880 instances ↑
	• Compensating customers for ideas	75 instances	Achieved	13 instances ↓
Compensation for poor service	• Results of customer satisfaction surveys	92.6 points	Achieved	4.5 points ↑
	• Compensating passengers for KTX delays exceeding twenty minutes and other delays exceeding forty minutes with cash or fare discounts	118,289 instances	Achieved	48,138 instances ↑
	• Compensating passengers for a subway train delay of over one hour, or the last operation is delayed by more than thirty minutes	505,000 won	Achieved	370,000 won ↑
	• Returning money to customers when double-booked	No such case	Achieved	No change
Environmental Friendliness (New)	• Reducing number of diesel-powered trains and adding more electric ones	Five units scrapped	Not Achieved	New
	• Improving facilities to reduce pollution	Eight completed	Achieved	New
Social Contributions	• Reserving 10% of seats for elderly or infirm travelers	19.51%	Achieved	0.17%p ↑
	• Participating in more than 3,000 social contribution activities per year	8,353 instances	Achieved	5,920 instances ↑
	• Holding over 1,000 customer appreciation events a year	1,564 events	Achieved	338 ↑



- Removing conventional ticket gates
- Customer satisfaction and service education
- The KORAIL Call Center



Increasing satisfaction through fair evaluation & reward and communication & harmony

EMPLOYMENT INFORMATION

● The total number of KORAIL employees in 2010 was 29,958. 99.4% of them hold permanent positions, and the average length of their employment is seventeen years. The average salary of a KORAIL employee is KRW 58,450,000, while the starting salary of an employee who has graduated from a university is KRW 21,840,000. Both of these rates are similar to those offered by other state-owned enterprises.

EMPLOYEE BREAKDOWN (Unit: persons)

Classification		2008	2009	2010
Employment	Regular	30,910	30,586	29,958
	Contract	1,084	447	196
	Female managers (second-class or higher)	14	11	16
	Average length of service (in years)	13.4	16.5	17
	Total	31,994	31,033	30,154
Hiring Practices	Women	3	2	25
	Physically challenged	0	0	0
	Employing local residents	1	2	55
	Natural Science and Engineering graduates	7	4	58
	Total	10	9	103
Change jobs	Changing job rates (%)	0	0	2.6

● WORKPLACE HUMAN RIGHTS

KORAIL faithfully abides by all relevant labor-related legislation, including the central government's Labor Standards Act and the International Labor Organization's policies prohibiting child and forced labor. The same applies to human rights and work conditions. Our policies on sexual harassment are outlined in Chapter 2, Article 8 of our Code of Ethics and have each employee attend an anti-sexual harassment class for one or more hours a year. We have also established a grievance system to deal with employee problems and/or complaints regarding employment, safety conditions, and work benefits.



● Hiring interns as regular employees
● Expanding the number of female employees

EQUAL EMPLOYMENT OPPORTUNITIES

● In compliance with Articles 2.8 and 6.2 of its Code of Ethics, KORAIL prohibits discrimination based on gender, educational background, age, religion, family background, place of birth, or physical disabilities. Our recruitment practices are geared to achieving a proper social balance, reserving a certain proportion of jobs for women, the physically challenged, and people who fall within the protected category. Our recruitment competitions are open to everyone, regardless of age, place of birth, or educational attainments. In order to enhance the fairness and efficiency of our hiring processes and ensure that we continue to attract top-notch applicants, we have developed a "KORAIL-Way" competency interview program. By combining it with other professional recruitment tools, such as presentations and in-depth interviews, we are able to make employment decisions that benefit us as well as our workers.

● RECRUITING INTERNS

In 2010, KORAIL recruited a large number of interns. This was done to fulfill our responsibility as a publicly-owned enterprise to help reduce the unemployment rate among young people. It also enabled us to find and hire candidates who would best answer our employment needs. 126 of the 500 interns that we initially selected were later taken on as regular employees.

● EMPLOYING WOMEN

KORAIL prohibits gender-based hiring and is committed to providing equal employment opportunities to both men and women. As of the end of 2010, 8.23% of our employees were female, significantly higher than the 5.67% required by statute. We have been making a concerted effort to increase training, self-development, and promotional opportunities for our female employees since 2005. In 2010, 95 of them (3.8% of the total) were employed in management positions, and 440 (9.2 times more than the previous year) were offered promotions.

● EMPLOYING THE PHYSICALLY CHALLENGED

KORAIL had 931 physically challenged employees in 2010, 0.1% higher than the legal requirement, 3%. We carry out job suitability evaluations to ensure that severely disabled employees are offered work that is custom-tailored to their abilities.

● EMPLOYING OLDER WORKERS

KORAIL is committed to carrying out the requirements of the Act on Aged Employment Promotion. In 2010, we had 2,246 aged employees. This represented 7.4% of our total workforce, 1.4% more than the statutory minimum which is 6%.

● HIRING OF SCIENCE AND ENGINEERING MAJORS AND PEOPLE FROM OUTSIDE THE CAPITAL AREA

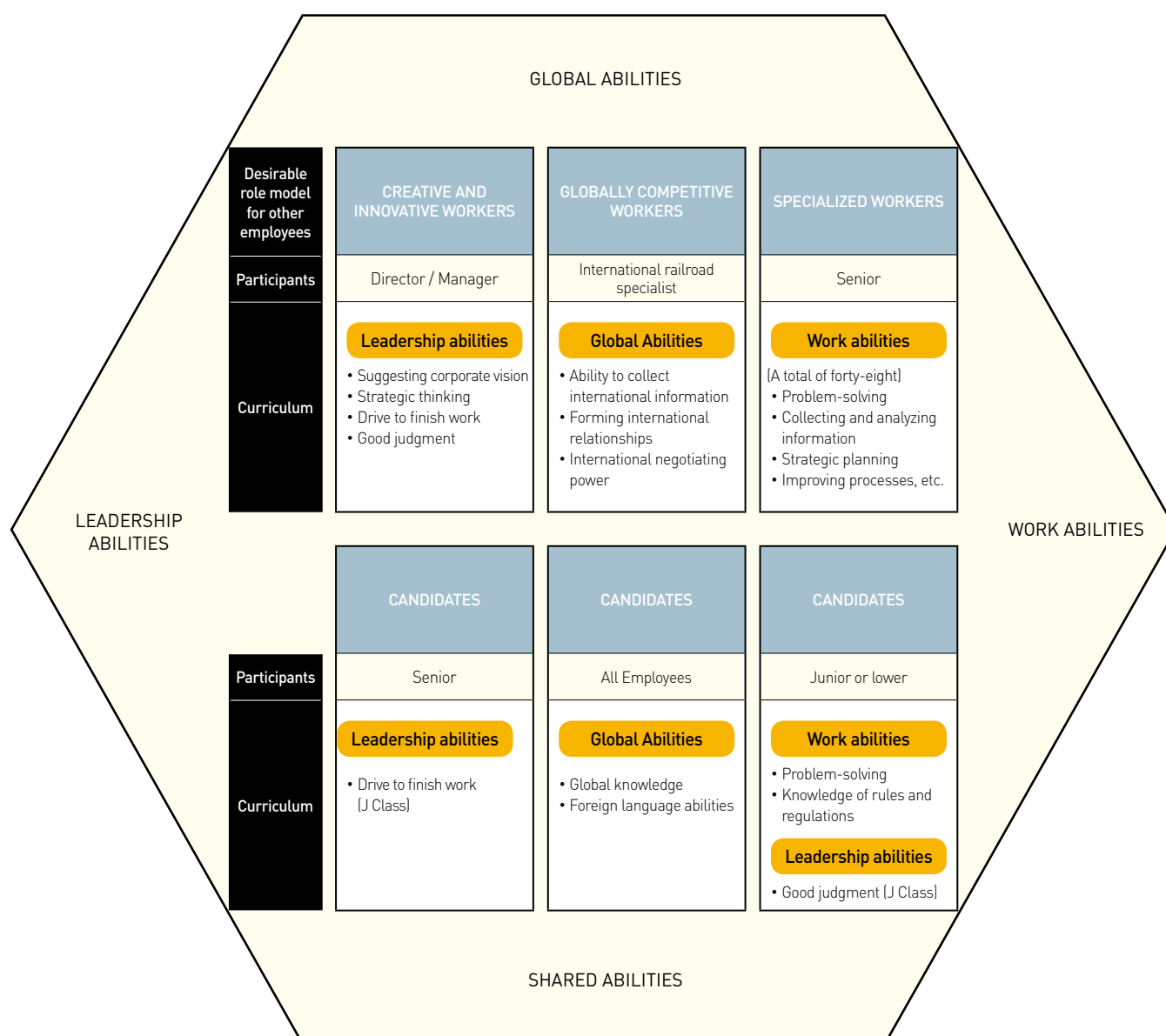
In accordance with governmental requirements, KORAIL is continuously increasing its employment ratio of science and engineering graduates and applicants from outside the capital area. In 2010, 39.1% of our workers were in the former category (11,735 people), while 41.9 % were in the latter one (12,564 people).

FOSTERING THE DEVELOPMENT OF HIGHLY-SKILLED HUMAN RESOURCES

KORAIL believes that workers who can function comfortably in an international environment are the most important element in becoming a “world’s-best” railroad service provider. As a result, we have duty-based, performance-based, and skills-based human resources development

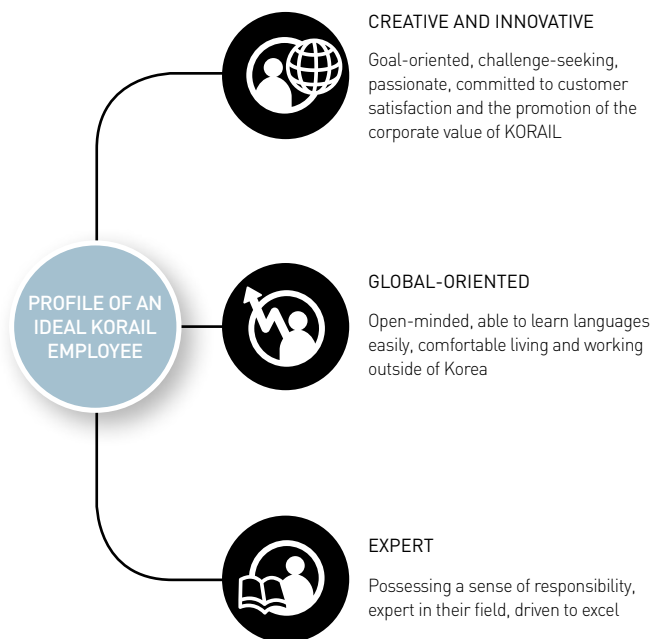
strategies to foster the development of creative, talented, and globally-oriented workers by implementing sound and fair HR principles and evaluation systems.

TRAINING PROGRAM BY COMPETENCIES



● NURTURING TALENTED EMPLOYEES

KORAIL has defined four key competencies that all its new employees must possess, and has developed a human resources development system to help develop their abilities. It includes needs-based job training and processes for establishing training plans and enhancing skills development, allowing every employee to study independently at his or her own pace. It also results in unbiased evaluations of employee performances, creating a feedback loop that KORAIL can leverage to attain its long-term goals.



● STATUS OF TRAINING AND EDUCATION

In 2010, the number of employees receiving training came to 95,060, a decrease of 6% compared to that of 2009. The average training period and average cost per person was 89 hours and 25,000 Korean won respectively, totaling to 7.5 billion Korean won.

KORAIL developed and is now applying an e-HRD system through which employees can assess their capabilities on their own. Employees can also receive support for evaluation of their studies and achievements from this system. Regardless of time and place, all KORAIL employees will be able to evaluate their study methods, establish their job training systems and develop their self-competency development plans.

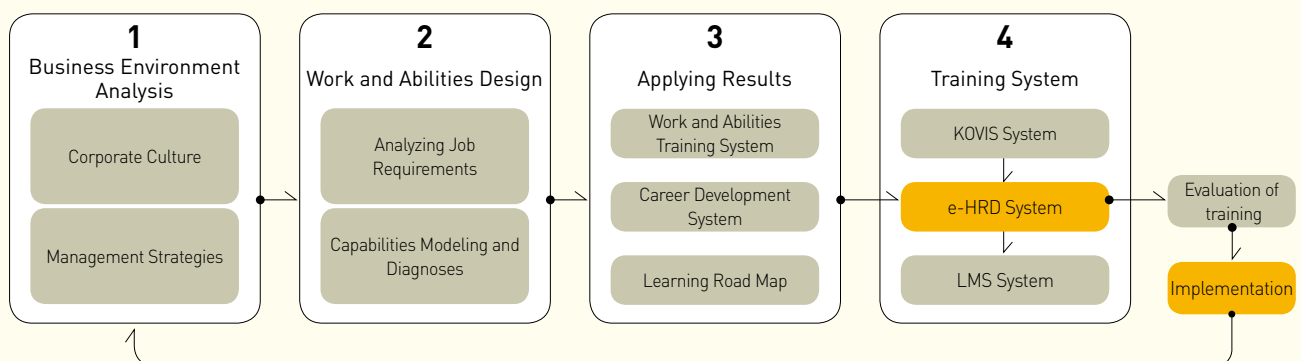
TRAINING BY YEAR

Classification	2008	2009	2010
Number of participants	124,613	100,739	90,796
Training hours per person (Those who completed course / average number of participants×4 days×7 hours)	89	89	85
Training costs per person (1,000 won)	412	300	250

COURSES BY COMPETENCIES

	Leadership	Global	Work	Common
Type of Course	Compulsory	Global KORAIL-Certified Railroad overseas project managers, cyber foreign language studies Professional	Specialized and basic work abilities	Sharing core values, labor-management relations, green growth, and customer service
	Electives			
	Strategic leaders			
	Productive leaders			
Independent leaders	Being dispatched to work in their non-regular workplaces			
	CEO course			
	Power coaching			
Independent leaders	Conflict management			
	Strategic decision-making			
	Problem-solving			
Independent leaders	Strategic planning			
	Communications			

KORAIL'S HUMAN RESOURCES DEVELOPMENT SYSTEM

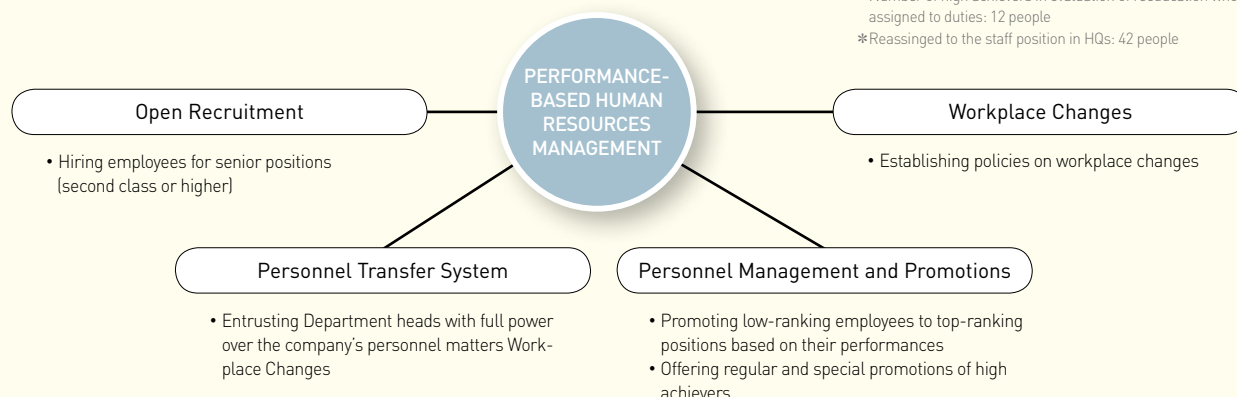


PERFORMANCE BASED EVALUATION

KORAIL's employee evaluations are based on each worker's abilities and job performance. Evaluations, compensation, promotions, and appointments within the organization are all independent of the seniority

system, allowing talented employees to progress in their careers at an appropriate rate of speed. Employees who are underachieving are obliged to undergo retraining.

PERFORMANCE-BASED HUMAN RESOURCES MANAGEMENT



● POSITIONS AND SALARIES BASED ON JOB PERFORMANCE

KORAIL's employee compensation system is based on a worker's job performance. Furthermore, in order to increase the relevance of the operating system, it has eliminated the nominal annual wage system and increased the portion of annual performance-based remuneration by 30%.

● COMPETENCY-BASED PERSONNEL SYSTEM

KORAIL revised work performance rating system reflecting the importance and difficulties of works. By linking it to the MBO, KORAIL has been able to develop a comprehensive, competency- and performance-based personnel system that takes such factors as the employee's motivation, strategic and decision-making abilities, and communication and presentation abilities into account.

CHANGES TO SALARY SYSTEM

Old	New
Base salary	49.5%
Duty-related remuneration	22.7%
Allowances	3.5%
Employee benefits	6.9%
Performance-related remuneration	2.5%
Annual performance-based remuneration	14.9%
	30%

PERFORMANCE-BASED SALARY SYSTEM ROADMAP

2009

Institutionalizing Performance-Based Remuneration System

- Preparing measures to strengthen duty-related remuneration
- Reforming remuneration system
- Introducing maximum salary system (second class or higher)
- Introducing retirement pension system (second class or higher)

2010

Implementing Performance-Based Remuneration System

- Implementing duty-related remuneration system (second class or higher)
- Expanding annual salary system to employees belonging to the third class or below (stationmasters, assistant managers)
- Implementing maximum salary system (second class or higher)
- Introducing flexible work system

2011

Expanding Use of Performance-Based Remuneration System

- Expanding duty-related remuneration system (Supporting departments)
- Implementing annual salary system for employees belonging to third class or below (All supporting departments)
- Improving maximum salary system
- Implementing flexible work system

2012

Advancing Performance-Based Remuneration System

- Expanding duty-related remuneration system (All employees)
- Implementing annual salary system for employees belonging to third class or lower (All employees)
- Introducing maximum salary system (employees belonging to third class or below)
- Matching duties and remuneration (abolishing ranks)

WELFARE SYSTEM

● EMPLOYEE BENEFITS PACKAGE

KORAIL's employees are entitled to a wide range of benefits package. They are included in a comprehensive, mid- to long-term package that both labor and management have agreed to.

Selective Employee Benefits KORAIL is integrating and managing all kinds of employee benefit packages in a rational manner by pushing for a selective employee benefit system. In addition, KORAIL secures transparency of budgets for employee benefits and offers employee benefits by reflecting needs of employees on them. In order to reflect employees' opinions on the program, KORAIL regularly carries out surveys of employees on employee satisfaction.

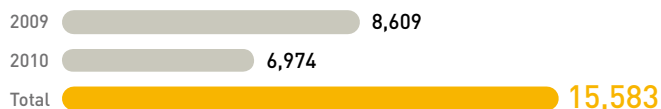
Retirement Grant System As KORAIL became a government-run company, its workers with over 20 years of employment will be paid retirement grants (including pension) for public service personnel. In addition, KORAIL offset disadvantages against workers with less than 20 years of employment by applying an exception to the Public Worker Retirement Pension Law to guarantee pensions for them.

In order to introduce the retirement grant system launched on December of 2005, KORAIL asked consulting firms for consulting on the introduction of the system from January to March of 2007. In the periodical labor-management meeting in the second quarter of 2007, KORAIL suggested membership to the defined-benefit pension plan to those who want it after the introduction of the retirement pension plan. In 2010, the company expanded the retirement pension system to cover stationmasters and other employees belonging to the third or lower classes with a goal to expand the system for all employees to guarantee stable retirement lives for them. We aim to expand the system to cover all employees by stabilizing the retirement pension process by the end of 2012.



YEAR-BY-YEAR RETIREMENT PROVISIONS

(Unit: one million won)



ESTABLISHING A MID- TO LONG-TERM EMPLOYEE BENEFITS PLAN

2010 ~2011

Laying the Foundations

- Laying foundations for employee benefits with focus on non-budget projects
- Laying the groundwork for family-friendly management

2012 ~2013

After Advancement of Employee Benefit System

- Expanding facilities for employee benefits
- Improving employee benefits system
- Obtaining family-friendly (S Grade) certificate

2014

Expansion

- Expanding employee benefits steadily
- Increasing workers' satisfaction with employee benefits system
- Integrating employee benefits mainly for interest of families



- A company athletic meeting
- Activating club activities for employees
- Opening a training center in Naksan



INDUSTRIAL SAFETY AND HEALTH

● MANAGEMENT OF THE CENTRAL INDUSTRIAL SAFETY AND HEALTH COMMITTEE

The Industrial Safety and Health Committee is responsible for all matters relating to safety and health. KORAIL's efforts to create a pleasant working environment include keeping track of its employees' periodic health reports. KORAIL abides by the convention of the International Labor Organization such as creating a pleasant working environment through regular check-ups of employees' health. The Industrial Safety and Health Part of KORAIL's Transportation Safety Office deals with major issues regarding safety and health in order to maintain the level of employees' safety and health at the highest level.

● SAFETY MANAGEMENT SYSTEM & NATIONAL AND INTERNATIONAL CERTIFICATION OF INDUSTRIAL SAFETY AND HEALTH MANAGEMENT SYSTEM

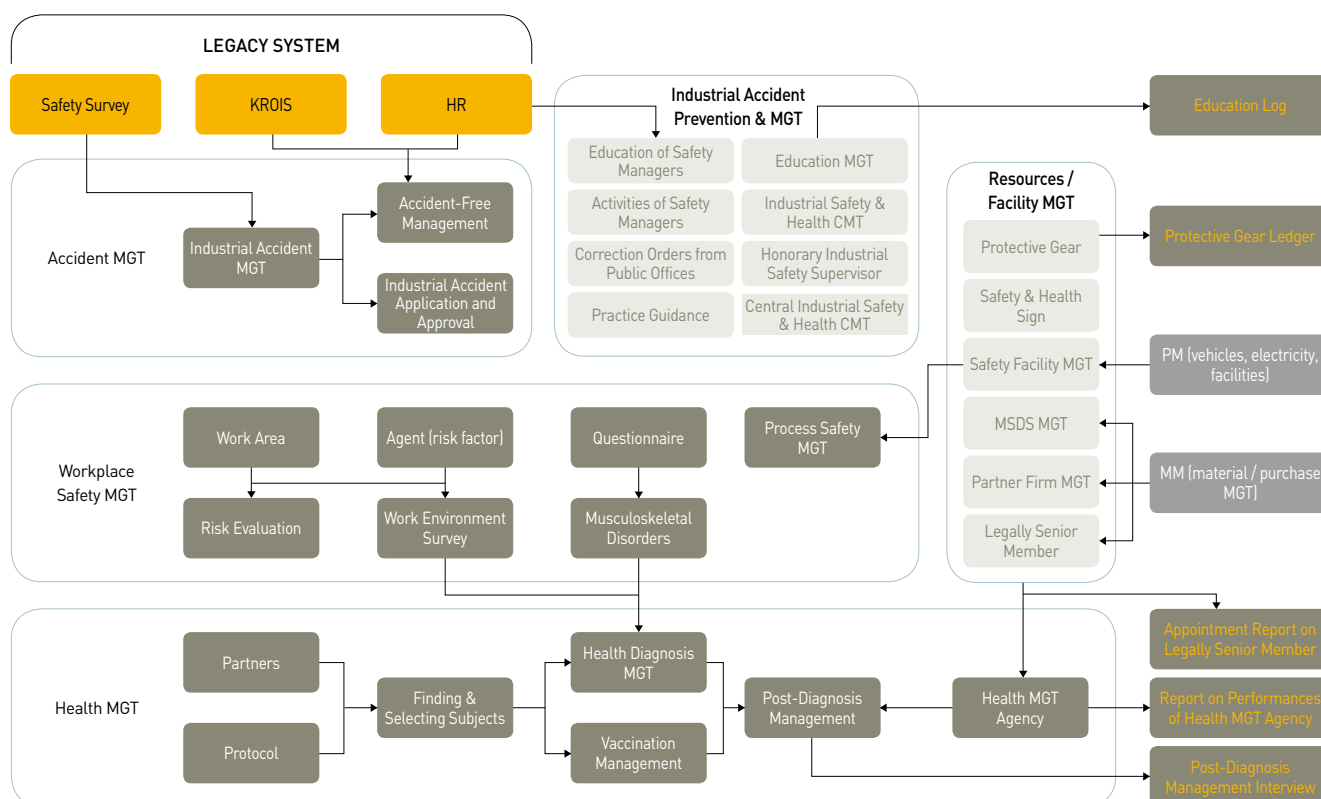
In order to efficiently manage a database regarding industrial and transportation safety, health, research and the environment, KORAIL established the Safety Management System in June 2010 and is currently operating it. Furthermore, for more efficient and scientific management of the system, KORAIL is seeking to obtain national and international certification of the system to enhance global awareness of KORAIL's railroad business to prepare to advance into overseas markets. The numbers of industrial disasters significantly decreased thanks to the efficient management of the industrial safety and health through the Safety Management System established in 2010.

WORK-RELATED ACCIDENTS

(Unit: cases)



INDUSTRIAL SAFETY AND HEALTH PROCESS CHART



● INDUSTRIAL SAFETY AND HEALTH EDUCATION

Conventional education of maintenance supervisors, as defined by Article 31 of the Industrial Safety and Health Law, has been changed into cyber education. From 2007 to 2010, 19,082 people had taken this four-week training course.

NUMBER OF PEOPLE WHO HAVE COMPLETED CYBER TRAINING (Unit: persons)



● STRENGTHENING COMPETENCIES OF SAFETY MANAGERS, HEALTH ADMINISTRATORS, AND MAINTENANCE SUPERVISORS

The safety managers, health administrators, and maintenance supervisors that are stationed at KORAIL's twelve regional offices and nine affiliates hold biannual two-day workshops to meet the statutory requirements for training in the areas of industrial safety and health

● ON-SITE SAFETY SUPERVISION

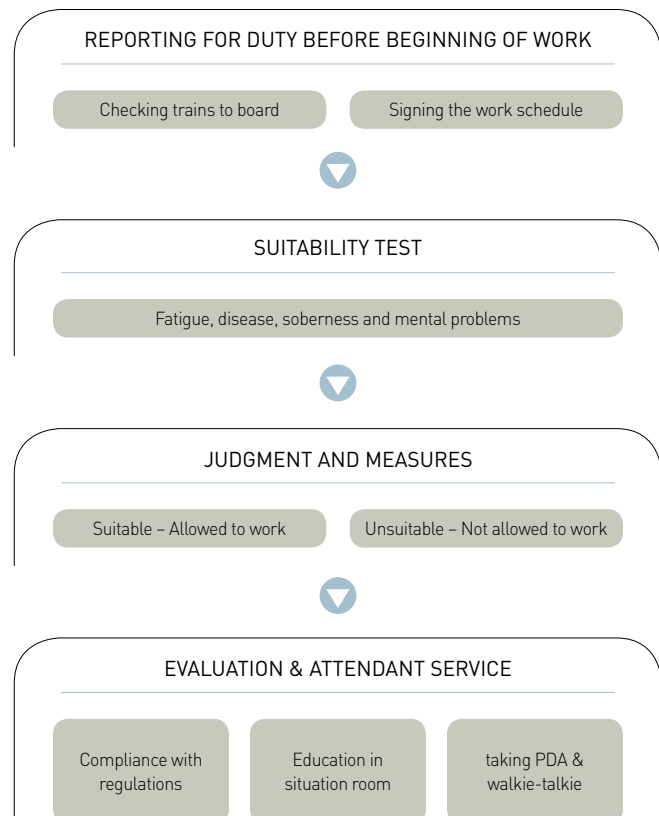
KORAIL has been operating a Safety Ombudsman's System since March 2009. Its purpose is to help staff members report unsafe operating conditions and ask for repairs. This allows the company to learn what is happening in the field and increase its safety levels. KORAIL received fourteen field responses to its 2010 Work Safety Plan, and put six of them into practice of them. In addition, the company studies cases in which accidents might have happened in order to take preventative measures.

Classification	Cases Received	Disseminating
Safety Ombudsman System	Illogical practices and cases which need authoritative interpretation	14 cases were received, and 6 were put into practice
Near-Accident Cases	Cases in which accidents could have happened	7,217 cases were received

● SUPERVISION OF RAILROAD OPERATORS

In order to reduce the possibility of accidents, KORAIL's train-based employees are required to undergo physical aptitude tests. If they fail them, they are either removed from their jobs or transferred to others. KORAIL also tests each of its train crews for sickness and fatigue and alcohol levels to ensure that they are capable of operating a train. The company also supervises employees with less than six months' experiences, transferees who have been at their new jobs for less than three months, and workers with history of accidents and less than two years' experiences. In 2010, three employees were assigned to other duties as they failed the tests.

ATTENDANT SERVICE SUITABILITY TEST



- An industrial safety workshop
- An industrial safety workshop
- Crew members



LABOR AND MANAGEMENT RELATION

● CURRENT LABOR UNION SITUATION

KORAIL's employees are members of the Korean Transport Workers' Union. They are obliged to join it as soon as they are hired, and temporary workers may also join if they wish to. The union's membership in 2010 was 22,678, 75.7% of the company's total employee base.

KORAIL created a Labor and Management Co-Existence Roadmap in July 2010. Its purpose is to facilitate the development of a labor-management culture that is mutually respectful and free of hostilities.

In order to reach this goal, labor and management meet in small groups and trade jobs so that each side knows what the other one's day is like. Labor and management both hope that this will lead to an increased understanding of each other. KORAIL has contributed to the increase of communication through "face-to-face meetings and dialogues."

Central Labor and Management Conference

After the restructuring of its organization in September 2010, KORAIL revised regulations on the operation of the Labor and Management Council. Its primary goal has been to improve 20 regional Labor and Management Councils. KORAIL has enjoyed increased profits and improved working conditions thanks to the work of these bodies.

Labor and Management Consultative Group

This body acts as the voice of employees working in the field, ensuring that their concerns are reflected in KORAIL's management plans. It is also

involved in organizing the labor and management councils and setting up meetings. In addition, it is represented on 158 company committees, gaining knowledge of management issues and seeking to improve mutual understanding.

Labor and Management Consultative Group	Purpose of Establishment	Cycle
Work System Improvement Task Force	Discussing to change work system	When necessary
Employee Benefits Committee	Discussing employee benefits issues	When necessary
Industrial Safety and Health Committee	Discussing safety and health matters	When necessary
Labor and Management Conference	Promoting employee participation and cooperation	Once every quarter
Protective Gear Selection Committee	Selecting protective gear, such as safety shoes and safety helmets	When evaluating products
Clothing Selection Committee	Selecting uniforms and work clothes	When necessary

Meeting with Representatives of Labor and Management

Representatives of labor and management, acting in partnership, work together on collective bargaining issues and hold formal and informal meetings to deal with problems that might impact on KORAIL's operations.

LABOR AND MANAGEMENT RELATION ROAD MAP



- Regular collecting bargaining agreement
- Meeting with labor union leaders
- A Regional marathon race



● ESTABLISHMENT OF MUTUALLY BENEFICIAL CULTURE

KORAIL has been instrumental in creating a working environment that encourages dialogue and is mutually beneficial to both labor and management. The management and laborers of KORAIL signed a collective bargaining agreement and a collective salary agreement without any conflicts between the two. In addition, KORAIL went down in history as the first Korean state-run enterprise which agreed on the Time-off System with employees.

May 14 • Signing Mutually Beneficial Collective Bargaining Agreement

- Good faith bargaining (201 meetings), sensible conclusions (e.g. removing provision to limit management's right to corporate management including personnel management)
- Simplifying items in collective bargaining agreement (reduced from 187 to 155)

November 15 • Signing Conflict-Free Salary Agreement

- Signing salary agreement without conflicts and strikes
- Freezing salaries for two years to abide by government guidelines

November 15 • Agreement on Time-Off System

- Exemplary cases among government-run companies
 - Full-time workers in office of labor union: 64 to 14 (unpaid)
 - Exemption limit: 33,000 hours per year

● LEADING WAY TO ADVANCED COMMUNICATION

With its many offices and businesses throughout the country, KORAIL is establishing the system to strengthen communication focused on hearing from the employees. Particularly, KORAIL is reorganizing the existing channels of communication to create one that goes both ways in order to instill open and transparent management.

ON-THE-SPOT MANAGEMENT ACTIVITIES

5,438 employees
from 271 units

Open-Minded Meetings with Employees

Lunch Meetings	400 employees (10 times)
Junior Board Camps	250 employees (11 times)
Innovations Festival and Music Festival	1,600 employees (2 times)
Athletic Meets	800 employees (Once)
Special Lectures	630 employees (6 times)

● ADVANCED LABOR-MANAGEMENT COMMUNICATIONS

KORAIL is working hard to strengthen two-way communications with its employees as part of its commitment to open and transparent management.

Old [Developing Communications Channels]

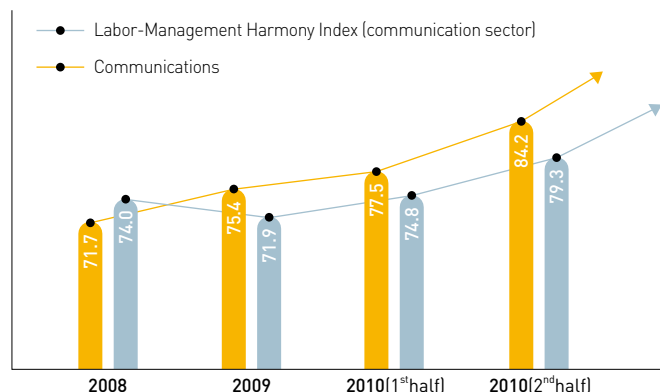
Internet	• Official home page, blogs, Internet cafes, 18 home pages by function, home pages of regional HQs
Work System	• Grievance system, electronic counseling system, chat room with CEO
Hard-copy communications	• Newsletter (KORAIL with People), posters, messages, and bulletins
Video	• In-house broadcasting and videos
Face to Face	• CEO's on-spot management and executives' experiencing employees' work
Labor Union	• Collective bargaining, Labor and Management Conference, Industrial Safety and Health Committee • Workers' Benefits Committee, Clothing Selection Committee, Protective Gear Selection Committee

New and Improved [Faster and strengthened two-way communications]

Two-Way	• Forming collaborative relationships, executives' experience of employees' work on the spot, small group meetings
Speed	• Launching Twitter service, real-time broadcasts of CEO's messages
Offering Balanced Information	• Phone meeting, weekly review of personnel management and Alibaba

EMPLOYEE SATISFACTION

Thanks to its commitment to improved communications channel, the satisfaction level between labor and management at KORAIL has increased dramatically. This has become a driving force behind a sensible collective agreement and the first conflict-free collective wage agreement since KORAIL became a government-run company.



TRUST-BASED MANAGEMENT FOR BETTER PARTNERSHIP

KORAIL will create equal partnership with partners and take the lead in practicing win-win growth and fair trade.

CHARACTERISTICS AND SUSTAINABILITY
MANAGEMENT ISSUES OF PARTNERS

- KORAIL's partners refer to companies in charge of ticket sales, services, purchases and asset lease. KORAIL is doing its utmost to ensure transparency from bidding, processing to follow-up and to provide equal opportunities to everyone. Particularly, we want to help those companies that are headed by either disabled people or women by increasing purchases from them and ultimately contributing to the activation of the national economy.

In 2010, the portion of purchases of SME products compared to the total purchases reached 52% (738.7 billion won) and contracts with companies managed by women and disabled CEOs totaled KRW 5.32 billion, a 3.8% share of the total number. KORAIL is advocating mutual growth and benefit by actively carrying out strong cooperation with SMEs.

TRUST-BASED MANAGEMENT

- KORAIL is making diversified efforts for win-win growth with partner firms by opening its information as much as possible and establishing a transparent communication system. Since laying the institutional foundation for transparent management, KORAIL has been realizing its vision for win-win partnership by holding meetings with partners regularly and operating a computerized support system to promote purchases of products and from small and medium sized companies.

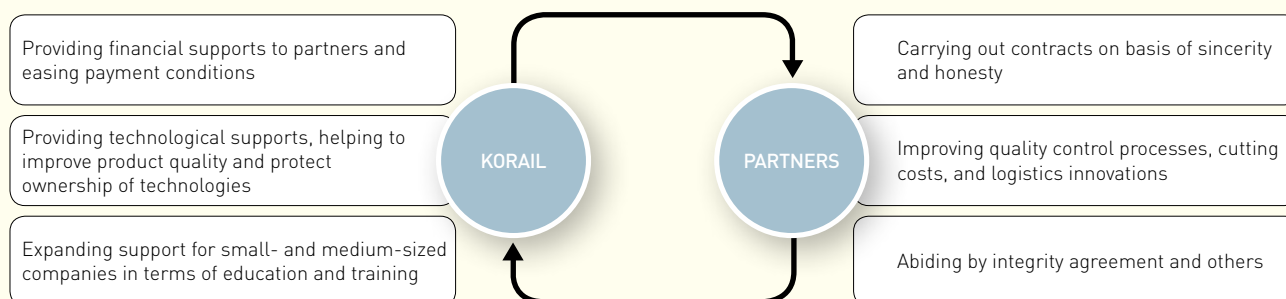
TAKING LEAD IN WIN-WIN GROWTH

KORAIL is taking the initiative in win-win growth with small companies such as promoting fair trades. The company improved subcontract practices between big and small companies by expanding a direct payment system for construction and service contracts to product purchase contracts. In August 2010, the Anti-Corruption and Civil Rights Commission picked this case as an exemplary case of institutional improvements.

The company founded the GLORY Win-Win Growth Center which operates online and offline help desks for small companies and reflected five cases of the help desk service on its business. KORAIL held a ceremony to sign an agreement on GLORY win-win growth and fair trades with 874 companies such as affiliates and partners for the first time as a Korean government-run company in order to promote win-win growth.

In addition, we are leading the way in protecting weak people in society (non-regular workers) by guaranteeing the lowest limit rate of 87.7% (special new clause) in the bidding system for subcontracts for manual labor services (cleaning) which resulted in an effect of an 8% increase in salaries (about 4.7 billion won and 140 new jobs) in Jan, 2011.

MAIN COMPONENTS OF GLORY WIN-WIN GROWTH AND FAIR TRADE AGREEMENT



- A meeting with partners
- Appointing KORAIL ombudsmen
- Integrity Quiz Competition



● ACTIVELY OPENING INFORMATION TO PUBLIC

KORAIL is committed to transparent and voluntary opening of information through precise and timely official notices on its business activities. In order to prevent mistakes in public notification, KORAIL has created a monitoring system by task and divided duties of employees by announced items.

After analyzing our public announcement system, we improved the system (home page) to offer information to people in a better manner.

Classification	Place of Announcement	Announcement	Compared to 2009
Business Results Announcements	Corporate home page	A total of 78 items • 39 items such as the status of our business operations	Double
Integrated Announcements	ALIO System (Ministry of Strategy and Finance)	1,076 items cases were registered • Recruitment and bidding information	1.7 times
e-Announcements	DART System (Ministry of Financial and Supervisory Services)	A total of 56 items • Status of big business groups etc.	1.5 times
Opening information	People requesting information	190 cases were opened • 210 decision notices, opening rate: 91%	1.3 times

● OPEN BID AND ELECTRONIC PROCUREMENT SYSTEM

KORAIL is enhancing its procurement processes for everything it purchases. In keeping with our commitment to openness and transparency, we have established an electronic procurement system, encouraging price competitiveness and opening the market to new suppliers. We have been applying prior screening criteria since 2008 to determine who will be given the right to bid on our contracts. In addition, we deduct points from companies that fail to observe our bidding terms and conditions.

● SUPPORTING SMALL- AND MEDIUM-SIZED BUSINESSES (SMEs)

KORAIL operates a support system for SMEx. This enables them to add to their technological capabilities will helping us to purchase high-quality products at low prices. By providing supports in terms of capital, market opportunities, technology, personnel, product purchases and information release regarding bidding results, KORAIL helps to strengthen the SME business sector and contributes to the advancement of the national economy. One extremely positive result of our support system is the rise in our purchases of goods produced by disable people and women by technical innovation

KORAIL is engaging in a variety of projects such as an artificial reef project, KTX Passenger Movies Car and Wine Train, thus strengthening cooperative network with small and medium-sized companies by carrying out joint research and product development and sharing the results with them. In 2010, through the establishment of the GLORY Mutual Growth Center, KORAIL has expanded the department in charge of mutual growth with SMEs and have signed contracts with 640 SMEs.

SME BUSINESS SUPPORTS

Classification	2008	2009	2010	2011 Goal
Buying products from SMEs (Unit: 100 million won)	4,494	8,810	7,387	8,402
Purchase of technical products (Unit: 100 million won)	143	149	188	326
Purchase of products developed with option to buy (Unit: 100 million won)	133	279	114	120

- The Electronic Supply System
- Signing an agreement for GLORY win-win growth



SOCIAL CONTRIBUTION-PRACTICING MANAGEMENT FOR COMMUNITIES

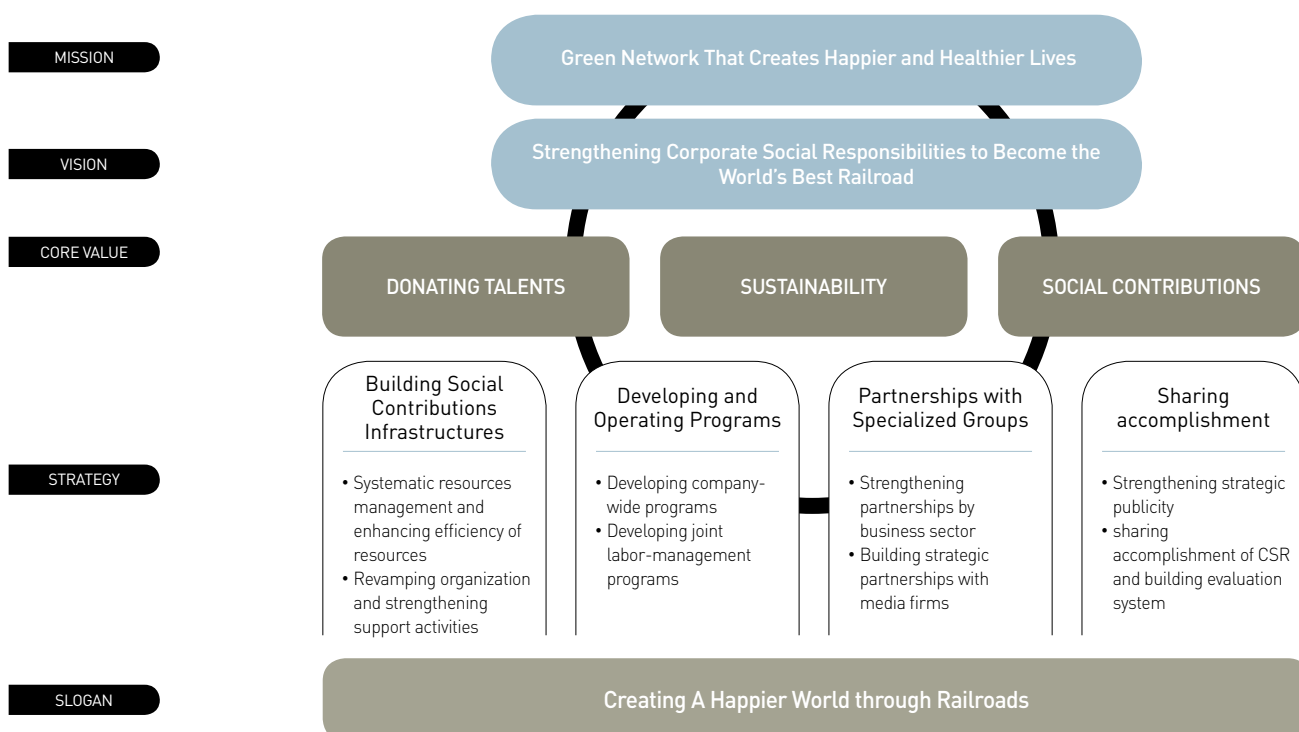
We are engaging in various and practical community-friendly social contribution activities through our nationwide railroad network.

VISION AND ORGANIZATION FOR SOCIAL CONTRIBUTION

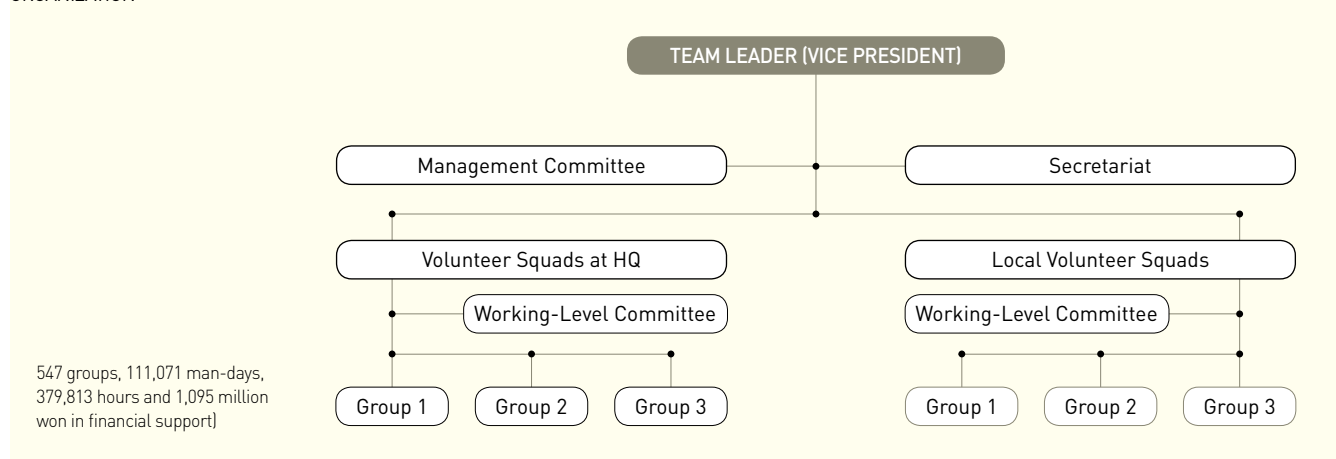
● KORAIL was Korea's first state-owned enterprise to engage in corporate social responsibility (CSR) activities. These activities are carried out by a volunteer group of KORAIL employees. We have strengthened our CSR management processes to enhance the effectiveness of our CSR activities and the development of joint programs based on the national

railroad network. Our increased aid to the socially disadvantaged is a specialized and fortified social contribution activity linked to the GLORY campaign of KORAIL. By carrying a wide range of CSR activities, KORAIL is positioning itself as a people-friendly enterprise that is contributing to economic and cultural development of local communities.

SOCIAL CONTRIBUTIONS VISION



ORGANIZATION



547 groups, 111,071 man-days,
379,813 hours and 1,095 million
won in financial support)

CURRENT SITUATION OF SOCIAL CONTRIBUTION

● COOPERATIVE NETWORK FOR SOCIAL CONTRIBUTION

KORAIL is committed to achieving mutual growth with stakeholders by strengthening its corporate social responsibility programs. After establishing its CSR program in 2005, the company created a separate department to carry its activities and set up a cooperative network with NGOs to develop efficient and effective programs.

Since establishing social contribution-practicing management as a corporate culture in 2008, KORAIL has recognized hours of employees' social contribution activities as working hours as well as kept track of results per volunteer groups and supported external internal social contribution programs.

COOPERATION WITH NGOS

NGO	Cooperative Project	2010 Results
Korea Council of Volunteer Organizations	Joint Collection and Management of KORAIL Love Points	Total amount collected: 18,952,850 points (Used: 35,488,000 points)
Community Chest of Korea	Operate collection boxes within station buildings	44 stations across the nation, nationwide. A total of 7,642,360 won was collected
Good Neighbors	Fundraising through videos in KTX trains	Number of participants: 5,489. 36,496,345 won was collected

● REVENUE RAISING PROGRAM

KORAIL's specialized social contribution program begins with the "Making a Happy World with the Railroad" program. Since January 2006, KORAIL's employees have been running an "one account, one thousand won" program called, "the KORAIL Love Fund" which employees donate money to monthly from their paychecks.

SOCIAL CONTRIBUTION ACTIVITIES

Classification	2009	2010
Participants (persons)	80,373 man-days	111,071 man-days
Hours of activities	285,176	379,812
Financial and Material Support	KRW 1,077 million	KRW 1,077 million
Love Fund	KRW 860 million	KRW 654.49 million
Matching Grant	KRW 267 million	KRW 387.95 million
Accumulated Love Points	43 million points	35.48 million points

ACTIVITIES OF KORAIL SOCIAL CONTRIBUTION CORPS

ACTIVITIES OF KORAIL SOCIAL CONTRIBUTION CORPS

Happy Train <ul style="list-style-type: none"> • Times 226 • No. of Beneficiaries 9,256 • Total Hours 20,118 • No. of Participants 2,256 	Helping Farm Villages <ul style="list-style-type: none"> • Times 380 • No. of Beneficiaries 2,479 • Total Hours 35,277 • No. of Participants 4,947
KORAIL Village <ul style="list-style-type: none"> • Times 291 • No. of Beneficiaries 4,244 • Total Hours 22,884 • No. of Participants 3,001 	Cultural Exchange <ul style="list-style-type: none"> • Times 282 • No. of Beneficiaries 26,162 • Total Hours 9,511 • No. of Participants 1,653
Visiting place for Volunteer Work <ul style="list-style-type: none"> • Times 302 • No. of Beneficiaries 2,921 • Total Hours 10,544 • No. of Participants 2,257 	Establishing Relationships with Social Welfare Organizations <ul style="list-style-type: none"> • Times 4,576 • No. of Beneficiaries 237,084 • Total Hours 192,856 • No. of Participants 70,090
Training and Education <ul style="list-style-type: none"> • Times 96 • No. of Beneficiaries 4,445 • Total Hours 1,933 • No. of Participants 468 	Post-Disaster Recovery Work <ul style="list-style-type: none"> • Times 9 • No. of Beneficiaries 2,204 • Total Hours 820 • No. of Participants 138
Delivering Donations <ul style="list-style-type: none"> • Times 50 • No. of Beneficiaries 1,150 • Total Hours 379 • No. of Participants 279 	Blood Donation <ul style="list-style-type: none"> • Times 731 • No. of Beneficiaries 701 • Total Hours 5,116 • No. of Participants 1,708
	Environmental Activities <ul style="list-style-type: none"> • Times 1,432 • No. of Beneficiaries 52,821 • Total Hours 80,375 • No. of Participants 24,275



- Buying agricultural products directly from farmers
- ● An environment protection campaign (clean-up of Daechong Lake)
- ● ● Delivering free coal briquettes to marginalized people



SOCIAL
CONTRIBUTION
PROGRAMS

SOCIAL CONTRIBUTION
PROGRAM THROUGH
RAILROAD NETWORK



GLORY HAPPY TRAIN



KORAIL VILLAGE
PROJECT



HELPING FARM
COMMUNITIES



VISITING PROGRAMS



CULTURAL AND SPORTS
ACTIVITIES

VOLUNTEERING FOR THE
ENVIRONMENT



OTHER ACTIVITIES

- Through the creation of a social contribution portal, KORAIL shares results with others and quickly provides support. In July 2010, throughout major stations, KORAIL organized the "Happiness through the Railroad Bazaar" and with 42 volunteer groups in December, KORAIL carried out the "Love Sharing" campaign throughout the country, thus fulfilling its social responsibilities to the fullest.

In addition, members of the company's labor and management planted more than 10,000 flowering plants on the side along the Honam Line, creating a flower path for the enjoyment of travelers. We also invited a wind instrument orchestra comprised of disabled people belonging to the South Chungcheong Province Southern Center for Disabled People to play at a joint labor and management concert.

- GLORY Happy Train is one of our most important CSR programs. It involves "Love Points" that are donated by KORAIL's employees and customers and then are given to the underprivileged so that they can enjoy train travel too. We run this program once or more times a month. In 2010, KORAIL organized a total of 226 Happy Trains, giving 9,256 people a chance to travel by train.

- This distinctive program highlights the rich human resources available at KORAIL. This program helps the underprivileged and sole-support senior citizens living near the railroad by improving their surroundings and making their lives easier. A total of 2,968 volunteers participated in 2010, carrying out such activities 286 times.

- This new, ongoing KORAIL program brings farmers, the National Agricultural Cooperative Federation, and businesses together to raise profits. Participants help the farmers during the busy spring and fall seasons, and also repair houses belonging to sole-support seniors. The program also includes the "one organization, one rural community" support activity that helps bring locally-produced agricultural products to market, helping to raise farmers' incomes.

- KORAIL has created a variety of programs for employees to visit people in need. This includes female migrant workers, sole-support senior citizens, and people who are suffering from financial, emotional, and/or physical problems.

- KORAIL also offers cultural and sports activities to the disadvantaged, providing them with emotional support and growth.

- KORAIL also carries out a host of environmental protection activities. They include the "one organization, one mountain, one river" program, "Focus on Collecting Waste Materials," "Time to Preserve the Railroad Environment" and "Maintaining Station with Automation Systems." All of our employees are committed to protecting the environment and helping KORAIL continue in its role as an environmentally friendly, green company.

- We collaborate with a number of non-profit organizations in such areas as disaster relief, teen-aged volunteers, blood donations, and environmental protection.

- KORAIL Village
- Helping homeless people
- Helping a farming village



ENVIRONMENTAL PERFORMANCE



RAILROADS ARE MORE ENVIRONMENTALLY FRIENDLY THAN ANY OTHER MODE OF TRANSPORTATION



The energy you save taking KORAIL from Seoul to Busan instead of driving is the same as planting eleven pine trees.

To fulfill its great potential to help save the earth, KORAIL will put its words into action by continuing to develop green infrastructures that will deliver green and clean growth for everyone.

ECO-FRIENDLY MANAGEMENT

Classification	2008	2009	2010
Proportion of electrification rate (%)	54.5	55.9	60.4
Soil purification projects (Million Won)	767	909	2,248
Average daytime above-ground noise (dB)	59	59	59
Average night-time above-ground noise (dB)	57	57	57
Amount of waste water / flow rate of passenger car waste water (ton)	323,527/66,412	298,107/54,374	281,250/36,859
Expenditures to improve water quality (Million Won)	619	895	61
Amount of waste discharge (general/designated) (ton)	4,017/707	2,647/1,002	1,520/1,161
Expenditures to improve solid waste environment (Million Won)	337	87	25
Indoor air quality management at railroad stations (Number of locations)	63	63	64
Purchases of eco-friendly products (100 Millions Won)	72	103	90

SAFETY MANAGEMENT

Classification	2008	2009	2010
KTX on-time operating ratio (%)	96.7	98.3	98.1
Operating accidents (cases per million km)	2.155	1.981	1.616
On-site accidents (cases)	82	76	63
Vehicle failure ratio (cases per millions km)	0.089	0.083	0.076
Track electricity failure ratio (cases per 1,000 km)	4.293	3,797	3,058

ECO-FRIENDLY MANAGEMENT

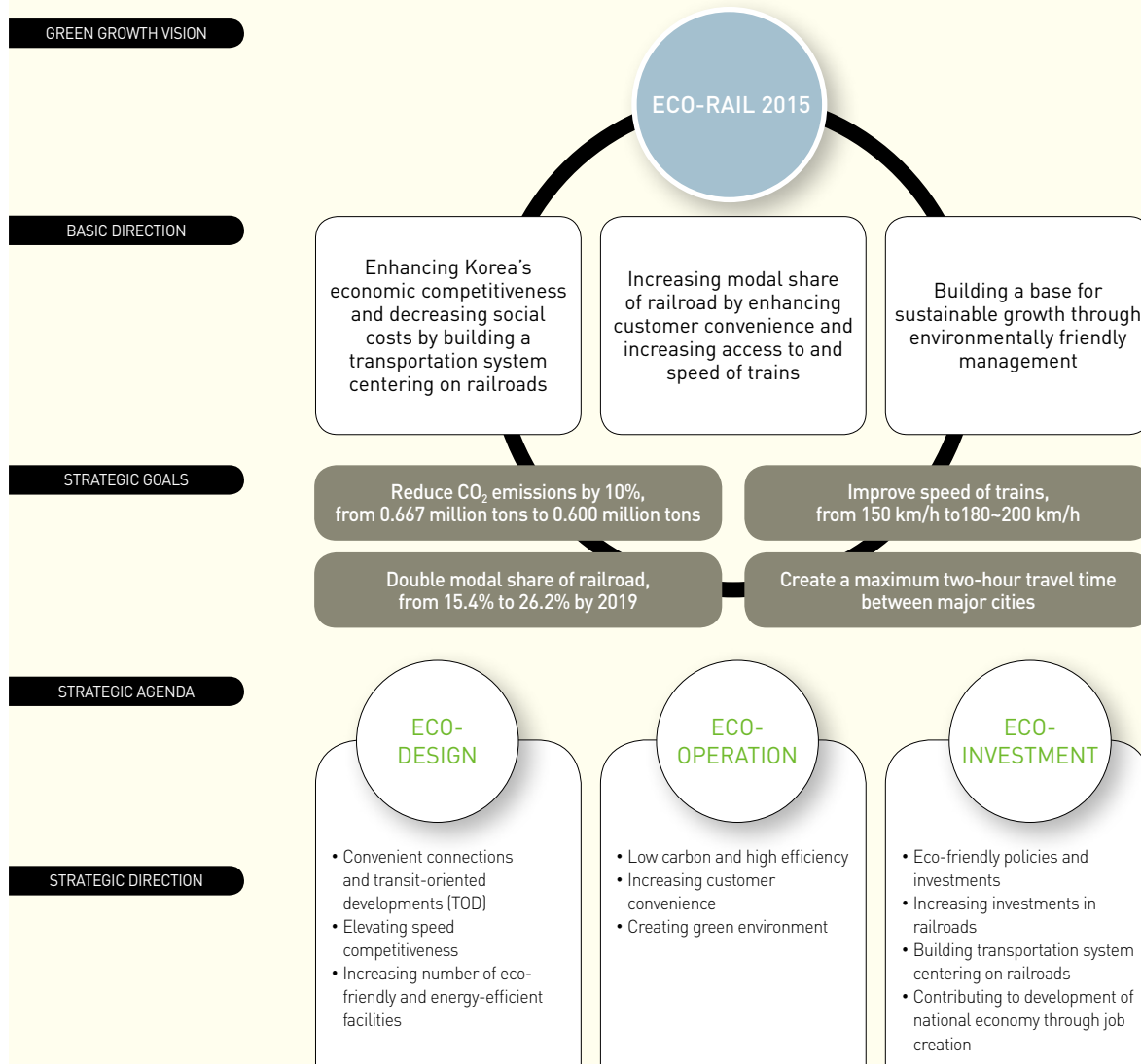
In tandem with the era of low-carbon green growth, sustainable eco-friendly railroad is making Korea green.

ECO-RAIL 2015 STRATEGY

● Railroads are a sustainable and highly energy-efficient mode of transportation, and KORAIL has been working hard to increase its overall share of Korea's total transportation market. One of our major goals is to take the initiative in pursuing the central government's policy of low-carbon green growth.

The company announced its "ECO-RAIL 2015" vision for the development of a green, eco-friendly railroad network, along with policies to support that goal, in August 2009. To achieve this, it is engaged in three strategic tasks (Eco-Design, Eco-Operations, and Eco-Investments) and sixteen detailed ones.

ECO-RAIL 2015 STRATEGY ROADMAP



* TOD: A transit-oriented development (TOD) is a mixed-use of residential or commercial area designed to maximize access to public transport. Often including features that encourage transit ridership, they have been adopted by such regions as Germany, Hong Kong, Japan, the U.S., and the U.K.

ECO-RAIL 2015 STRATEGY

Eco-Design



DEVELOPING NEW-CONCEPT, ECO-FRIENDLY
INFRASTRUCTURES

Innovating connection and transfer systems	<ul style="list-style-type: none"> • Building multi-function stations (6 stations) • Expanding general transportation plazas and parking lot (36 stations) • Expanding railroads for ports and industrial complexes (seventeen routes)
Eco-stations	<ul style="list-style-type: none"> • Equipping stations with pollution-free energy sources, such as natural lighting and geothermal heat (6 stations)
Express train service	<ul style="list-style-type: none"> • Launch of express service on Gyeongchun Line in second half of 2011 (KORAIL considers expanding express services to other lines in future)
Expanding use of electric-powered passenger cars	<ul style="list-style-type: none"> • KTX-Sancheon (500 cars) • Electric Multiple Units (EMUs: 398 cars) • Electric locomotives (159 cars) • Electric Car (794 cars)
Increasing train speeds	<ul style="list-style-type: none"> • Elevating train speeds by introducing KTX-Sancheon, EMUs and high-speed freight trains. • Increasing speeds on main lines to 180~200 km/h

Eco-Operation



ACHIEVING A TRULY GREEN MANAGEMENT
ENVIRONMENT

Making facilities more convenient	<ul style="list-style-type: none"> • Elevators, escalators, and moving sidewalks in stations (146 stations) • Screen doors (159 stations)
Saving energy	<ul style="list-style-type: none"> • Saving energy [saving 94,323 kl of diesel oil (236.1 billion won)]
Enhancing door-to-door delivery service	<ul style="list-style-type: none"> • Increasing number of shuttle vehicles from 234 in 2009 to 318 in 2012 • Increase number of B/T trains from 20 to 40
Using environmentally friendly technologies, such as LEDs	<ul style="list-style-type: none"> • Adopting LED lighting (2,226 passenger cars) • Improving ventilation systems (2,206 passenger cars)
Adhering to greenhouse gas rules and regulations	<ul style="list-style-type: none"> • Building third-party-verified inventory systems to measure volume of CO₂ emissions • Building an environmental management system, reducing volume of CO₂ emissions by 10%
Creating a greener environment	<ul style="list-style-type: none"> • Planting eight million+ trees near rights of way and stations • Recycling 6 million liters of lubricants • Installing 140 artificial fishing banks • Other environmental protection activities
Modernizing operation facilities	<ul style="list-style-type: none"> • Concentration on train operation at station (250 sites) • Building technological support system for electric facilities (366 sites) • Modernizing railroad electric facilities (2,410 sites)

Eco-Investment



BUILDING AN ENVIRONMENTALLY FRIENDLY
TRANSPORTATION SYSTEM

Operation Facility Modernization	<ul style="list-style-type: none"> • Expanding the length of the metropolitan railroad from 395.4 km to 723.2 km
Adding to investments in operating stock, such as expanding railroad investment in electrification and double tracks	<ul style="list-style-type: none"> • Expanding length of railroads from 3,377.9km to 4,058.9km in 2015 • Increasing Proportion of electrification rate from 55.9% to 73.1%
Promoting railroad transport	<ul style="list-style-type: none"> • Implementing policies to promote railroad transport—including investing in eco-friendly and energy-efficient railroads and doubling overall share of total transportation market
Developing eco-friendly trains	<ul style="list-style-type: none"> • Developing eco-friendly, energy efficient trains • Developing LNG engines and systems for trains

ENVIRONMENTAL PERFORMANCE

72 ENVIRONMENTAL PERFORMANCE 74 ECO-FRIENDLY MANAGEMENT

86 SAFETY MANAGEMENT 92 QUALITY MANAGEMENT



INVESTMENT PLANS, BY YEAR

Current Agenda ^a	2009	2010	2011(p)	2012(p)	2013(p)	2014(p)	2015(p)	Total
Innovations to connection and transfer system	1,913	5,155	3,916	11,900	9,128	8,004	4,583	44,595
Adding to number of next-generation electric trains	4,252	5,022	4,926	5,510	9,094	11,213	5,842	45,859
[1] Sum of Eco-Designs:	6,161	10,177	8,842	17,410	18,222	19,217	10,425	90,454
Making facilities more convenient	1,763	1,304	662	2,827	338	-	291	7,185
Building a greener environment	56	94	85	85	85	85	85	575
Participating in carbon emissions trading system	16	16	-	-	-	-	-	32
Application of eco-friendly technologies, e.g. LEDs	60	83	162	69	109	34	34	551
[2] Sum of Eco-Operations Sum	1,895	1,497	909	2,981	532	119	410	8,343
Increasing railroad investments, e.g. electrification	20,939	16,329	20,181	26,749	38,034	41,659	49,695	213,586
Expanding metropolitan railroad network	13,094	11,699	16,020	13,868	14,853	24,049	33,983	127,566
Adding to high-speed railroad network	17,626	18,487	24,239	38,909	40,273	38,404	9,057	186,995
[3] Sum of Eco-investments:	51,659	46,515	60,440	79,526	93,160	104,112	92,735	528,147
Total	59,715	58,189	70,191	99,917	111,914	123,448	103,570	626,944



ECO-DESIGN IMPLEMENTATION PERFORMANCE RESULTS

Details of Implementation			2009	2010
ECO-DESIGN	1) Construction of Eco-Stations	• Natural lighting (number of stations)	-	1
		• Building station complexes (100 million won per station)	-	3,700/1
	2) Innovations to the connection and transfer systems	• Building traffic plaza (100 million won per station)	16/2	5.8/2
		• Bicycle parking spaces (100 million won per unit)	29/1,253	20.2/2,014
		• Comprehensive logistics system (100 million won)	1,864	1,429
	3) Adding to number of next-generation electric trains	• Investments in the introduction of KTX Sancheon (100 million won per car)	1,889/60	2,790/130
		• Investments in the introduction of EMUs (100 million won per car)	430/32	-
		• Investments in the introduction of EL (100 million won per car)	-	713/56
		• Investments in the introduction of electric trains (100 million won per car)	1,933/104	1,519/120
ECO-OPERATION	1) Energy-saving operations, e.g. more economical driving (100 million won)		86	141
	2) Making facilities more convenient	• Elevators, escalators (100 million won)	1,382	819
		• Screen doors (100 million won)	381	485
	3) Building a greener environment	• Planting flowers and trees (100 million won per 10,000 trees)	43/121	82/789
		• Environmental protection activities (100 million won per site)	13/16	12/26
	4) Investing greenhouse gas emissions management system		16	15.7
	5) Adopting eco-friendly technologies, e.g. LEDs	• Adopting LED lighting (100 million won per car)	32/640	49/652
		• Improvements to air conditioning systems (100 million won per car)	28/60	34/100
ECO-INVESTMENT	6) Enhancing door-to-door services	• Developing a comprehensive logistics system	0.7	
		• Developing an e-logistics system Eco-Investments	10	
	7) Increasing investments in railroad, e.g. electrification	• General rail construction projects (100 million won)	20,939	16,329
	8) Expansion of metropolitan railroad network	• Metropolitan railroad construction projects (100 million won)	13,094	11,699
	9) Expansion of high-speed railroad network	• High-speed rail construction project (100 million won)	17,626	18,487
	10) Development of clean trains, e.g. hybrids	• Investments in R&D (100 million won)	0.5	-
	11) Implementation of the policy for encouraging companies to transport their cargoes on railroads instead of roads	• Events to form social consensus (events)	4	1

ENVIRONMENTAL MANAGEMENT SYSTEM

● KORAIL is in full compliance with all laws, rules, and regulations pertaining to environmental conservation, such as the Framework Act on Environmental Policy, the Clean Air Conservation Act, the Water Quality and Ecosystems Conservation Act, and the Soil Conservation Act. As part of these duties, the company analyzes and evaluates all the environmental impacts of its operations, and makes improvements when and as necessary. We have also instituted a system that allows for the constant monitoring of our CO₂ levels. In addition, we have published an instruction booklet for our employees, outlining what prompt and proper responses they should make in the event of an environmental emergency.

Our environmental protection activities follow the recommendations of the "Plan-Do-Check-Action" (PDCA) cycle outlined in environmental management system (EMS) model. In addition, all our operations relating to environmental management are carried out through conservation efforts based on the outcomes of environmentally-friendly measures.

ENVIRONMENT-RELATED INVESTMENTS, BY YEAR

(Unit: KRW million)

Classification	2008	2009	2010	2011 (plans)
Soil	645	241	0	0
Water quality	620	895	61	700
Air	50	0	318	35
Waste	337	87	25	0
Soil purification projects	767	909	2,248	3,073

* Waste: KORAIL installed waste storage facilities at nearly all stations and other business sites by using existing storage facilities with steady investment.

COMPANY-WIDE ENVIRONMENTAL MANAGEMENT ACTIVITIES

● RESPONDING TO CLIMATE CHANGE

KORAIL is making a sustained effort to deal with the problem of climate change and promote energy efficiency. One of our most important plans is to reduce CO₂ emissions by gradually replacing our diesel locomotives with cleaner-running and energy-efficient electric ones. In addition, we will increase our number of KTX operation, which boasts the lowest CO₂ emissions levels among any of our trains. By the year 2020, the company plans to be actively engaged in the development of hybrid locomotives that run on alternative sources of energy, such as liquefied natural gas and electric batteries. By doing so, we will become leaders in the field of low-carbon, green growth, helping to reduce the social costs of traveling within Korea.

● ENERGY EFFICIENCY

As part of the initiative to improve public agencies [KORAIL is conserving energy by using lighter-weight rollingstocks] and making improvements to their heating, cooling, and lighting systems. In addition, KORAIL holds company-wide contests to gather ideas from its workers about better energy conservation activities. Then we put them into practice.

In January 2010, KORAIL adopted a "Lessen Energy Use By At Least 10%" program. It resulted in electricity savings of 19%, compared to its goal, much of which came from placing high efficiency light bulbs in our 852 passenger cars and 1,412 stations.

Going forward, KORAIL plans to use more low-cost, off-peak-generated electricity. We will also develop self-contained, renewable energy power generation systems in every new station, and continue with our campaign to reduce electricity use in our offices.

ENERGY CONSUMPTION BY TRAIN TYPE IN 2010 (Unit: MJ per passenger-tonne-km)

Classification	KTX	Conventional Trains	Metropolitan Electric Trains	Freight Trains
2008	0.170	0.519	0.190	0.465
2009	0.172	0.561	0.193	0.486
2010	0.163	0.532	0.205	0.473

GREENHOUSE GAS EMISSIONS BY TRAIN TYPE IN 2010 (Unit: gCO₂e per passenger-tonne-km)

Classification	KTX	Conventional Trains	Metropolitan Electric Trains	Freight Trains
2008	22.05	47.37	24.59	42.67
2009	22.29	52.08	26.96	44.92
2010	21.17	49.80	26.51	43.77

ENERGY USE BY TYPE

Classification	2008	2009	2010
Diesel Oil (kl)	244,081	217,057	209,492
Electricity for Train Operation	1,836,013	1,856,523	1,965,212
Other Use of Electricity	261,515	280,603	312,015

* Energy use did not include use of fuels for heating and cooling buildings and company vehicles, machinery and facilities.



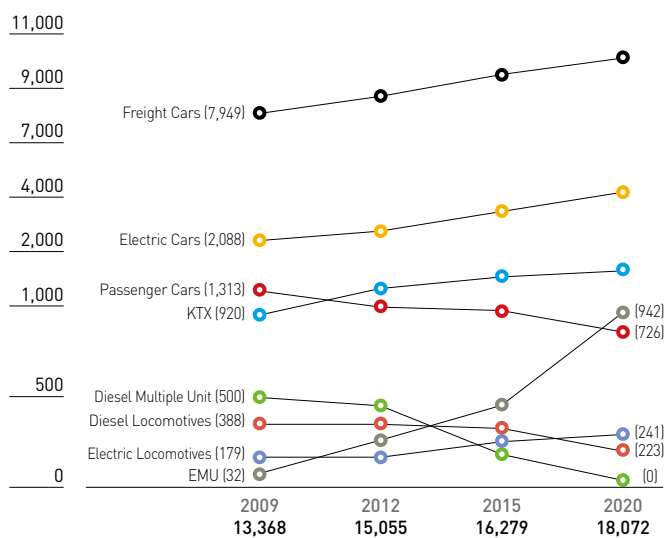
● Coping with climate change
(producing Green Start stickers)

ENVIRONMENTAL PERFORMANCE

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NUMBER OF TRAINS BY YEAR



INTRODUCTION OF ENERGY-SAVING ELECTRIC TRAINS

Classification	2009	2010	2011	After 2012
EMUs	32	-	-	366
KTX-Sancheon	60	130	50	250
Electric locomotives	-	160	-	187
Electric car	128	120	98	418

● RECYCLING WASTES

KORAIL's waste reduction efforts include recycling waste-water, analyzing the sources of the waste, and designating specific times for garbage collection and disposal. We also ensure that our wastes are stored according to their type and condition, and only for as long as their legal storage periods are in effect. Most of our industrial waste is handled by companies that specialize in that business. We also manage and train the staff members of outsourcing company.



- Improving lighting instruments
- Using solar heat (Jeongdongjin Station)
- Using sunlight (Guro Station)

WASTES AND RECYCLABLE MATERIALS

(Unit: tons per year)

Classification	2008	2009	2010
Workplace wastes (General)	4,017	2,642	1,520
Workplace wastes (Designated)	707	1,002	1,161
Recyclable wastes	745	768	806

* These data do not include construction waste and old railroad ties, whose volume and numbers fluctuate every year. (Old railroad ties belonged to the Korea Rail Network Authority)

RECYCLING PROCESSING PERFORMANCES (Unit: tons per year)

Paper	Plastics	Cans	Glass	Other
Trains 210 Stations 1,061	Trains 56 Stations 275	Trains 61 Stations 382	Trains 55 Stations 442	Trains 2 Stations 334
TOTAL				Trains 384 Stations 2,494

● RECYCLING USED OIL

Used oil from our trains' engines and other machinery is refined using KORAIL's specialized purification technology. It is then used for heating, lowering the company's energy use and reducing its costs significantly.

Going forward, KORAIL will try to limit its oil use to products that can be used over and over again. Any oil that cannot be recycled this way will be refined and turned into heating oil.

REUSED OIL USE IN 2010

	Supplying refined heating oil	Selling used oil	Savings
Volume	698,000 liters	884,700 liters	97,270,000 won



INVOLVING INTERESTED THIRD PARTIES TO IMPROVE THE ENVIRONMENT

● PROCURING ENVIRONMENTALLY FRIENDLY PRODUCTS

KORAIL is committed to reducing environmental pollution at all levels, from production to consumption to final disposal. Our first priority is to purchase products that are environmentally friendly, safe to use, and superior in quality. In 2010, the company's ratio of eco-friendly products to total purchases was 79.2%, and it is striving to increase its procurement and use of them through continuous PR and educational activities. At the other end of the scale, KORAIL sells eco-friendly products featuring its character image "KTX-mini." Made from 100% pure cornstarch, they are completely biodegradable within two years of being put into the ground.

● PROVIDING ENVIRONMENTALLY-RELATED INFORMATION

KORAIL provides information about its environmental management activities at its website, www.korail.com. In addition, information regarding our environmental management policies and activities are published in an environmental management report. It is also available for viewing on the website.

● ENVIRONMENTAL COUNCIL

KORAIL's Environment Advisory Council, comprising environmental groups, outside experts, and NGOs, meets twice a year. Its goals are to analyze both domestic and foreign environmental conditions, provide information concerning the current status of the company's environmental policies to interested parties, and inform the public about the environmentally friendly advantages of traveling by train. The knowledge that the company gains from the Environmental Council's expertise is reflected in its subsequent activities to protect the environment.

● ENVIRONMENTAL EDUCATION FOR WORKERS

KORAIL carries out a wide variety of environmental education activities. This is done to develop an increased understanding of environmental issues among its workers and executives, heighten their interest in environmental protection, and foster the development of personnel with a deepened understanding of environmental issues. Courses to develop expertise in such matters as environmental conservation and green growth are offered both in-house and outside the company.

ENVIRONMENTAL EDUCATION IN 2010

	Course	Number of Employees	Remarks
Internal	Courses at KORAIL Green Growth School, etc.	7,598	
External (Offline)	Indoor environmental management course, etc.	25	National Institute of Environmental Human Resources Development
External (Cyber)	Basic environmental administration course, etc.	934	National Institute of Environmental Human Resources Development
Total		8,557	

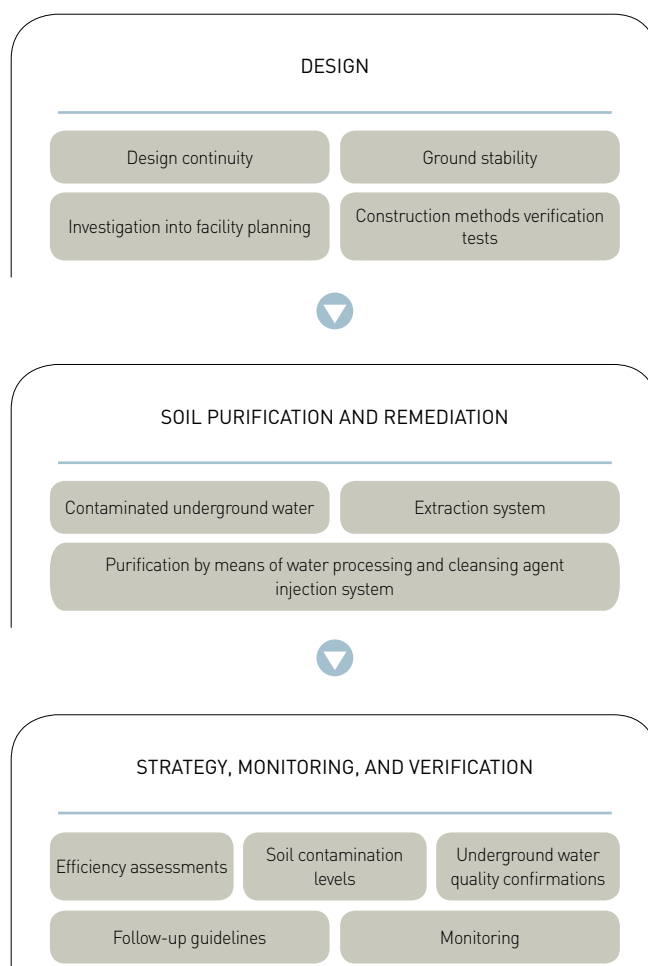
MANAGING FOR SOIL POLLUTION

- Most soil pollution from railroads occurs at their fueling facilities. It is mainly caused by oil contamination.

KORAIL employs a wide variety of methods to reduce soil pollution at each of its work-sites. This includes installing fiber-reinforced plastic (FRP) oil pans, roll pads, and/or paved concrete to keep oil from falling onto the tracks. The company also replaces contaminated soil and gravel on its tracks to lessen the possibility of soil and water contamination by oil or heavy metals. This is done on a regular basis.

We also mitigate the problem of soil pollution by running regular tests on facilities that could cause soil pollution at each work-site, and continually managing contaminants by running periodical analysis of the pollution level of subterranean water in underground basins. The presence of unused railroad facilities is also reported to local governments.

SOIL PURIFICATION PROCESSES



MANAGING FOR NOISE AND VIBRATIONS

● In order to minimize noise and vibrations that occur when they are in transit, KORAIL forbids its trains from whistling except in emergency situations. In addition, the company is strengthening its tracks by using long welded rails and elastic rail fasteners. Going forward, KORAIL plans to replace its diesel locomotives with electric ones to reduce the level of noise and vibrations.

In cooperation with the Korea Rail Network Authority, KORAIL is also installing environmentally friendly walls along its rights of way. They are equipped with superior soundproofing capabilities that reduce the level of noise and vibrations from its trains. To make traveling by rail more aesthetically pleasing, these walls are then planted with ivies, roses, and other climbing-type plants.

The Ministry of the Environment has been installing railroad noise measurement devices since 2004, as part of the central government's program of reducing railroad noise. They have been placed at 34 locations in metropolitan areas at which high noise levels are likely to occur. Because of the company's ongoing program of reducing noise and vibrations, the current average noise level is only 1 to 2 decibels.

NUMBER OF NOISE MEASUREMENT POINTS PER REGION

	Seoul Metro-politan Area	Young-nam Region	Honam Region	Daejeon Region	Gangwon Region
Number of measurement points	8	9	8	5	4
Average number of train operations per day and location in 2010 (trips)	616	164	60	255	58

MANAGING FOR WATER POLLUTION

● KORAIL tries to prevent water pollution before it occurs. It does this by conducting regular checkups of the condition of waste-water that has been released from its work-sites into nearby water systems.

Water pollutants that occur near railroad work-sites include waste-water resulting from rolling stock inspection and maintenance operations, as well as sewage water from toilets. This water is either treated in-house or by outsourcing companies.

KORAIL is also taking steps to reduce its water usage. This includes conducting resources conservation campaigns and installing water-saving equipment. Treated water is reused in toilets and for landscaping.

WATER USAGE AND RECYCLING

(Unit: 1,000 m³ per year)

Classification	2008	2009	2010
Water supply usage	5,635	6,110	6,027
Groundwater usage	297	261	254
Industrial water usage	105	91	106
Heavy water usage	68	57	90

WASTEWATER AND SEWAGE WATER FROM RAILROAD WORK SITES

(Unit: m³ per year)

Classification	2008	2009	2010
Waste-water	323,527	298,107	305,050
Sewage water from passenger coaches	66,412	54,374	36,859



- Building soundproof walls and planting trees near railroads
- A drill to cope with environmental accidents
- ● ● Water quality management (operating environmental facilities)



MANAGING FOR AIR POLLUTION

● Railroad-based air pollution includes rough and fine dust caused by varnishing and inspecting rolling stocks, as well as exhaust fumes from cars in transit and tetrahydrocannabinol (THC). KORAIL is striving to minimize the volume of pollutants at all its work-sites by installing devices to control air pollution and insisting that its locomotives' engines be turned off when they are not being used.

The company also carries out regular inspections of its facilities, measures the volume of air pollutants, and installs state-of-the-art pollution control facilities through environment management regulation and environment review. In addition, we are participating in a central government pilot project to reduce exhaust emissions by converting heavy-duty locomotives into LPG-powered ones.

The manager responsible for all KORAIL train stations that are larger than two thousand square meters is required to inspect the quality of the air in their waiting rooms and to report the results to the relevant regional government. As of 2010, the quality of the air at sixty-four of these stations under KORAIL's management (twenty-nine above-ground, thirty-five below) was within the statutory limits.

The company is also continuously improving the quality and efficacy of its air purifiers, ventilation ducts, and air filters. In addition, we minimize dust levels by operating "cleaning task forces" at all our stations.

MANAGING FOR HARMFUL CHEMICAL SUBSTANCES

● Harmful chemical substances that are used in KORAIL's operations include sulfuric acid from storage batteries, chemicals used for treating waste-water, and varnish that is used for treating the outside of its rollingstocks. These substances are managed according to regulations concerning the safe handling of toxic materials.

The use of these harmful chemical substances is recorded in a Material Safety Data Sheet (MSDS). This is done to keep the company's executives and workers informed, and to prevent accidents arising from their improper use and/or handling. The company also conducts training sessions on the dangers and toxicity levels of these materials.

● Eco-friendly character goods ● An environmental protection campaign



FINE DUST DENSITIES IN 2010

(Unit: $\mu\text{g per m}^3$)

Underground Stations	ILSAN LINE		GWACHEON LINE		GYEONGBU LINE		Sunae	98.6	Suseo	99.2
	Daehwa	66.3	Beomgye	84.6	Suwon	77.9	Seohyeon	114.1	Daemosan	114.4
	Juyeop	122.0	Pyeongchon	103.1	Yeongdeungpo	109.7	Imae	84.0	Gaepo-dong	101.6
	Juyeop	122.0	Indeokwon	115.8	BUNDANG LINE		Yatap	76.3	Guryong	67.6
	Madu	131.7	Government Complex	123.5	Jukjeon	72.8	Moran	81.9	Dogok	88.1
	Baekseok	118.6	Gwancheon	98.4	Ori	107.7	Taepyeong	85.8	Hanti	103.9
	Hwajeong	126.5	Seoul Grand Park	106.3	Migeum	106.3	Gyeongwon Univ.	87.0	Seonneung	109.5
	Samsong	96.6	Seoul Racecourse Park	113.4	Jeongja	103.2	Bokjeong	106.2		
Ground Stations	Seoul	51.9	Yongsan	50.3	Daegok	81.0	Wondang	78.6	Gwangmyeong	78.0
	Yeongdeungpo	89.5	Bucheon	78.0	Bupyeong	78.0	Juan	78.0	Jemulpo	78.0
	Suwon	87.4	Anyang	86.2	Pyeongtaek	64.2	Daejeon	32.9	Cheonan Asan	32.4
	Busan	106.1	Dong Daegu	72.9	Daegu	56.0	Gumi	38.2	Guri	48.2
	Deokso	60.4	Donong	80.8	Mangu	52.8	Yangwon	51.1	Yangjeong	52.2
	Jungrang	40.4	Cheongryangr	71.3	Hoigi	48.8	Wonju	72.9		

Ilsan Line

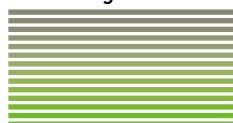
Gwacheon Line

Gyeongbu Line

Bundang Line

Ground Stations

Average 107.91



Average 103.21



Average 93.80



Average 95.17



Average 65.40



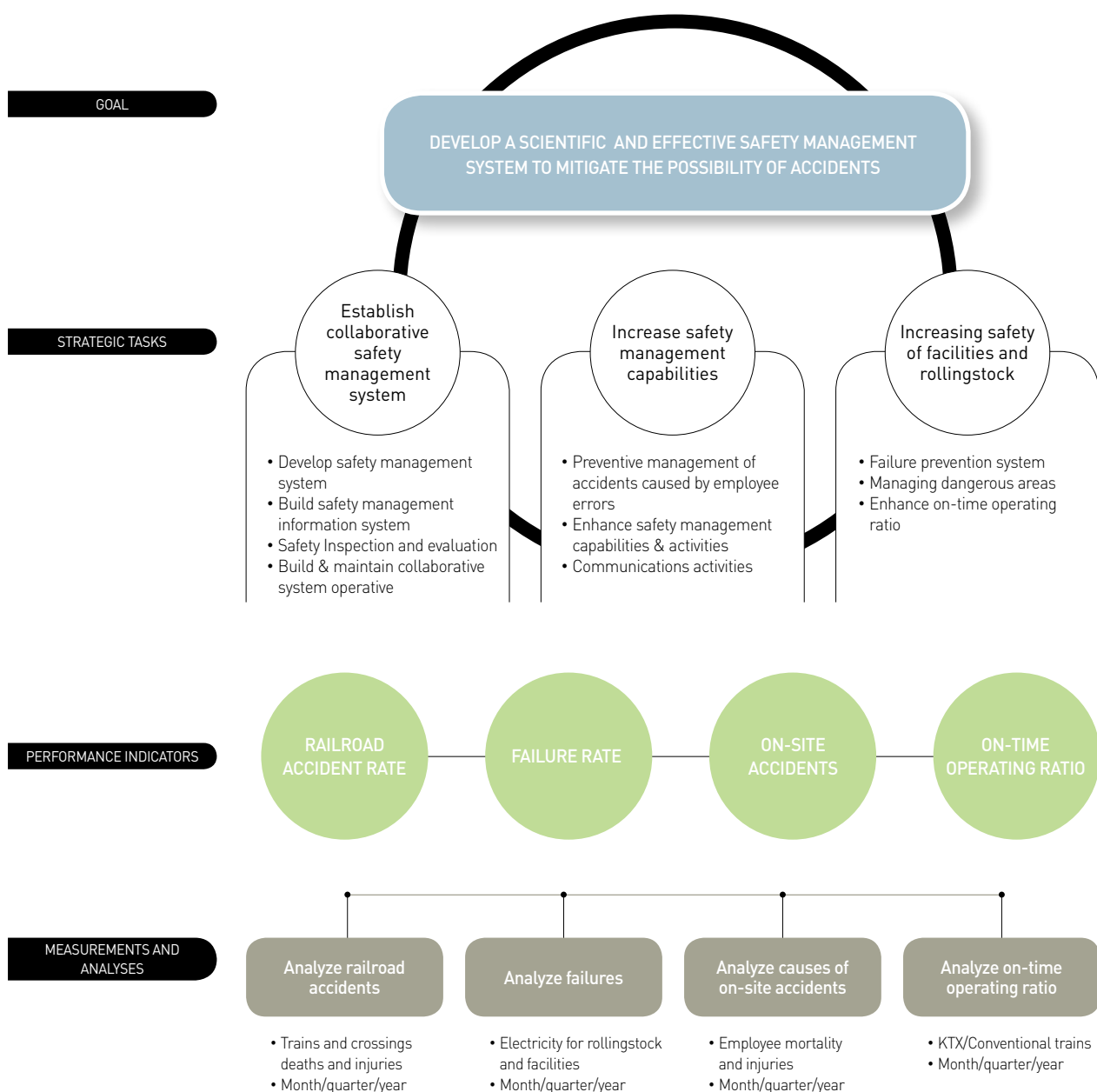
SAFETY MANAGEMENT

Safety is core value of railroads and the best service for people. KORAIL will practice the world's finest safety mgt. through specialized and systematic mgt.

SAFETY MANAGEMENT SYSTEM

● The company is committed to maintaining a "world's-best" safety level by establishing enhanced and systematic safety management processes, raising its workers' awareness of health and safety issues, and ensuring

the safety of its facilities and equipment. Through this, KORAIL is carrying out its mission of being a "green network creating a richer future."



MID- TO LONG-TERM SAFETY MANAGEMENT ROADMAP

- Safety is the first principle upon KORAIL's mission of establishing a green network that contributes to the creation of a fruitful life. To that end, KORAIL is doing its utmost to be the world's best railroad in safety management by (1) constructing a systematic safety management system, (2) improving employees' safety management capabilities, and (3) improving facility and rollingstock safety performance.

AS WAS~2009

● LAY FOUNDATIONS FOR SAFETY MANAGEMENT

- Establish an efficient safety management system
- Establish an emergency response system
- Standardize safety inspections and improve their quality
- Develop a workforce with expertise in managing for railroad safety
- Increase safety level of railroad tracks



AS IS 2010~2011

● EXPAND SAFETY MANAGEMENT SYSTEM IN PLACE AND RAISE ITS EFFICIENCY

- Increase quality of safety management operations
- Continue adding to safety facilities
- Enhance KORAIL's risk management skills



TO BE 2012~

● TAKE SAFETY MANAGEMENT TO A HIGHER LEVEL

- Allow safety management practices to take root
- Ensuring "world's best" safety operations
- Optimize conditions for train operations
- Aim for lowest possible level of industrial accidents



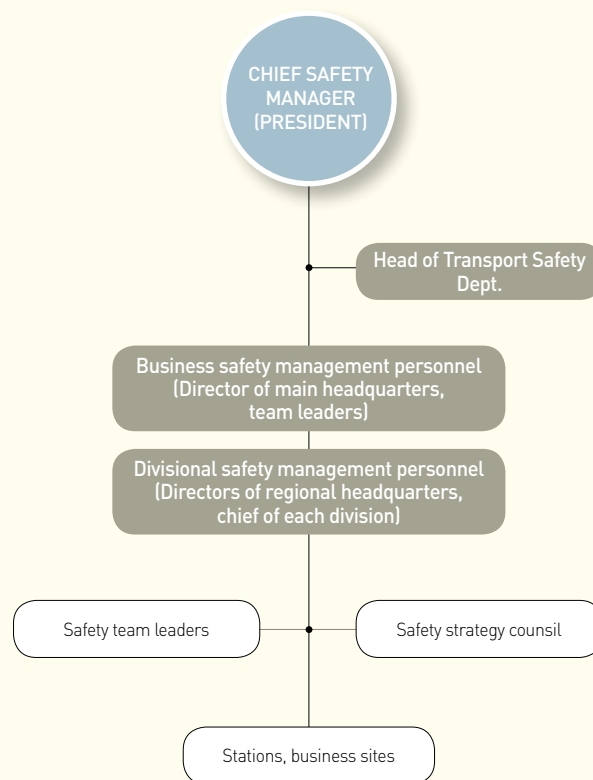
- A drill to restore accident-hit railroads
- Dealing with railroad troubles
- An anti-terrorist drill

ORGANIZATION AND MANAGEMENT

- As part of its goal of developing a world-class safety management system, KORAIL has begun setting company-wide goals that define who is responsible for managing various safety activities. These goals are part of the "agreement concerning responsible management" that is signed by its CEO and department heads. Departmental management assessment indexes are included with them.

As a result of the company's efforts to enhance safety communications at the management level, 7,217 cases have been reported to the potential accident system, with another fourteen being forwarded to the company's safety ombudsman. KORAIL has also formed an advisory committee to deal with the advancement of railroads through safer transportation. Its opinions will be reflected in the company's policies.

ORGANIZATION OF SAFETY MANAGEMENT SYSTEM

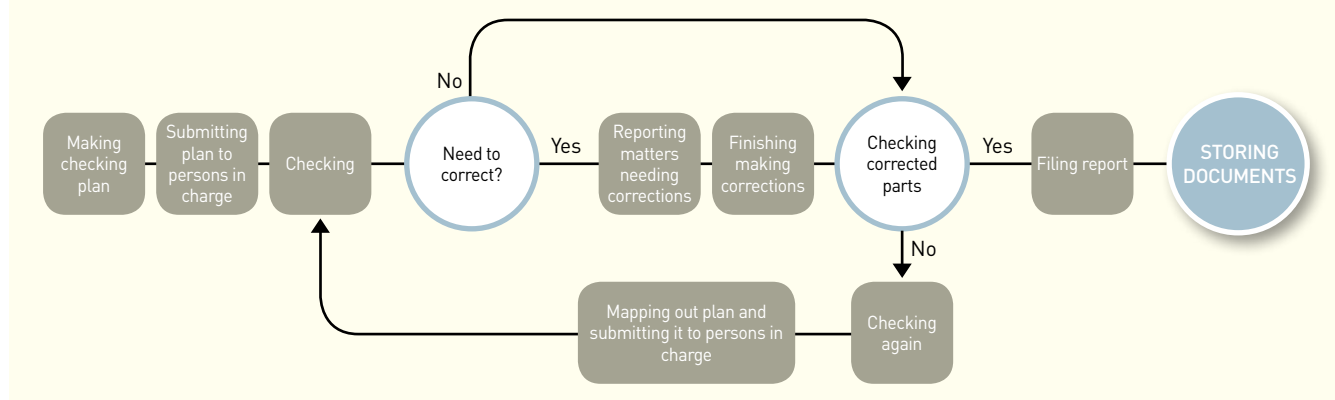


SAFETY MANAGEMENT SYSTEM

● In 2009, KORAIL adopted the world-recognized Environment, Health & Safety (EH&S) system developed by SAP, a German company. This year, we put the finishing touches to our Safety Management System (SMS). It

consists of systemic, scientific and explicit safety management support activities, with a focus on prevention. As a result, we now have a world-class, efficient, and effective safety management program in place.

FLOW CHART SHOWING SMS MONITORING PROCEDURES



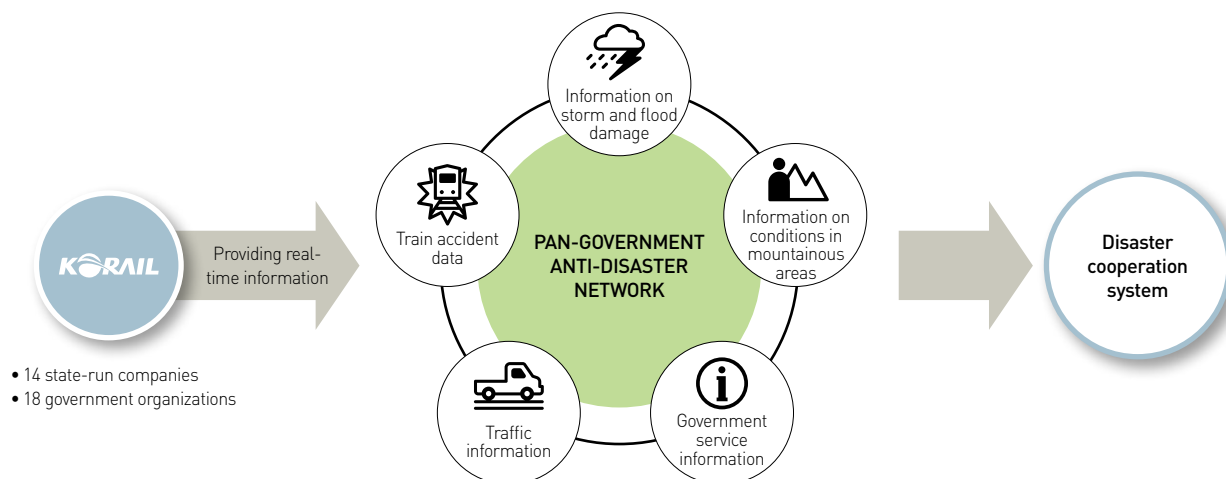
EMERGENCY RESPONSE SYSTEM FOR DISASTERS

● In the event of an emergency, KORAIL has devised a fast and efficient system to expedite response and recovery activities and protect the lives and property of the public.

KORAIL has the capability for an immediate response to emergency situations. It has completed preparations for the operation of a 24-hour response center. It has also cemented a general plan for emergency response, manuals that designate plans of action placed in secure locations and maps organized to facilitate response in emergency situations. KORAIL has also formed cooperative relationships with

relevant institutions and placed equipment for rescue and recovery in appropriate locations.

We have also established a text messaging (SMS) system to inform our workers and executives about disaster situations on a 24/7 basis. In addition, we liaise with and provide information to a country-wide disaster management system consisting of seventy-one other disaster control institutions. Both the media and the public can receive information through Audience Response System (ARS) services.





● MEASURES TO DEAL WITH EARTHQUAKES

KORAIL has begun a program of reinforcing its facilities to ensure that they are earthquake-resistant. This includes evaluating buildings to see if they are earthquake-proof, and strengthening them in stages. KORAIL also has in place a system to detect earthquakes around high-speed railroads. KORAIL will stay informed of earthquakes as they happen in real time, allowing the immediate shutdown of moving trains through the affected area.

In 2010, KORAIL conducted three mock trials to measure its level of preparedness for an earthquake. They were carried out in tandem with a number of outside institutions. We will repeat this exercise in the Gangwon-do and Daejeon in May of 2011. The mock trial that will be conducted in Gangwon-do will presuppose that there has been an earthquake and a tsunami in the East Sea. In collaboration with local governments, we will participate in trial exercises ranging from mock broadcasts and evacuations to rescue and relief efforts and recovery operations.

STEP-BY-STEP OPERATING STANDARDS, BY EARTHQUAKE MAGNITUDE

	 Red alert (Over 6.5 gal)		 Yellow alert (4.0~6.5 gal)	
	High-speed lines	Conventional lines	High-speed lines	Conventional lines
Upon Warning	Operations suspended		Operations suspended	
If earthquake is confirmed	30 km/h or less	—	90 km/h or less	30 km/h or less
Shortly after start of vehicle operation	90 km/h or less	65 km/h or less	Normal operations, if no problems are detected	
After operating at 90 km/h or less	170 km/h or less	65 km/h or less		
After measurements and inspections	Normal Operations		Normal Operations	

● MEASURES TO COPE WITH TORRENTIAL RAINSTORMS AND TYPHOONS

KORAIL updated its response system for torrential rains and/or typhoons in March 2008. This included modifying our procedures for dealing with natural disasters and preparing response measures that kick in when floods occur. In addition to checking rainfall volumes in real time through an automatic precipitation warning system, we have established an emergency mobilization network in tandem with private firms and other concerned institutions, such as the Korea Meteorological Administration. We have also published a manual outlining what steps are to be taken in the event of flooding. In addition, we operate a permanent emergency response center.

● ANTI-HEAVY SNOW MEASURES

KORAIL is operating joint snow removal teams under the leadership of stationmasters.

The team begins to operate with a heavy snow warning issued. Moreover, the national and regional headquarters have snow removal teams to support the joint snow removal teams.

Anti-icing devices were installed at spots vulnerable to freezing coldness such as doors and electric devices of electric trains and facilities were also improved.

We also installed an automatic heater at switching equipment which decides directions of trains to ensure safety of trains despite heavy snows.

● ANTI-HEAT WAVE MEASURES

Regional heat waves due to global warming have a negative impact on railroad facilities.

Sweltering heat warps rails or expands overhead contact line by elevating the temperature of rails. This presents a serious danger to train operation. The company is checking equipment to monitor railroads and overhead contact line to cope with any accidents from torrid heat and repairs any vulnerable spots quickly. Moreover, KORAIL installed rail temperature measuring devices on high-speed railroads which send rail temperature to controllers in real time. The controllers slow down or stop high-speed trains depending on the railroad temperature for safety.



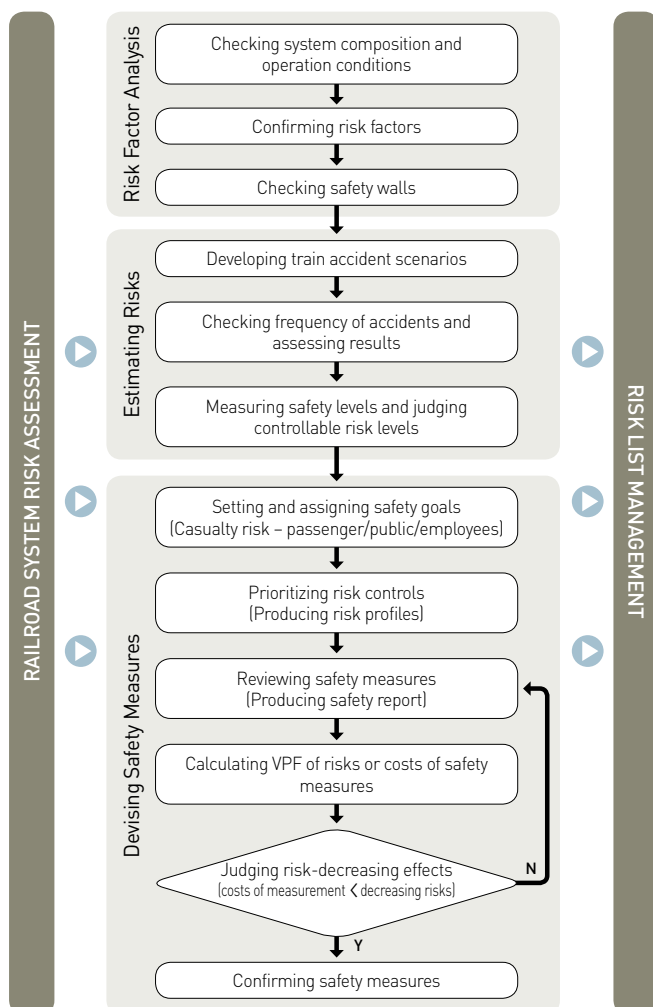
- Repairing railroads
- Weather observation facilities
- Turn out heating system



SAFETY MANAGEMENT BASED ON ACCURATE RISK ASSESSMENTS

● KORAIL developed the preventive and scientific Safety Management System (SMS) based on risk managements, a first for a Korean railroad operation company. To this end, the company assessed risks of recent railroad accidents and devised measures to mitigate high risk factors. Our risk assessment analyzed risk factors by dividing fatal railroad accidents by accident types and causes of accidents by railroad workers, trains and railroad facilities, systems and procedures and the environment. We calculated risks by turning annual frequencies of accidents and damage from the accidents into casualties. We classified risk factors which are 1 or higher into high risk factors and devise measures to lower risk levels and reflected them on our safety plans.

Furthermore, we have an excellent emergency response system and are conducting thoroughgoing safety investigations, establishing an advanced safety culture, regular monitoring of safety and cooperative activities with external organization.



▶ : Proving Risk Assessment Activities (Risk analysis, risk calculation, safety level analysis, studying feasibility of safety measures, risk list management)

ANALYSIS OF DISASTER SURVEY AND OPERATION OF SAFETY REVIEW AND ASSESSMENT PROGRAMS

● KORAIL has established a Safety Investigations Team under the direct control of the vice president. Its role is to institute measures to prevent accidents from reoccurring through thorough investigations of ones that have happened previously. The company also operates a joint investigation group comprised of both in-house and external specialists. Its function is to determine the precise causes of accidents and ensure the reliability and transparency of KORAIL's accident investigations activities. The company evaluates its safety management standards by carrying out comprehensive reviews, and awards workers with extra points for model cases of safety management. This provides everyone with an incentive to achieve our safety performance goals, and raises our employees' awareness of the need for safety at all times.

As a result of these analyses and management of railroad accidents, KORAIL's accident rate (which is modeled on the UIC's standards) stood at 197 in 2010, 39 less than in 2010. This means that we are outperforming the railroad operating systems of many advanced countries.

OPERATING ACCIDENTS: TRAIN AND CROSSWALK ACCIDENTS

Cases / Train mileage (Unit: millions km)



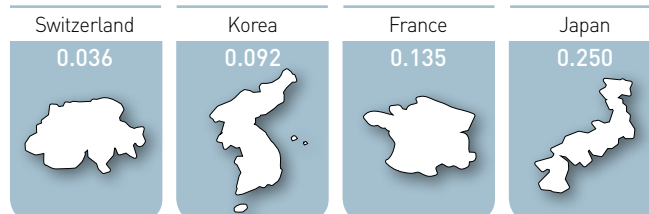
ACCIDENTS TO PEOPLE: PASSENGER AND NON-PASSENGER FATALITIES

Cases per train mileage (Unit: millions km)



ACCIDENT RATE OF MAJOR OVERSEAS RAILROAD OPERATORS

As of 2009; data taken from the UIC (Unit: Accidents per million km)



- A railroad temperature sensor
- A device to check approaches of trains



ADVANCED SAFETY SYSTEM FOR ACCIDENT PREDICTION AND CONTROL

● HIGH-SPEED RAILROAD ADVANCED OPERATING SAFETY SYSTEM

This system detects dangerous elements on high-speed tracks in real time and delivers the information to the Railroad Traffic Control Center, which controls the operation of all our trains. The system includes an obstacle and rockslide detector, an earthquake detector, an axle temperature detector, a repair person-crossing device, a tunnel detector, a rail temperature detector, a dragging detector, and a turnout heater.

● HIGH-SPEED COMPREHENSIVE RAIL MONITORING AND CONTROL SYSTEM

This system monitors any intrusion into our major facilities 24/7. This information is sent to the high speed rail control office at the Railroad Traffic Control Center, whereupon the center takes the appropriate action-including changes to train operations or dispatching personnel-depending on the on-site situation.

● CTC (CENTRALIZED TRAFFIC CONTROL)

The Railroad Traffic Control Center monitors the status of our trains and controls them automatically in accordance with our computerized scheduling data. The CTC monitors the status of our train operations in real time, enabling KORAIL to take quick and definitive action to guarantee the safety of our operations.

● ATC (AUTOMATIC TRAIN CONTROL SYSTEM)

Data concerning our railroad operations are transmitted to trains through rails. If a train exceeds its mandated speed limit, the ATC System automatically reduces its rate of travel.

● TLDS (TRACK CIRCUIT DETECTION SYSTEM)

The TLDS information system monitors the status of our track circuits in real time. It prevents the re-occurrence of specific problems by reproducing and analyzing previous ones that have been monitored and recorded by the system. It is currently operating at 73 locations on our high-speed lines.

● TRPS (TRAIN RADIO PROTECTION SYSTEM)

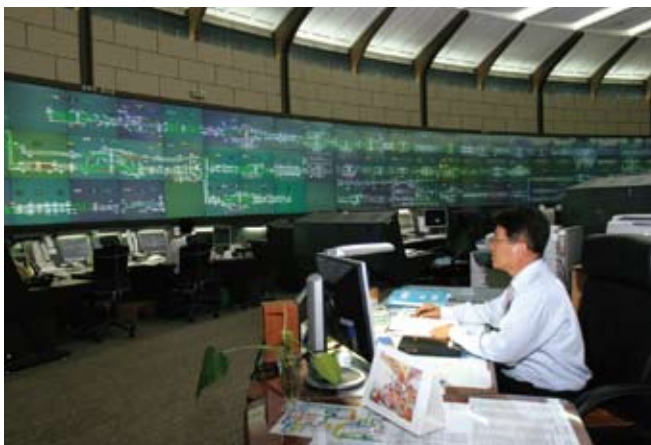
The TRPS System provides instant warnings about dangerous situations, such as train malfunctions or derailments, to all trains operating nearby, and stops them automatically. So far, it has been installed on 1,352 of our trains, including 92 on 46 KTX trainsets.

● TRAIN SAFETY OPERATING INFORMATION SYSTEM / ON-BOARD SIGNALING SYSTEM

The Train Safety Operating Information System provides detailed information about tracks currently in operation (including stations, forthcoming curves, turnout, crosswalks, dangerous places, etc), using the GPS service and a monitor in the driver's cab. It adds to the safe operation of trains, allowing them to travel faster and enhancing their operations in many other ways. KORAIL has built a database covering about nine tracks, with a total length of 1,590 km.

● KTX AXLE TEMPERATURE ANALYSIS SYSTEM

This system is installed on high speed tracks and monitors the temperature of a train's wheel axle in real time during train operations. When temperature goes up, it notifies the train engineer and Centralized Control Center. KORAIL uses a non-contact thermometer, which enables the company to reduce the time needed for inspections. This reduces train delays a great deal.



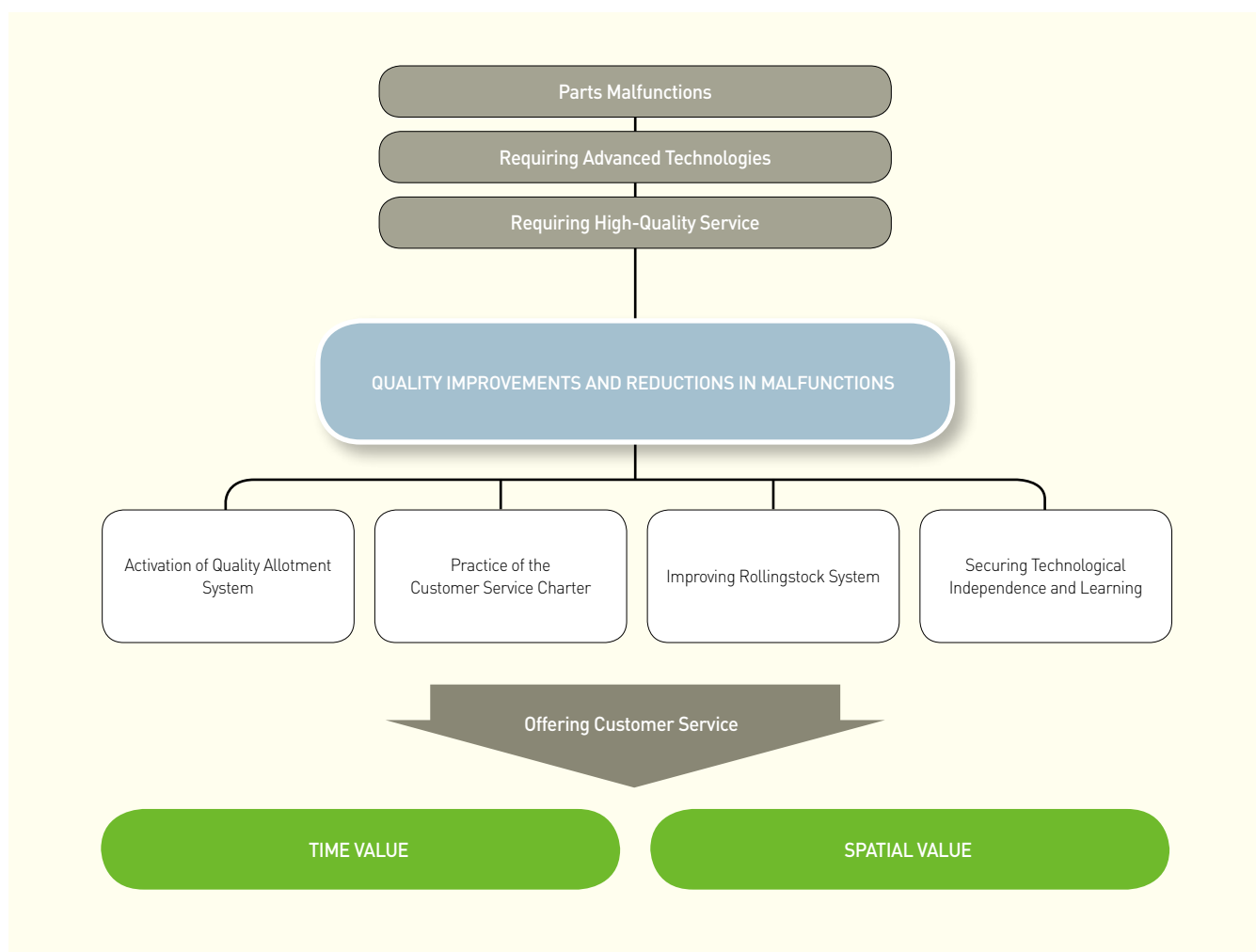
The Railroad Transportation Control Center



QUALITY MANAGEMENT

KORAIL will actively construct an advanced system by securing new railroad infrastructure technology.

QUALITY MANAGEMENT SYSTEM



● STRUCTURE OF HUMAN RESOURCES MANAGEMENT FOR AN ADVANCED RAILROAD NETWORK

KORAIL has added to its efficiency by introducing an automated inspection and management system that makes train inspections less time-consuming. The company also boosts its productivity by consigning both simple and repetitive tasks and more specialized ones to outside operators.

The company has also automated its inspections and inspection devices for underground tracks in the Seoul metropolitan area. In addition, we have put an advanced, low-cost, high-efficiency maintenance system in place. It monitors and analyzes our high-speed track circuits and the operating status of our safety system in real time, using a functions detector.



- An environment-friendly turnout
- ● KTX_OBCS
- ● ● A cabin of the KTX-Sancheon Train



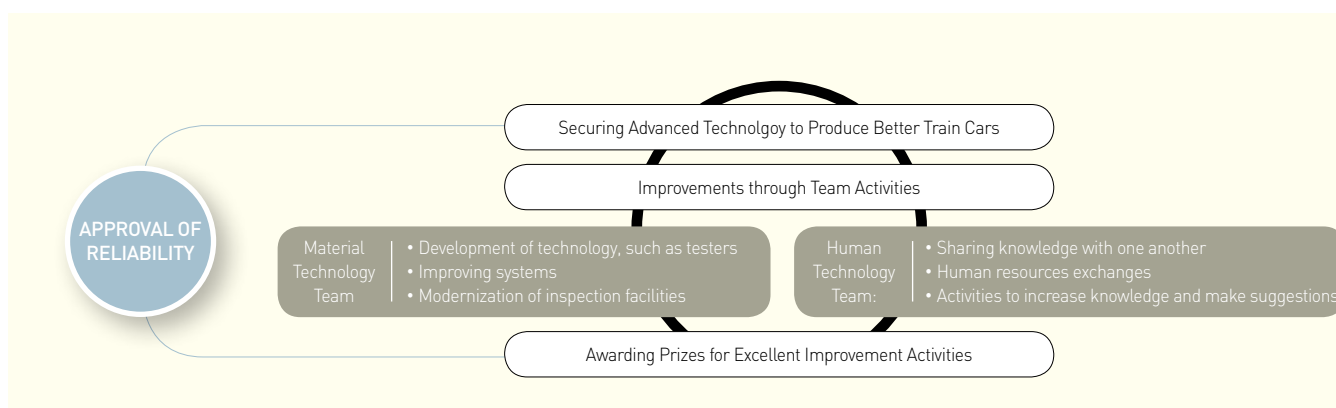
QUALITY MANAGEMENT SYSTEM FOR AN ADVANCED, WORLD-CLASS RAILROAD

● SUSTAINABLE QUALITY MANAGEMENT SYSTEM

After the introduction of KORAIL's quality management system in 2000, company-wide quality improvement activities were expanded nationwide. One result was that KORAIL has been given the President's Award for its quality allotment system for eleven consecutive years. Another was that the company produced Korea's sixteenth master craftsman. In addition, we added to our reputation as an enterprise that offers highest-quality transportation services and enhances customer satisfaction by winning the grand prize in the National Productivity Contest for four years

in a row. We were also named an excellent company in terms of quality competitiveness for eight straight years.

In particular, KORAIL established quality improvement activities led by the national headquarters as voluntary on-site quality management through education programs. Providing our employees with incentives for superior quality improvement activities and sharing our quality analysis data with them are dependable ways of increasing their performance.



● PREVENTION OF TRAIN MALFUNCTIONS

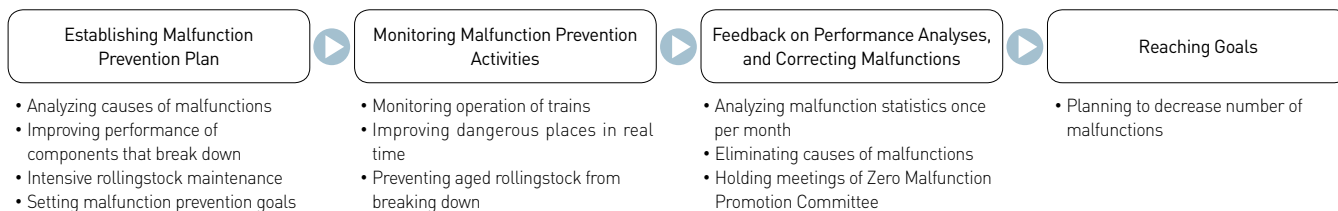
KORAIL has established a zero-malfunction system as part of its data-based prevention activities, and carries out preventive maintenance activities by train type to realize its goal of zero malfunctions. This enhances the comfort and safety of its customers.

TRAIN CAR MALFUNCTION RATE (Unit: Cases per million km)



ZERO MALFUNCTIONS SYSTEM

AIMING FOR ZERO MALFUNCTIONS



- The National Quality Management Contest
- ● KTMSYS
- ● ● KTX-Sancheon



● CHECKING QUALITY OF KTX-SANCHEON TRAIN

The reliability of the primary components for the KTX-Sancheon high-speed train was checked and proved by experts at companies, colleges, and research centers through long-term test operations of the domestically produced Korean-type high-speed G7 Train under the management of the Korea Railroad Research Institute. We are making efforts to ensure the high quality of the advanced train by forming an engineering committee in collaboration with the engineering company. Its purpose will be to correct malfunctions caused by poor work in the early production period.

● DECISION-MAKING AND AUTOMATIC INSPECTION SYSTEMS FOR ADVANCED TRACK MANAGEMENT

The KTMSYS (Korea Track Maintenance System) is an advanced method for repairing railroads. It helps to prevent accidents in a timely manner in terms of both costs and working conditions by monitoring rail conditions, managing the data in an integrated system, and predicting the deterioration rate of rails and other material. By deploying it, we can optimize our maintenance operations, reducing their costs by 20% and creating 10 billion won in import replacement effects.

● RAILROAD SAFETY GREEN CAMPAIGN

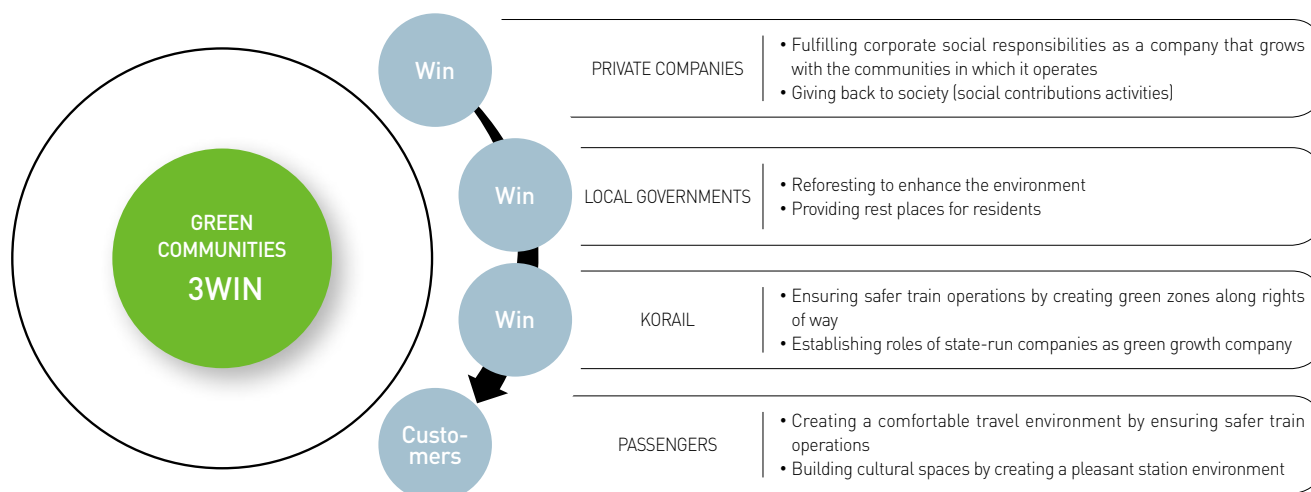
KORAIL has created a better environment (including reducing noises from its operations) by turning areas near its facilities into green zones. This was done in 2010, with the aim of improving the overall operating environment and coping with risk factors, such as illegal facilities on or near our rights of way. We are also building a green safety network in collaboration with private companies and local governments.

● MODERNIZATION AND AUTOMATION OF EQUIPMENT FOR MORE ADVANCED RAILROADS

The purpose of KORAIL's advanced railroad maintenance equipment and automated inspection system is to ensure the highest possible level of quality and safety. The company keeps its facilities operating at peak performance by hiring and training expert maintenance people and designing advanced maintenance equipment to maximize efficiencies in a rapidly changing industry environment. This allows us to replace older-style, labor-intensive, manual-type inspection tasks with more specialized devices. Data on our facilities is measured by test vehicles and measuring instruments. It is then inputted and managed through KOVIS.

Any and all instances of malfunctions, accidents, and maintenance work are reported to all our employees to enhance our company-wide safety management system.

	Old	Improved
Electric Facility Technology Support System		 <ul style="list-style-type: none"> • More scientific measurements • Reducing labor costs (by one billion won)
Remote Measuring System		 <ul style="list-style-type: none"> • Automation of checking meters • Reducing labor costs (by 350 million won)
Precise X-Ray Diagnoses		 <ul style="list-style-type: none"> • Preventing sophisticated facilities from breaking down • Reducing costs by five million won per disconnected switch



Dear Readers of KORAIL 2010 Sustainability Report

● FOREWORD

The Korea Management Association Registration and Assessments (KMAR) had been engaged by KORAIL to verify the contents of its 2010 Sustainability Report (the Report). KORAIL is responsible for the collection and presentation of information within the Report. Our responsibility is to carry out assurance activities on specific information in the verification scope stipulated below.

● OUR INDEPENDENCE

With the exception of providing third party verification services, KMAR is not involved in any other KORAIL business operations that are aimed at making profits in order to avoid any conflicts of interest and to maintain independence.

● VERIFICATION SCOPE

KORAIL described its efforts and achievements of its sustainability activities in the Report. The verification process was designed to provide readers with the following information;

- Verification of the economic section: Review whether financial performance data has been extracted appropriately from KORAIL's 2010 Financial Statements Audit Reports and Annual Reports as defined in the Report's performances and conclusion sectors
- Verification of environmental and social section: Review whether environmental and social information included in the Report is presented appropriately.

"Appropriately Presented" means that the actual data and the original information are appropriately reflected in the contents of the Report with consistency and reliability. For the economic sector, we based our evidence gathering procedures on reasonable assurance. It is a higher level of assurance than the limited verification in terms of characteristics and the extent of performed tasks.

● VERIFICATION STANDARDS

KMAR performed the review based on our own verification. We also used the International Auditing and Assurance Standards Board-issued "International Standard on Assurance Engagements (ISAE 3000): Assurance Engagements other than Audits or Reviews of Historical Financial Information" as additional guidelines.

● VERIFICATION PROCESS AND CONCLUSION

In order to form our conclusion, KMAR undertook the steps outlined below to assess KORAIL's internal processes for reviewing the sustainability reporting practices.

- Surveyed KORAIL's sustainability related media information during the reporting period
- Reviewed systems and processes used in producing data
- Assessed internal documents and materials
- Interviewed people in charge of disclosed activities and performances

Based on the results we have obtained from material reviews, related department visits and interviews, we held several discussions with KORAIL on the revision of the Report. We reviewed the Report's final version in order to confirm whether our recommendations for improvement and revisions have been reflected.

- **ECONOMIC PERFORMANCE**
We compared the Report with KORAIL's 2010 Financial Statements and found that the financial data presented in the Report has been appropriately derived from 2010 Financial Statements.
- **ENVIRONMENTAL AND SOCIAL PERFORMANCE**
We observed that the information contained in the environmental and social sections has been appropriately presented. We did not discover any significant errors.

● RECOMMENDATION FOR IMPROVEMENT

We hope KORAIL's publication of the Report is actively used as a communication tool with stakeholders and recommend the following for improvements.

- Improve the materiality test process by understanding stakeholder's expectations and reflecting them
- Enhance the internal communication to improve the sustainability performance and the reporting quality
- Develop the manual to manage and report sustainability performance data

June 9, 2011

Korea Management Association Registrations & Assessments Inc.



CEO **Ki Ho Park**

K. H. Park

GRI Index

STANDARD DISCLOSURES PART I: Profile Disclosures

● Fully ● Partially ○ Not reported

Profile Disclosure	Description	Page	Reported	Reason for Omission	Further Explanation
1. Strategy and Analysis					
1.1	Statement from the most senior decision-maker of the organization	8-11	●		
1.2	Description of key impacts, risks, and opportunities	8-11, 42	●		
2. Organizational Profile					
2.1	Name of the organization	15	●		
2.2	Primary brands, products, and/or services	19-22	●		
2.3	Operational structure of the organization, including main divisions, operating companies, subsidiaries, and joint ventures	23-27	●		
2.4	Location of organization's headquarters	15	●		
2.5	Number of countries where the organization operates, and names of countries with either major operations or that are specifically relevant to the sustainability issues covered in the report	24-25	●		
2.6	Nature of ownership and legal form	14	●		
2.7	Markets served (including geographic breakdown, sectors served, and types of customers/beneficiaries)	19-22	●		
2.8	Scale of the reporting organization	15	●		
2.9	Significant changes during the reporting period regarding size, structure, or ownership	15	●		
2.10	Awards received in the reporting period	98	●		
3. Report Parameters					
3.1	Reporting period (e.g., fiscal/calendar year) for information provided	C2	●		
3.2	Date of most recent previous report (if any)	C2	●		
3.3	Reporting cycle (annual, biennial, etc.)	C2	●		
3.4	Contact point for questions regarding the report or its contents	C2	●		
3.5	Process for defining report content	36-37	●		
3.6	Boundary of the report (e.g., countries, divisions, subsidiaries, leased facilities, joint ventures, suppliers). See GRI Boundary Protocol for further guidance	C2	●		
3.7	State any specific limitations on the scope or boundary of the report (see completeness principle for explanation of scope)	C2	●		
3.8	Basis for reporting on joint ventures, subsidiaries, leased facilities, outsourced operations, and other entities that can significantly affect comparability from period to period and/or between organizations	C2, 24	●		
3.9	Data measurement techniques and the bases of calculations, including assumptions and techniques underlying estimations applied to the compilation of the Indicators and other information in the report. Explain any decisions not to apply, or to substantially diverge from, the GRI Indicator Protocols	C2	●		
3.10	Explanation of the effect of any re-statements of information provided in earlier reports, and the reasons for such re-statement (e.g., mergers/acquisitions, change of base years/periods, nature of business, measurement methods)	C2	●		
3.11	Significant changes from previous reporting periods in the scope, boundary, or measurement methods applied in the report	C2	●		
3.12	Table identifying the location of the Standard Disclosures in the report	94-97	●		
3.13	Policy and current practice with regard to seeking external assurance for the report	92-93	●		

GRI Index

STANDARD DISCLOSURES PART III: Performance Indicators

● Fully ◐ Partially ○ Not reported

Profile Disclosure	Description	Page	Reported	Reason for Omission	Further Explanation
ECONOMIC					
EC1	Direct economic value generated and distributed, including revenues, operating costs, employee compensation, donations and other community investments, retained earnings, and payments to capital providers and governments	41-46	●		
EC2	Financial implications and other risks and opportunities for the organization's activities due to climate change	19	●		
EC3	Coverage of the organization's defined benefit plan obligations	62	●		
EC4	Significant financial assistance received from government	45	●		
EC5	Range of ratios of standard entry level wage compared to local minimum wage at significant locations of operation	58	●		
EC6	Policy, practices, and proportion of spending on locally-based suppliers at significant locations of operation	-	○		Not applicable
EC7	Procedures for local hiring and proportion of senior management hired from the local community at significant locations of operation	-	○		Not applicable
EC8	Development and impact of infrastructure investments and services provided primarily for public benefit through commercial, in-kind, or pro bono engagement	55	●		
ENVIRONMENTAL					
EN1	Materials used by weight or volume	78	●		
EN2	Percentage of materials used that are recycled input materials	78	●		
EN3	Direct energy consumption by primary energy source	77	●		
EN4	Indirect energy consumption by primary source	77	●		
EN8	Total water withdrawal by source	80	●		
EN11	Location and size of land owned, leased, managed in, or adjacent to, protected areas and areas of high biodiversity value outside protected areas	-	○		
EN12	Description of significant impacts of activities, products, and services on biodiversity in protected areas and areas of high biodiversity value outside protected areas	-	○		
EN16	Total direct and indirect greenhouse gas emissions by weight	77	●		
EN17	Other relevant indirect greenhouse gas emissions by weight	-	○	Not material	Will be reflected later
EN19	Emissions of ozone-depleting substances by weight	-	○		Not applicable
EN20	NOx, SOx, and other significant air emissions by type and weight	81	●		
EN21	Total water discharge by quality and destination	80	●		
EN22	Total weight of waste by type and disposal method	78	●		
EN23	Total number and volume of significant spills	81	●		
EN26	Initiatives to mitigate environmental impacts of products and services, and extent of impact mitigation	75-76	●		
EN27	Percentage of products sold and their packaging materials that are reclaimed by category	-	○		Not applicable
EN28	Monetary value of significant fines and total number of non-monetary sanctions for non-compliance with environmental laws and regulations	-	○		Not applicable
SOCIAL_ LABOR PRACTICES AND DECENT WORK					
LA1	Total workforce by employment type, employment contract, and region	58	●		
LA2	Total number and rate of employee turnover by age group, gender, and region	58	●		
LA4	Percentage of employees covered by collective bargaining agreements	58, 65	●		
LA5	Minimum notice period(s) regarding significant operational changes, including whether it is specified in collective agreements	58, 66	●		
LA7	Rates of injury, occupational diseases, lost days, and absenteeism, and number of work-related fatalities by region	63-64	●		
LA8	Education, training, counseling, prevention, and risk-control programs in place to assist workforce members, their families, or community members regarding serious diseases	63-64	●		
LA10	Average hours of training per year per employee by employee category	60	●		
LA13	Composition of governance bodies and breakdown of employees per category according to gender, age group, minority group membership, and other indicators of diversity	27, 58	●		
LA14	Ratio of basic salary of men to women by employee category	60	●		

Memberships in Associations and Groups / Major Awards in 2010

In 2010, KORAIL made a concerted effort to listen to the voices of its various stakeholders concerning both in-house and external issues. One of our responses was to become a member of more associations and groups, both at home and abroad. We also reflect VOC suggestions and opinions in our management activities.

The success of our efforts is demonstrated by the many awards and accolades we have received from various sectors.

MEMBERSHIPS IN ASSOCIATIONS AND GROUPS

DOMESTIC

UN Global Compact Korea Network	Public Innovation Forum	Korean Association of Public Enterprises	Korean Society of Transportation
Korean Society for Railroads	Korean Association for Public Administration	Seoul Association for Public Administration	Railroad Industrial Committee
Knowledge Management Society of Korea	Asia-Pacific Travel Association, Korea Chapter	Korean Management Association	Korean Standards Association
Korean Productivity Center	Audit Innovations Forum for Public Institutions	The Institute of Internal Auditors	Korea Logistics Association
Organization of Consumer Affairs Professionals	Korea Railroad Engineering Technology Association		

INTERNATIONAL

International	IC	Korea-China-Mongolia Railroad Exchange and Cooperation	Korea-Russia Railroad Exchange and Cooperation
WCRR (World Congress on Railroad Research)	EURAIL SPEED (International conference on high-speed trains)	Coordinating Council for Trans-Siberian Transport (International Coordinating Council of Trans-Siberian Railroads; KORAIL became a permanent member in 2003)	Korea-Japan Railroad Exchange and Cooperation (Ministry of Land, Infrastructure, Transport, and Tourism, JR Kyushu, and JR East Japan)
SGS Testing Korea Co., Ltd.			

MAJOR AWARDS IN 2010

- The KTX brand rose to 34th place from 49th in 2010 (the Brand Stock Top Index)
- Ranked first in the Korea Sustainability Index of the Korea Sustainability Contest / Won the KRCA (Korean Readers' Choice Awards) prize (the Korean Standards Association)
- Received citation for promoting an environmentally friendly industry and contributing to low-carbon green growth (Ministry of the Environment)
- Selected as best organization in the evaluation of information access management (Ministry of Land, Transport and Maritime Affairs)
- Selected as an excellent organization in the National Ombudsman Program (Anti-Corruption & Civil Rights Commission)
- Selected as an excellent state-run company for customer satisfaction (Ministry of Strategy and Finance)
- Won Presidential Prize in the National Teamwork Management Competition for the eleventh straight year
- Won an AA grade, the highest level possible, in the 2010 Family-Friendly Management Certification System (Ministry of Gender Equality and Families)
- KORAIL's Human Resources Development Center was selected as a green education center (The Green Growth Committee)
- KORAIL Tourism Development won the Grand Prize at the 2010 Culture and Tourism Awards (Society of Culture and Tourism Research)

“Oh! GLORY KORAIL”

The image displays a musical score for the song "Oh! GLORY KORAIL". It consists of four staves of music, each with a treble clef and a common time signature (C). The lyrics are written below the notes. The first staff contains three lines of lyrics, the second and third staves contain two lines each, and the fourth staff contains one line. The lyrics describe the benefits of KORAIL, such as better world blooms, meeting customers, and the future of Korea.

1. Be - tter - - World b l o o m - s on KO - - RA - IL -
2. Meeting with - - customers is e - very thing - to KO - - RA - IL -
3. KORAIL is running - to a wi - der - world - o - v e r - A - sia -

The more KORAIL runs the gree - ner - our land - - becomes - KO
To get a train - makes all of us - ha - - - ppy -
Railroad of hope - re a li zes - the dream of tomorrow -

RAIL - For - peo - ple and - the fu ture of Ko rea - KO

RAIL wi - ll be - for - ever wi - - - th you

*Green Life Of Railway Yearning



This report is printed on eco-friendly paper using soybean ink.



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