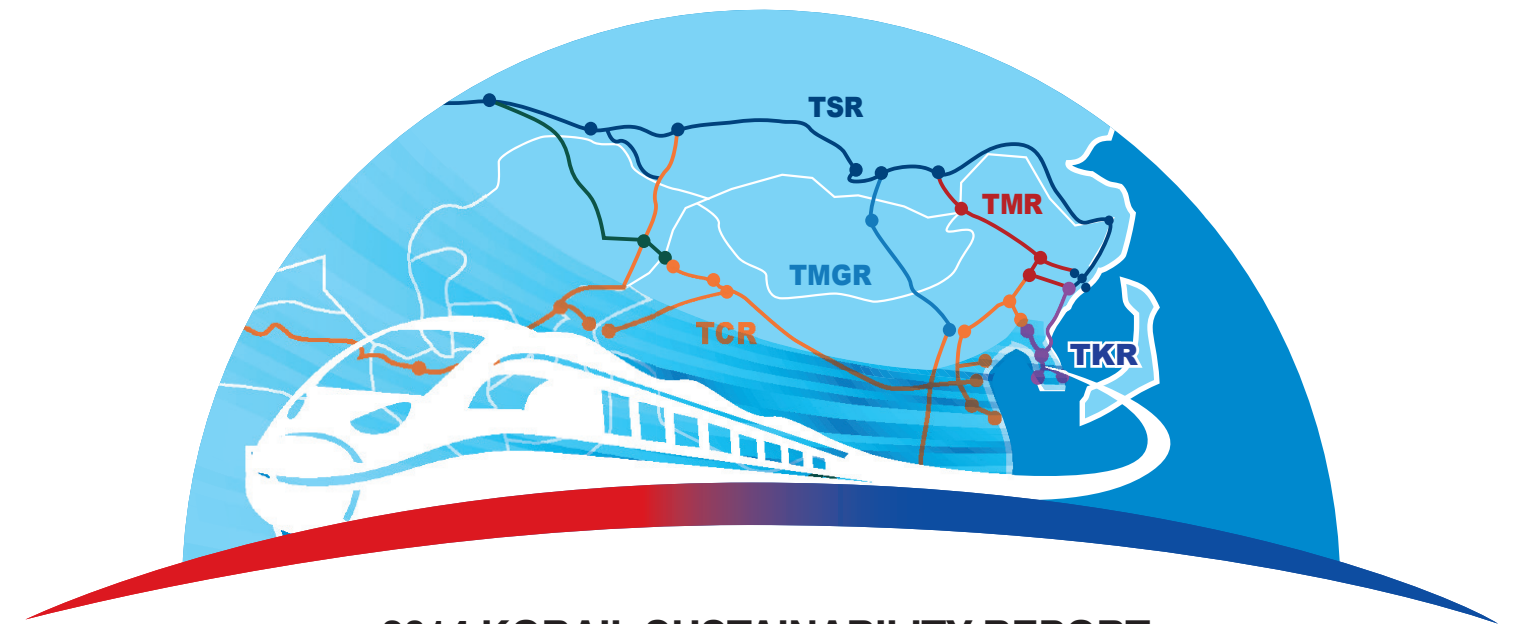


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www.korail.com



2014 KORAIL SUSTAINABILITY REPORT



2014 KORAIL SUSTAINABILITY REPORT



About This Report

KORAIL has published a sustainable management report every year since 2008; this will be the seventh year such a report was published. Focusing on KORAIL's mission of “Devoted to the People, the World, and the Future”, this report discloses the company’s sustainable management activities and performance results, as well as detailed its efforts to move forward as “KORAIL, for the welfare of the nation”.



2014 Sustainable Management Report

Report Standards

This report has been prepared in compliance with the Core method of the GRI (Global Reporting Initiative) G4 guidelines. Accordingly, this report focuses on the important issues derived through an importance assessment and reports the public announcement of the management method (DMA) regarding the important issues in more detail.

Report Period and Scope

This report focuses on the sustainable management activities of KORAIL headquarters and regional head offices from January 1st 2014 to December 31st 2014 and also includes the activities of some affiliate companies. This report also includes some of the activities carried out in the first half of 2015 that have been deemed as being important. This report has identified and included relevant information on how the main stakeholders of KORAIL are affected by the key issues derived from the importance assessment based on the boundary identification method proposed by GRI G4.

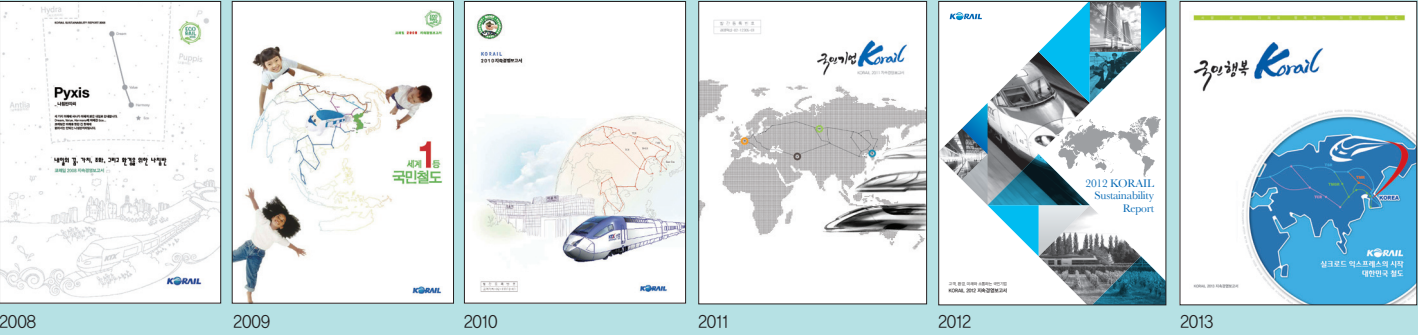
Verification

GRI G4 was applied in KORAIL's sustainable management report. This report was also confirmed to be in compliance with the G4 guideline Core standards through an investigation by a third party verification agency.

Additional Information on Report

The portion of the data that was changed after the previous year’s report was revised in this report, and the changed items have been notated with footnotes. There have been no changes in the scope and boundary of the report compared with the previous year’s report period. Sustainable management activities and the report are being made public in the management announcement section of KORAIL's website. The sustainable management report is published in both Korean and English and is available for download as a PDF file on the website. Please feel free to make any inquiries if you require further information on this report or if there is anything else you would like to know.

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240 Jungang-ro, Dong-gu, Daejeon Metropolitan City
Telephone: 042-615-3213
Email: sustainability@KORAIL.com



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CEO Message



To all our respected stakeholders,

It is my great pleasure to greet you with this year’s sustainable management report. Our sustainable management reports that have been published since 2008 serve as a space for communications with our stakeholders where KORAIL shares the efforts undertaken and results achieved throughout the year. To mark the ten year anniversary of the founding of our company, this year’s report includes even more thorough details of the sustainable management activities, in which KORAIL has engaged over the last ten years, and the resulting achievements.

KORAIL over the last 10 years

Having ushered in a new national life paradigm with KTX’s technology and speed innovations, KORAIL has also contributed to the revitalization of regional economies and a balanced national development based on nationwide railroad networks. Furthermore, as a representative of safe and eco-friendly companies, KORAIL has taken the lead towards a railroad renaissance of a low-carbon, green growth era in Korea. With the business of connecting railroads between the two Koreas, KORAIL is moving forward with all our might to play out part as a medium through our divided country is reunited, while at the same time realizing the dream of a continental railroad. The year 2015 proved that such efforts on KORAIL’s part have been widely recognized by winning the National Brand Grand Prize for the fifth consecutive year, coming in 1st as a Korean Brand Star for four consecutive years, and receiving the Creative Economy CEO Grand Prize for the second consecutive year.

Business profits achieved for the first time since the company’s establishment

KORAIL has achieved business profits for the first time in 2014 since its founding, amounting to 103.4 billion KRW. This was a great achievement that came about through demand creation efforts, such as the direct KTX service to Incheon International Airport and the systematic operation of a yield management system (YMS), and cost reduction efforts, such as a scientific inventory management, reduction of unprofitable train routes, etc. Not only will we strive to successfully operate new routes such as the Honam High-speed Railway and the Pohang KTX, we shall also strengthen our responsible management system through the introduction of divisional accounts to sustain profitable conditions. In achieving success, we repay our customers with services of even higher standards.

Safety is the key value of railroads

With trains operating over 3,200 times every day and a daily average of 3.9 million passengers, safety is a top priority and a core value for KORAIL. We have spared no effort in establishing preemptive safety management systems such as strengthening our safety organization and expanding on-site activities. Thanks to a company-wide effort to strive towards absolute safety, the safety of KTX was recognized as being the world’s best when it was awarded in 2012 with the Special Prize from the International Union of Railways (UIC) in the field of safety. In 2014, compared to ten years ago when the company was founded, railroad accidents were reduced by half, and train defects decreased to its lowest in the company’s history. We at KORAIL shall continue to secure advanced technologies by sparing no expense in investing in vehicles and facilities to ensure their safety, as well as training talented individuals in key technologies and carrying out national R&D tasks.

Establishing a Labor-Management culture of conversation and communication

Before considering themselves as labor and management, all employees of KORAIL perceive themselves first and foremost as public servants that work for the people of the nation. Accordingly, labor and management have fully completed a task to reform reckless management after more than seventy sincere conversations and communications. In 2014, labor and management settled wage negotiations without dispute. The problem of the system that automatically promotes employees according to their years of service, which had been maintained for ten years since the company switch, has finally been resolved last May, marking a major step forward in true co-prosperity

and cooperative Labor-Management relations. We shall continue to take strides in the future as a model public company that takes the lead in the country’s happiness based on continuous conversations and communications between labor and management.

A KORAIL-type creative management that coexists with the region

KORAIL has successfully constructed a railroad tourism belt that fuses regional tourist attractions with the nationwide railroad network and proposed a KORAIL-type creative economy model in which regions can co-prosper together. The railroad tourism belt, having exceeded 900 thousand passengers within just two years of operation, has resulted in ripple effects of creating 82.1 billion KRW worth in production and 1,040 new jobs, revitalizing regional economies and the tourism industry. Bunccheon Station, which was used by only around ten passengers a day, experienced a spectacular rise as a tourist attraction visited by more than 2,000 people after the tourist train began operation. KORAIL shall continue to develop railroad tourist attractions in remote corners of Korea to rediscover the values of railroads, as well as contribute to new tourism demands and regional job creation.

Realization of the Silk Road Express

Korea, being the only divided country in the world, is almost like an island that is not an island. Our nation has long dreamt of having our own continental railroad system for a long time. Last year, KORAIL joined the Organization for Co-Operation between Railways (OSJD) as an affiliate member and laid the foundation for a continental railroad connection. In May of 2015, we successfully held a directors’ meeting and logistics meeting in Seoul. In July, to mark the 70th year of the division of the two Koreas, KORAIL and the Ministry of Foreign Affairs operated the “Eurasia Friendship Express”, which traversed the Eurasian continent, carrying with it the dream of a trans-Korea/ continental railroad. KORAIL is fostering specialist personnel for each field while expanding the trans-Korea railroad industry, as well as thoroughly preparing for the trans-Korea/ continental railroad with the Najin-Hasan project, and will continue to do our utmost in raising our status and competitiveness to a global standard as we lead the Eurasia initiative and to realize the dream of a trans-Korea/ continental railroad.

As a member company of the UN Global Compact, KORAIL supports its 10 Principles regarding human rights, labor, environment, and anti-corruption and is working diligently to play the role of a public company that applies the 7 Principles of ISO 26000 in our main management activities. I would like to extend my deepest gratitude once again to all of you, our stakeholders, for your constant interest and cooperation in KORAIL’s sustainable management activities.

We at KORAIL shall continue to listen attentively and engage in conversations with all the voices of our stakeholders to lead the way towards an era of national happiness. We ask for your generous support and continued interest in KORAIL as we usher in a new golden age of Korean railroads based on sustained innovation, unending change, and challenges.

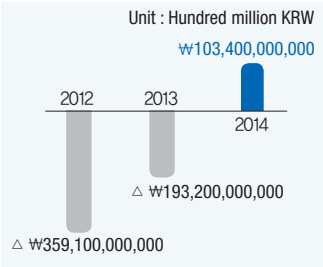
Thank you very much.

최연혜

Korean Railroad Corporation CEO, Choi Yeon-Hye

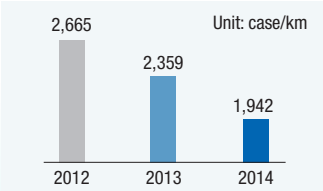
2014 Highlight

Business profits achieved for the first time since the company's establishment



KORAIL has achieved a business profit of 103.4 billion KRW within 9 years of its founding. This was the result of maximizing business efficiency, such as enhancing the yield management system (YMS), reducing unprofitable train routes, carrying out maintenance of freight railroad stations, etc., as well as through intensive business innovations such as scientific inventory management, efficient personnel, and many others. This was also the result of KORAIL's efforts to create railroads with which nation's people would be happy by pioneering new markets such as the direct KTX service to Incheon International Airport and the construction of the 5 tourism belts.

Lowest number of railroad accidents and defects of all time



The functions of the safety head office have been strengthened by establishing a "railroad safety improvement bureau" and upgrading the "control room" to propel a safety first management principle with the CEO at the center. The lowest numbers of accidents and defects have been recorded after improving the facilities and the system, such as reinstalling signalers to prevent human error, improving visibility, and installing ATS dual safety devices.

Full completion of required task for reckless management reform



The first Labor-Management agreement has been concluded through sincere meetings and communication to carry out the reckless management reform task of the government. However, because the executive branch had resigned due to disagreements of union members on the results of the agreement, there were some difficulties in settling this unfinished task. Accordingly, KORAIL concentrated its company-wide capacities and continued its constant communication to strengthen the consensus between labor and management. Within four days of the newly appointed union leaders taking office, the reckless management reform task and the 2014 wage negotiations were settled without dispute.

10 year anniversary of launching KTX



KTX commemorated its 10 year anniversary. The opening of KTX on April 1st 2004 allowed people to travel nationwide in just half a day, which exerted a great deal of influence on all levels of people's economic, social, and cultural lives. As the fifth high-speed train in the world, KTX has serviced more than 414 million people in the last ten years with a daily average of 150 thousand and has secured its place as a representative mode of transportation in Korea. The direct service to Incheon International Airport that opened on June 30th 2014 also provides local and foreign travelers with KTX's services.

Awarded with the National Brand Grand Prize for the 4th consecutive year



Grand Prize in the innovative management field while commemorating its tenth anniversary.

Preparation of the foundation of the continental railroad connection



In order to realize the "Eurasia Initiative", KORAIL has joined the Organization for Co-Operation between Railways (OSJD) as an affiliate member and participated in the Pyongyang director's meeting. Not only has KORAIL pursued various businesses, such as the Silk Road expedition agreement, for the exchange and cooperation with foreign railroads, but we have also worked hard to establish the foundation stones for a continental railroad connection, such as expanding the trans-Korea railroad industry, providing Eurasia specialist training, and many other activities.

Awarded with the 2014 Korea Creative Economy CEO Grand Prize



KORAIL has created jobs and new tourism demands by developing isolated and underdeveloped regions into tourist attractions by constructing 5 railroad tourism belts that span the whole country. KORAIL received the 2014 Korea Creative Economy CEO Grand Prize in the creative innovation sector with the proposal of a KORAIL-type creative management model that enables regions to prosper alongside the company by being able to sell traditional wines and chocolates in the form of trains and attracting them to the small and medium sized business masterworks maru, local restaurants, and train stations.

Awarded with the Korea Volunteers Grand Prize



KORAIL supported the necessary articles for the families of the Sewol ferry victims and volunteer workers to ride our train free of charge. In addition, the seat in KTX where Pope Francis sat has been named the "Seat of Love and Sharing", and all profits from that seat have been donated. KORAIL has received the "Korea Volunteers' Grand Prize" for its social contribution activities specialized for the railroad business, such as the operation of Happy Train, KORAIL Village, and railroad field trips.

Awarded with Prime Minister Citation in the Energy Conservation Promotion Contest



KORAIL has worked very diligently to reduce energy usage by introducing eco-friendly electric vehicles, expanding renewable energy in newly constructed stations, and engaging in mock trading of carbon credits within the company. As a result, KORAIL has been recognized for our outstanding performance in energy conservation and was awarded with the Prime Minister Citation in the Energy Conservation Promotion Contest that was hosted by the Ministry of Trade, Industry, and Energy.

Selected as an outstanding organization by the Board of Audit and Inspection of Korea's self-inspection activities assessment



KORAIL has pursued many activities to improve corporate transparency, such as establishing "transparent ethical management staff meetings", introducing an "autonomous risk inspection system", and establishing "management supervisor disposal criteria". Thanks to such efforts, KORAIL earned the highest score in all four fields (inspection organization and personnel management, inspection activities, inspection results, and post management) and was selected as an outstanding organization by the Board of Audit and Inspection of Korea's self-inspection activities assessment.

KORAIL Introduction

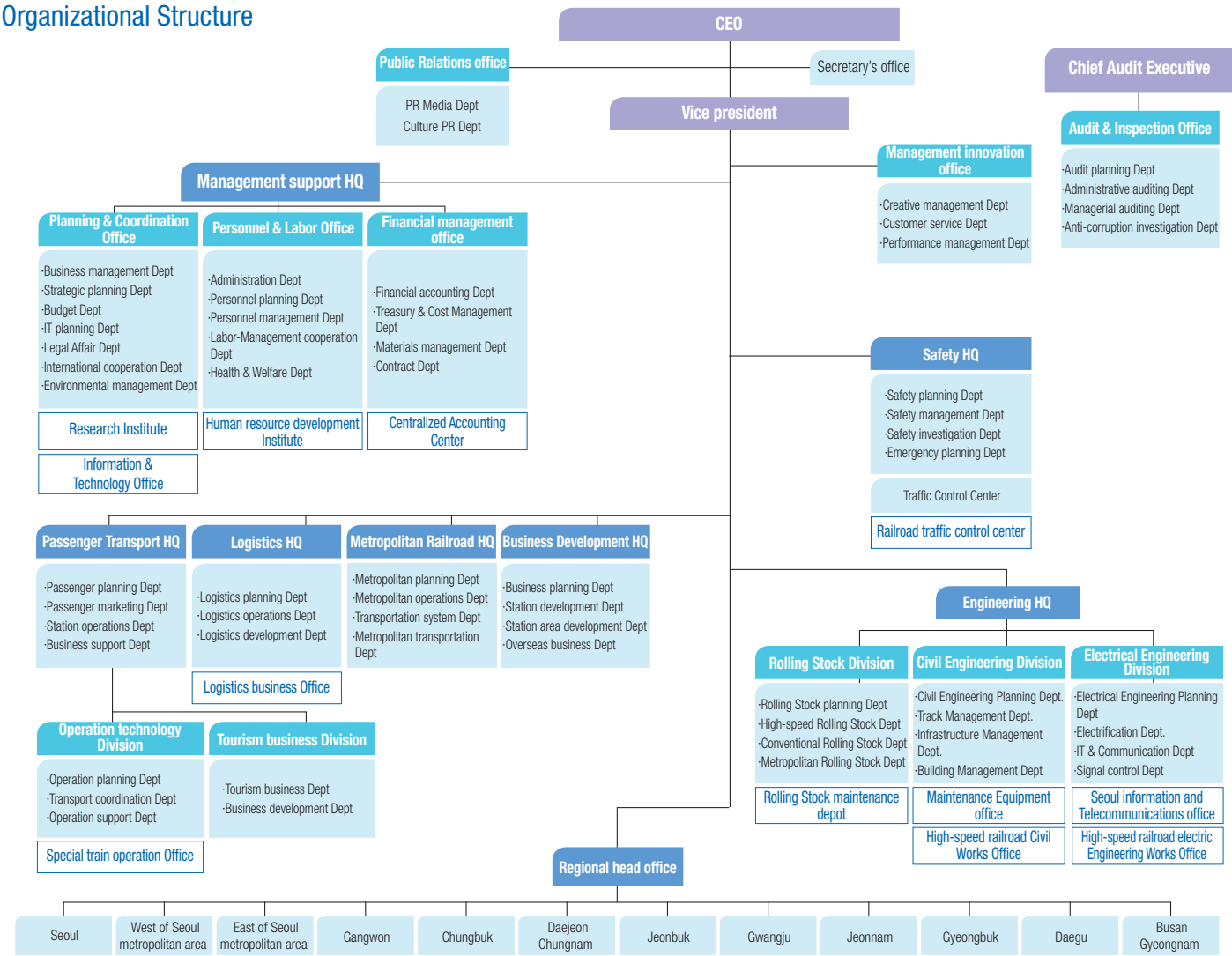
General Status

Company name	Korean Railroad Corporation
CEO	Yeon-Hye Choi
Purpose of founding	Enhance professionalism and efficiency of railroad operations Contribute to the railroad industry and the development of the national economy
Founding date	Sept. 18 th 1899 (Korean Railroad Corporation founded on January 1 st 2005)
Total assets	222,081,000,000,000 KRW
Total sales	50,937,000,000,000 KRW
Operating profit and loss / Net profit during term	100,100,000,000 KRW / △338,300,000,000 KRW
Number of employees	Fixed number: 27,981 / Active service: 27,461.25

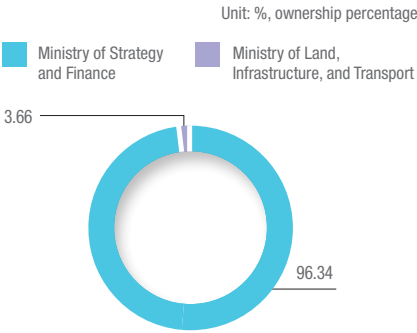
Number of organizations (headquarters, affiliate companies)	[Headquarters] 7 head offices, 6 offices, 5 groups, 63 divisions [Affiliates] 12 regional head offices, 23 affiliates
Headquarters address	240 Jungang-ro, Dong-gu, Daejeon Metropolitan City
Railroad distance	3,825.3km (total of 98 lines) Express line – 555.6km, existing line – 3,269.7km
Railroad length	8,456.4km
Current status of vehicles	16,963 carriages (KTX 1,240 carriages)
Number of stations	672
Average daily transportation records	3,422,000 passengers, 93,000 tons of cargo

(as of July 2015)

Organizational Structure



I Stockholder Composition I



I Affiliated Companies I



I France expatriate address I

14, rue Mademoiselle 75015 PARIS, FRANCE

Current Status of Stockholders

KORAIL is a railroad management public company that was founded with the goal of providing transportation services (passengers, cargo), developing station influence areas and multiple businesses, and conducting maintenance consignment business, etc. All management activities are carried out according to the regulations and commercials laws regarding the management of public institutions. KORAIL's paid-in capital as of 2015 is 9 trillion 637.9 billion KRW, 100% of which is owned by the government.

Current Status of Affiliated Companies

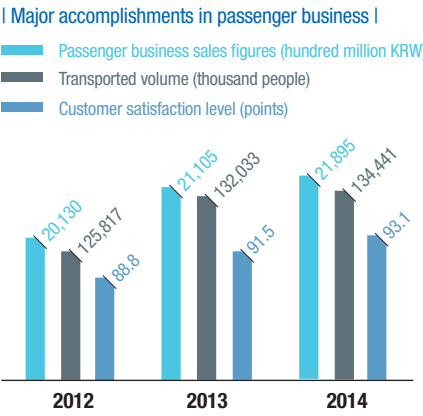
KORAIL has five affiliated companies to secure expertise and specialize in its businesses. Through business adjustments between the affiliated companies, KORAIL hopes to create a synergistic effect of group management by strengthening their competitiveness. Sustainable growth is being supported by strengthening the revenue base and upgrading the management systems of the affiliated companies.

Company name	Number of people	Capital (₩100 million)	KORAIL ownership percentage (%)	Function and role
KORAIL Retail	297	30	100.0	Distribution, advertising, resource distribution, etc.
KORAIL Logis	83	77	92.1	Railroad transportation logistics service
KORAIL Tourism Development	934	40	51.0	Railroad connection to tourism and leisure Providing services in trains
KORAIL Networks	962	72	89.5	Development management of railroad parking lots Management of station businesses Transportation cards, KTX special transportations, etc.
KORAIL Tech	50	19	97.3	Management of railroad track facilities Construction and maintenance of electrical equipment Maintenance of railroad vehicles

Current Status of Overseas branches and International Cooperation

KORAIL manages expatriates to share the policies and operational know-how of advanced railroads in foreign countries. The expatriates in Paris, France engage with the state-run SNCF in technical exchanges, education consultations, and efficient procurement of KTX components. KORAIL also implements an employee exchange program to revitalize the railroad tourism industry and expand our partnership with MGB of Switzerland, the company that operates the "Glacier Express" and the "Mountain Train", which are the representative tourist trains of the Matterhorn. KORAIL is expanding our network with the main agents of railroad operations and other related organizations by participating in railroad-related international initiatives, strengthening cooperative ties for the growth of the railroad industry. We have qualified as full members of the International Union of Railways (UIC) since 2003 and have also served as the Asian Chair from 2009 to 2012. KORAIL has joined the Organization for Co-Operation between Railways (OSJD) as an affiliate member in 2014 to pursue the continental railroad so that the Eurasia Initiative can be realized. We have also held a directors' meeting and an international railroads logistics meeting on May 27th 2015 in Seoul, which was attended by 300 people from 25 countries with interests in the railroad industry and where various cooperative measures were discussed for the joint economic growth of the Eurasian region.

Business Introduction



Business Introduction

Business contents

- High-speed train (KTX)
- Conventional trains (Saemaeul-ho, Mugunghwa-ho, Nuriro, commuter trains)
- Tourism business

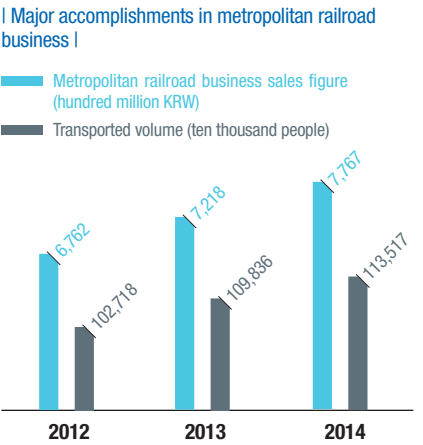
Major accomplishments

- Passenger business distance: High-speed 553.8km, general and tourist 3,051.6km
- Yearly train service distance: High-speed 31,825,000km, general and tourist 36,265,000km
- Yearly number of passengers: High-speed 56,917,000 passengers, general and tourist 77,524,000 passengers
- Yearly sales: High-speed 1,672.3 billion KRW, general and tourist 516.2 billion KRW

KORAIL is creating profits through our tourism business and passenger services that include high-speed and conventional trains. Having opened for service in 2004, KTX served a daily average of 72 thousand passengers in its early stages. This then increased to a daily average of 154 thousand in 2014. A total of 414 million passengers have been served during the 10 years of KTX's service. The opening of the Honam High-speed Railroad in April 2015 has made the whole of Korea into a single living sphere, and we have worked diligently to raise the value of life for each citizen. We have endeavored in enabling a balanced growth throughout the country by providing high-speed train services, which was once biased towards the existing Yeongnam region, to the Honam region as well. We are operating YMS to discover niche demands by improving existing standardized ticketing methods and effectively managing train seats. A team dedicated to YM has been formed to improve this system. Compared to 2013, KTX passengers have increased by 3.7% while profits have increased by 44.2 billion KRW.

I Yield Management System I
(YMS: Yield Management System)

YMS is a data processing system that analyzes customers' train usage with big data to predict customer demands per time slot/section as well as flexibly managing the price and sale of tickets and seating supply to minimize vacancy rates in trains.



The Auxiliary Business or Non-Rail Business

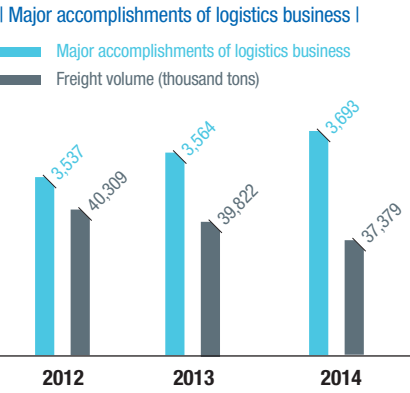
Business contents

- Metropolitan subway routes
- Express train between cities "ITX-Cheongchun"
- 12 lines, 231 stations

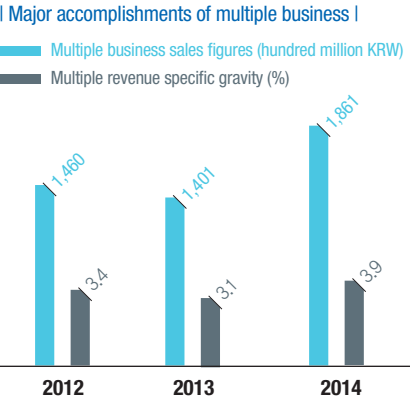
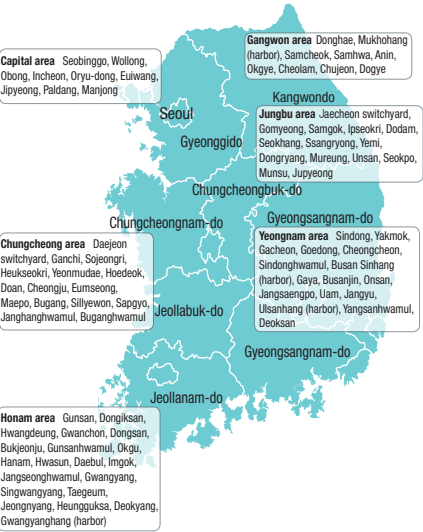
Major accomplishments

- Metropolitan railroad business distance: 525.8km
- Daily service frequency: 2,315 times
- Transported volume: 1,135,170,000 people
- Sales: 776.7 billion KRW

KORAIL is increasing train service convenience by continuously expanding the metropolitan subway network and reorganizing the ITX-Cheongchun train service system. KORAIL is also increasing its transportation volume by enhancing our customers' time value through the expansion of express train services. We are striving to increase customer convenience in other ways, such as with the complete opening of the Gyeongui Line in 2014 that simultaneously connected it with the Jungang Line, enabling passengers to use these trains without transferring to the other.



I Main freight railroad stations I



Logistics Business

Business contents

- Cost reduction through reorganization of freight system
 - Train unit yearly advanced sale
 - Slimming of station management
- Provision of integrated logistics services through the expansion of connected transportation business

Major accomplishments

- Freight business distance: 3,063.9km
- Freight train service frequency: 250 times daily
- Transported volume: 37,379,000 tons (container 10,386,000 tons, other 26,993,000 tons)
- Sale: 369.4 billion KRW

The transport system has been made more efficient by turning the freight train contract method into a custom train unit advance contract delivery type to satisfy the customers' stable freight car supply demands and to efficiently utilize held resources. We have strengthened our cost competitiveness by considering the transportation conditions of each region and the quantity of transported goods and establishing the handling stations of unprofitable items as bases. We are also preparing for future growth by extending our integrated logistics services through the expansion of the KTX special transportation service and KORAIL Storage (a goods storage business).

Multiple Business

Business contents

- Provides various livelihood services connected with railroads
- Asset development business, tourism business, overseas business

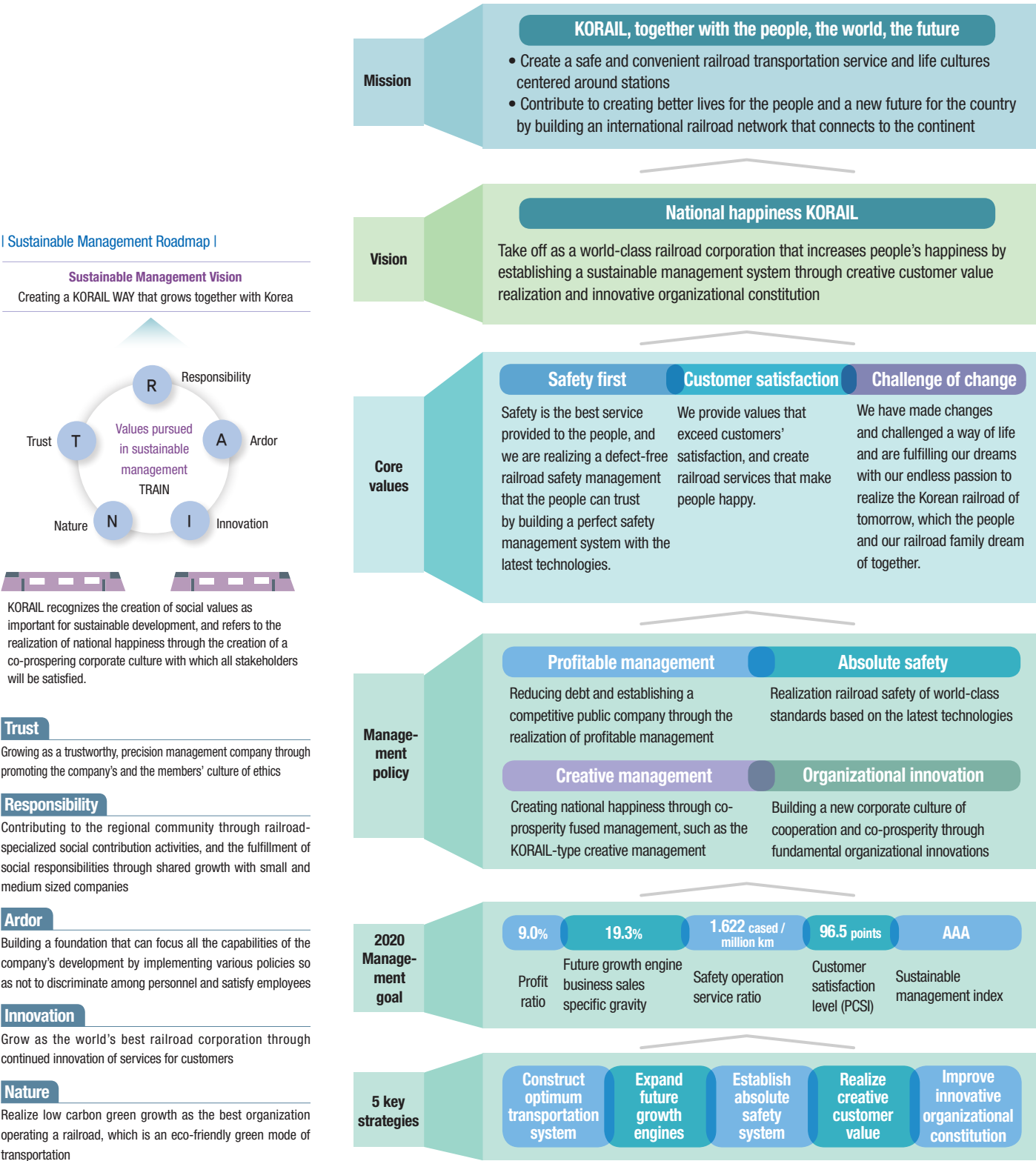
Major accomplishments

- Sales: 186.1 billion KRW
 - Rental business 50.5 billion KRW; Advertising/distribution business 85.7 billion KRW; Overseas business 18.2 billion KRW; Others 31.7 billion KRW

The multiple business is a diverse livelihood service centered around train stations that includes asset development, tourism, and overseas businesses that are connected to railroads. In the case of the asset development business, the conditions for large scale station influence area development were created in such places as Susaek Station, Gwangundae Station, Daejeon Station, and others with the cooperation of local governments. Agreements were concluded and plans were pushed forward for the construction of large scale complex stations in Suwon and Sungkyunkwan University. We have participated as joint implementers of the railroad site Happy Housing Pilot Project in the Gajwa and Oryu districts to realize national housing welfare. We are working hard to realize a co-prosperity creative economy by utilizing the unused spaces in major stations. We have run co-prosperity models such as helping small and medium sized companies find new markets for their products through the "small and medium sized company masterworks maru", and have also contributed to the growth of regional economies by expanding the introduction of local restaurant chains to Busan Station, Daejeon Station, and others. We have also prepared the foundations for advancing into the railroad Operations and Maintenance (O&M) field and have made efforts to build a Eurasian railroad cooperation foundation by joining the Organization for the Cooperation of Railways (OSJD). We have entered into overseas businesses based on the railroad management know-how we have accumulated over the years. We achieved sales figures of 18.2 billion KRW through activities such as repair sales of used vehicles,



Management Values System



Risk Management

| Responsible Departments per Crisis Type |

	Category	Responsible Department
Disaster risk	Natural disaster, human disaster, railroad terror	Safety head office
	Investment business risk	Office of planning & coordination (Strategies and planning division)
Business risk	Financial risk	Financial management office (Funding cost division)
	Information system paralysis security	Office of planning & coordination (Information planning division)
	Communications risk	PR office (Media PR division)

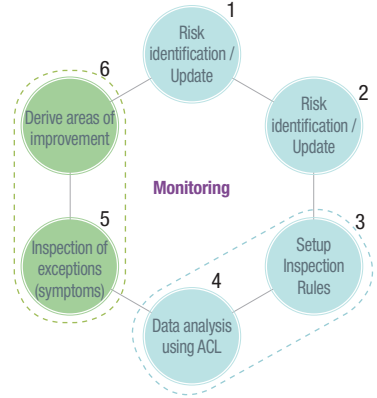


Rescue training



Emergency recovery training

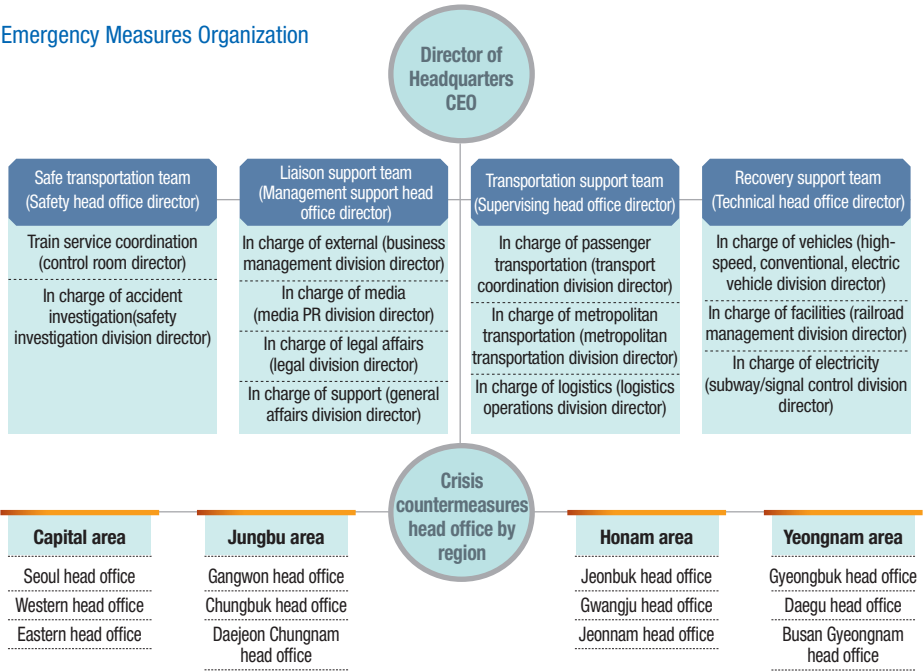
| Permanent Monitoring Work Process |



Company-wide Risk Management System

KORAIL is working hard to prevent risk elements in advance through company-wide risk management regarding business/financial risk, disaster risk, and communications risk. Departments have been designated that are responsible for different types of risks to establish efficient response systems, while the auditing office carries out pre-inspections in a range of fields by making diagnoses of the entire company's risk management systems each half-year. Following the increased national interest in 2014 on safety and disaster prevention, we have made efforts to protect the safety and lives of the nation's people with the selection and focus of a risk management system. We have removed the inefficiencies that were present in the previous system when business and disaster risks were managed in an integrated fashion, and we maximized effectiveness by focusing on safety fields that protect people's lives and assets. The safety head office, the metropolitan railroad head office, and the facilities technology group carried out disaster risk management works according to their departmental characteristics. A more rational operating system has now been developed by integrating such works into the safety head office, while non-disaster risks, such as business risks, have been specifically assigned to other departments whose power of execution have been strengthened by these system improvements.

Emergency Measures Organization



Risk Prevention Activities

We are strengthening our inspections and management of risk elements by permanently monitoring the IT foundation. A specialized "electronic auditing department" was newly established in 2014 to strengthen the effectiveness and systematic management of the permanent monitoring activities, and we are drafting medium to long term roadmaps as well as developing scenarios that reflect domestic and foreign environments and data mining for each business area. We are thoroughly inspecting risk elements by expanding our advance risk prevention activities, such as permanent monitoring, self-inspection, affiliation-responsible management activities, and many others, and we have taken corrective measures (366 cases, 8,946,000 KRW) regarding violations. Furthermore, we have strengthened railroad operation safety by running a range of committees, including the business strategy committee, the business review committee, and the railroad safety review committee, amongst others, to manage investments more efficiently and to eliminate various risk factors.



KORAIL SUSTAINABILITY OVERVIEW

Management Structure
Ethical Management
Human Rights Management
Stakeholder Engagement
Key Issues in Sustainable Management

Management Structure

I Executive Directors I

Name	Gender	Position
Choi Yeon-Hye	W	CEO
Lim Yeong-Ho	M	Permanent Audit Committee Member
Kim Yeong-Rae	M	Vice President
Hwang Seung-Soon	M	Safety Head Office Director
Kim Jong-Cheol	M	Passenger Head Office Director
Eom Seung-Ho	M	Technology Head Office Director
Gwak No-Sang	M	Business Development Head Office Director

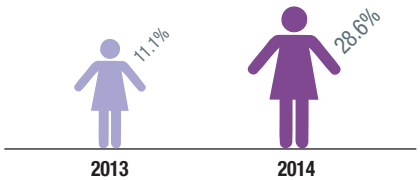
I Non-Executive Directors I

Name	Gender	Position
Ha Seong-Gyu	M	(Currently) Director of Korea Research Institute of Housing Management (senior non-executive director)
Jeong Soo-Il	M	(Currently) Consultant to Korea Railroad Research Institute
Cho Seok-Hong	M	(Currently) Professor at Ulsan University
Son Bong-Gyun	M	(Currently) Advisor at Yulchon LLC
Cho Seung-Ho	M	(Currently) CEO at BDO Daejoo LLC
Lim Mu-Seong	M	(Currently) Advisor for Korea Information Communications Co. Ltd.
Kim Yeong-Ja	W	(Previously) Co-president of General Association of Civil Society Organizations
Ju Yeong-Eun	M	(Previously) Dean of College of Political Science & Economic, Yonsei University

I Board of Directors Operation Performance I

	2012	2013	2014
Number of board meetings held	14	15	12
Resolved items (cases)	37	34	40
Preliminary deliberation rate (%)	100	100	100
Amended resolved items (cases, %)	7(18.9%)	3(8.8%)	2(5.0%)
Reported items (cases)	20	16	16
Board meeting attendance rate (%)	95.6	97.8	94.1
Non-executive directors attendance rate (%)	97.8	98.2	93.5

I Board Nomination Committee Female Ratio I

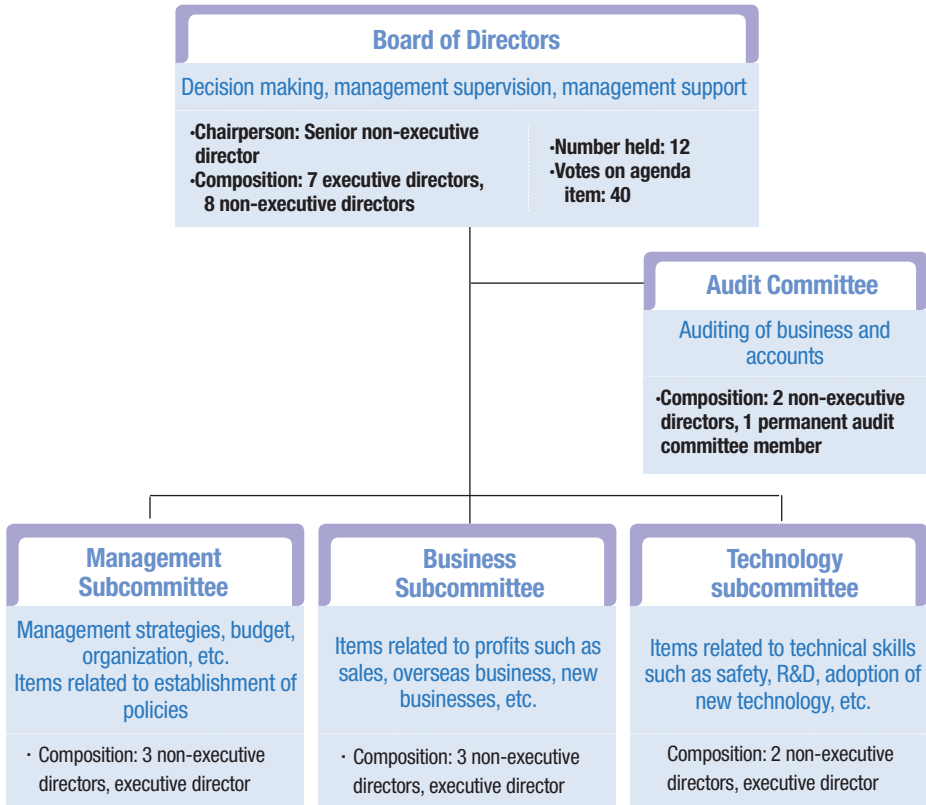


Board of Directors

Board of Directors Composition

The board of directors, who is in charge of decision making, management supervision, and management support, is comprised of a total of 15 people including 7 executive directors (including the CEO), specialists who execute policies in railroad related academia and railroad sites, and 8 non-executive directors, who are equipped with learning and experience in transportation, law, accounting, and other fields. A senior non-executive director serves as the chairperson to ensure independence in the management structure. A female non-executive director has been appointed to improve social equity, expanding the percentage of female board members from 7.7% in 2013 to 13.3% in 2014. There are also four subcommittees within the board of directors so that specialists may deliberate and resolve key issues in each field.

Board of Directors Composition System



※ All committees are to be chaired by a non-executive director.

We actively comply with Article 25 (appointment of public enterprise board members) of the law related to the running of public institutions as well as with the operational regulations of our internal board nomination committee. We have ensured transparency and fairness through 100% public invitations of nominated candidates, and have appointed non-executive directors who possess expertise in various fields including transportation, administration, urban planning, media, law, accounting, and others. To expand the female participation rate of the board nomination committee we are building a personnel pool with recommendations from talented individuals from the Ministry of Gender Equality and Family and striving to continuously expand the female ratio.
* Two out of 18 people in 2013 (11.1%), 8 out of 28 people in 2014 (28.6%) were selected. This is a 17.5% increase compared to the previous year

Director Appointment Process



Strengthening the Role of Non-Executive Directors

In order to build a personnel pool of non-executive director candidates and to utilize it effectively, we are operating a management advisory group made up of a total of 109 people, including 6 people in business management, 12 people in finance, 12 people in safety, among many others, thereby ensuring the effectiveness of policies that are implemented. We are guaranteeing independence with the management of regularized non-executive members in management issues, main businesses, board nomination committee election by mutual vote, and other measures. We are also supporting the execution of their duties by supplying them with various management information and providing remote business portals, etc. We have held conferences and carried out development site field assessments and railroad site spot experiences for the management participation and management proposals that utilize the expertise of the non-executive directors. In this way, we have drawn a total of 29 business consultations, including key improvement items, management normalization measures, and many others.

Board of Directors Operation

The board of directors takes part in the decision making and risk management of KORAIL's economic, social, and environmental issues. The board is expanding business consultations of major pending issues through such activities as field assessments of main businesses and conferences with the objective of "establishing a board of directors-centered decision making system" to minimize management risks such as the normalization of public institutions and the sale of airport railroads. Submitted agendas have increased by 6 cases compared to 2013 by strengthening advance explanations to improve the non-executive directors' degree of understanding, while remark emphases have also increased by 0.3%.

The board convenes regularly once a month. Through the 12 meetings held in 2014, it has resolved 40 items and amended 2 items.

A board director who has a special interest in an item discussed by the board is not permitted to take part in its resolution and is not included in the number of current directors. In particular, the board runs a preliminary deliberation system before the board convenes to strengthen the deliberative functions regarding an item. Risk management has been reinforced by instituting a threefold deliberation system that is comprised of a specialized subcommittee deliberating on a key issue, a board of directors' report, and a resolution.

Audit

The company has formed and is running an independent audit committee within the board of directors. The audit committee is composed of permanent members of the audit committee and two non-executive board directors as well as one accounting or financial specialist. Audits are being performed for the overall business and accounts of the company and its affiliates by setting up a self-auditing organization under the direct control of the audit committee to maximize the achievement of the company's management objectives through management checks and support.

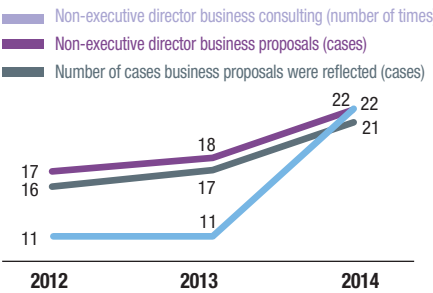


Board meeting in progress



On-site activities of non-executive director

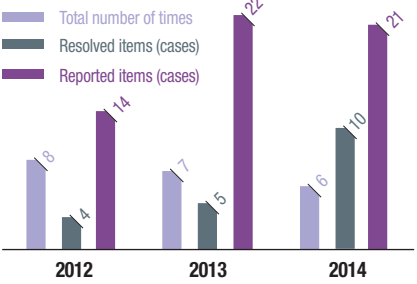
I Non-Executive Director Activities I



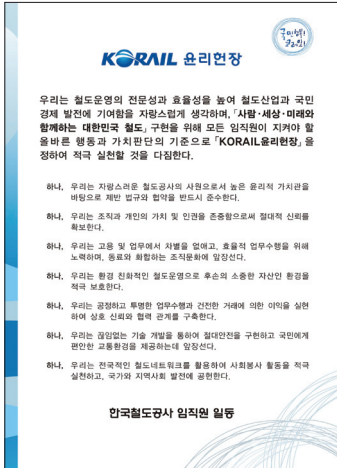
I Preliminary Review System Management I

Review System	Number of Times Held	Number of Cases	Modification anomaly rate (%)
Business strategy committee	19	48	41.7
Investment review committee	5	9	33.3
Business strategy action officers committee	6	18	-

I Audit Committee Performance I



Ethical Management



Ethics Charter



Received AAA rating by KoBEX for 6 consecutive years



KORAIL Young Ethics Group

Ethical Management System

Code of Ethics System	Exclusively Responsible Organization	Forming Bonds of Empathy
Ethics charter Ethics code Staff code of conduct Various ethical guidelines	Creative management division Anti-corruption investigation division Anti-corruption bureau	02 Integrity Day Flawless integrity goal achievement system Risk self-inspection activities KORAIL Young Ethics Group

KORAIL is striving to realize a transparent corporate culture and establish ethical management objectives of the highest level through powerful ethical management leadership. The Bureau to Fight Corruption, headed by the vice president to reform KORAIL to support the government-wide fight against corruption, has been formed and is pushing ahead with 28 tasks in five different fields. The zero tolerance principle against corrupt activities has been reinforced with the revision of the code of ethics, and grounds to punish people engaging in corrupt activity have also been prepared.

To strengthen the bonds of empathy with employees to resolve issues of reckless management and overcome the aftereffects of the longest running strike that occurred in 2013, we have internalized site-centered system improvements and an ethical culture. We have also endeavored to strengthen self-reflection and improve trust in management through the revitalization of communications to eliminate complaint factors from external stakeholders.

Ethical Management in Action

Consumer Centered and Tailored Education

We are raising our employees' integrity and ethical awareness by implementing customized ethics education for each company class in order for a sense of ethics to become part of their character.

Firstly, to train ethics specialists in each department, we have enabled the person in charge to enroll and complete a course to become an Anti-Corruption and Civil Rights Commission instructor. We have also carried out self-education to train internal specialists. We have implemented capacity strengthening training to prevent employees from becoming discouraged by any corrupt activities committed by the executive staff.

We have been running the "KORAIL Integrity Kid" program that consists of employees who have been employed for fewer than three years to enhance the education effects through a paradigm shift of the previous ethics education. The program includes musicals, plays, and other educational activities that enable ethics to be easily understood by everyone.

Internalization of Ethical Culture

We are helping employees internalize KORAIL's sense of ethics by managing a range of participation systems. The second day of each month is designated as the "02 Integrity Day", when special lectures by the department head, self-diagnoses, resolutions to practice integrity, integrity campaigns, and other activities are regularly performed. We have also witnessed the employees' desire to raise their ethical awareness with their participation in "Resolving to Fight Corruption through Actions". A "Written Pledge to Practice Ethics" is prepared and signed by appointed employees who have a higher risk of engaging in corrupt activities; they vow to not engage in such actions, no matter the circumstances.

In addition, we run a whistleblower room which is called "Bareumi-reporting center" that guarantees anonymity and eliminates the fear of the whistleblower's identity being revealed, raising the effectiveness of the internal reporting system.

Human Rights Management

I KORAIL Human Rights Guidelines I

Guidelines	Contents
Rules of employment	Article 5 (parity of treatment), Article 51 (gender equality and maternity protection), Article 52 (assignment and promotion)
Personnel policies	Article 10 (principles of employment)
Collective agreement	Article 6 (parity of treatment), Article 23 (recruitment of employees), Article 46 (collection and protection of personal information), Article 47 (human rights protection and anti-discrimination), Article 80 (gender equality and maternity protection), Article 136 (protection of temporary employees)

I Anti-discrimination Example I

Collective Agreement Article 47 (human rights protection and anti-discrimination)

- ① The company may not violate or damage a union member's job position or value within the company.
- ② The Company may not, without reasonable cause, engage in discriminatory acts that violate a union member's rights to equality for reasons such as gender, religion, disabilities, age, social status, region of birth, country of origin, ethnicity, physical conditions such as appearance, marital status, pregnancy or birth, family situation, race, skin color, ideology or political opinions, sexual orientation, and medical history.
- ③ The Company may not, without reasonable cause, engage in preferential treatment, exclusion, discrimination, or unfavorable treatment of a specific person with regard to their employment.

Respect for Employee Rights

KORAIL is actively implementing the 7 Principles of ISO26000 and the human rights regulations stipulated in government policies.

We do not discriminate against gender, physical conditions, appearance, education level, age, etc. throughout our personnel management, and we are also strengthening our progressive personnel policies regarding women, people with disabilities, and job-seeking support recipients.

Each year, we investigate negative human rights influences through checklist inspections of human rights management, and we are striving to resolve employee inconveniences by running a grievance resolution system.

Guaranteed Freedom of Association and Collective Bargaining

KORAIL guarantees our employees' freedom of association and collective bargaining. There are currently five labor unions established, and we have discussed single bargaining channel procedures etc. in accordance with the ordinances regarding all labor unions. We have proceeded with periodic collective bargaining following the expiration of the 2014 collective agreement of the Korean Railway Workers' Union, and we are striving to build an organizational culture of co-prosperity between labor and management. We do not intervene in the running of the unions to guarantee the legitimacy of our employees' labor union activities. We also provide the labor leaders with the information they require to perform their tasks.

Status of Labor Union Establishments

	Korean Railway Workers' Union	Korean Railroad Industry Labor Union	KORAIL Workers' Union	Korean High-speed Drivers' Union	KORAIL Family Labor Union
Leader	Kim Yeong-Hoon (Previously of Busan Locomotives)	Kim Hyun-Jung (Uijeongbu Sinho)	Kang Yeon-Gyu (Daejeon Architecture)	Kang Sang-Won (Busan High-speed Locomotives)	Lee Seok-Beom (Donghaegwalli Station)
Number of members	18,729	933	15	3	2
Founding date	Nov. 1, 1945	Jan. 19, 2004	Dec. 31, 2012	Apr. 14, 2014	Oct. 27, 2014
Superior Organization	Korean Federation of Trade Unions	Federation of Korean Trade Unions	—	—	—

Anti-discrimination

In order to overcome the limitations of female recruitment that follows the nature of the railroad transport business, KORAIL is striving to foster female administrators and strengthening the positions of women within our organization. The number of female employees above the position of team leader was 210 in 2014, which was 7.97% of our administrators.

We are also prohibiting discrimination against level of education. We are providing systematic job training without discrimination regarding promotions and remuneration by enforcing high-school graduate limited competition employment, and we are treating high school and university graduates equally.

The starting yearly salary for KORAIL employees is 27,980,000 KRW. Employees are provided with equal wages and welfare benefits regardless of their gender, education level, or whether they are temporary employees.

Human Rights Protection

KORAIL is fulfilling the ISO26000 and the 10 Principles of the UNGC in good faith as well as complying with their related regulations.

In particular, the CEO is serving as the director of the Korean Association of the UNGC and actively working to protect human rights. We shall continue to commit our utmost efforts in becoming a KORAIL that realizes national happiness by fulfilling our social responsibility as a public enterprise that represents Korea.

Stakeholder Engagement

We have categorized the classification system of stakeholders into value producing, value delivering, value influencing, and value purchasing customers according to the value stream, and we have also subdivided sharing and spreading strategies for each characteristic. KORAIL recognizes that communications with stakeholders are key to sustainable management, and we are collecting the opinions of various internal/external principle agents and reflecting them in our management activities.

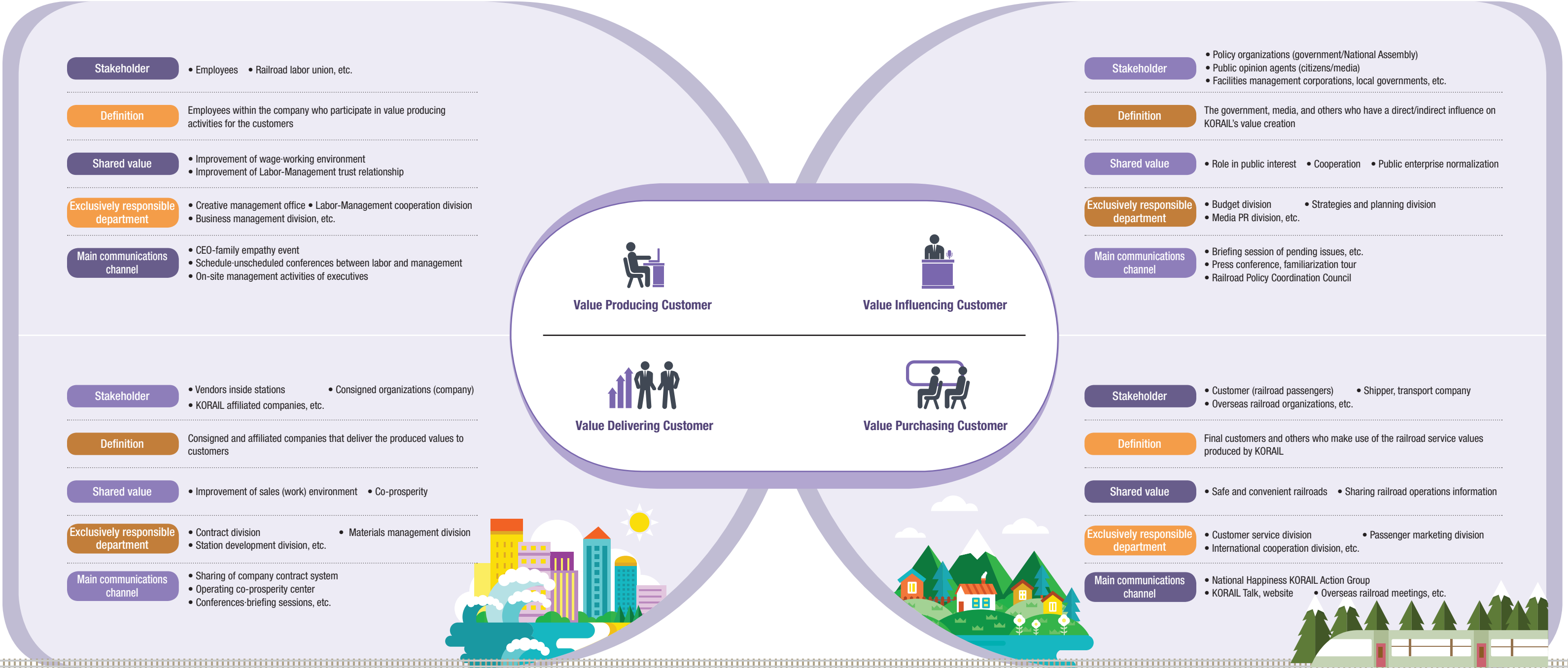


Government (Stakeholder) Interview



Ju Jong-Wan, section head Railway Operation Division, Railway Bureau, Ministry of Land, Infrastructure, and Transport

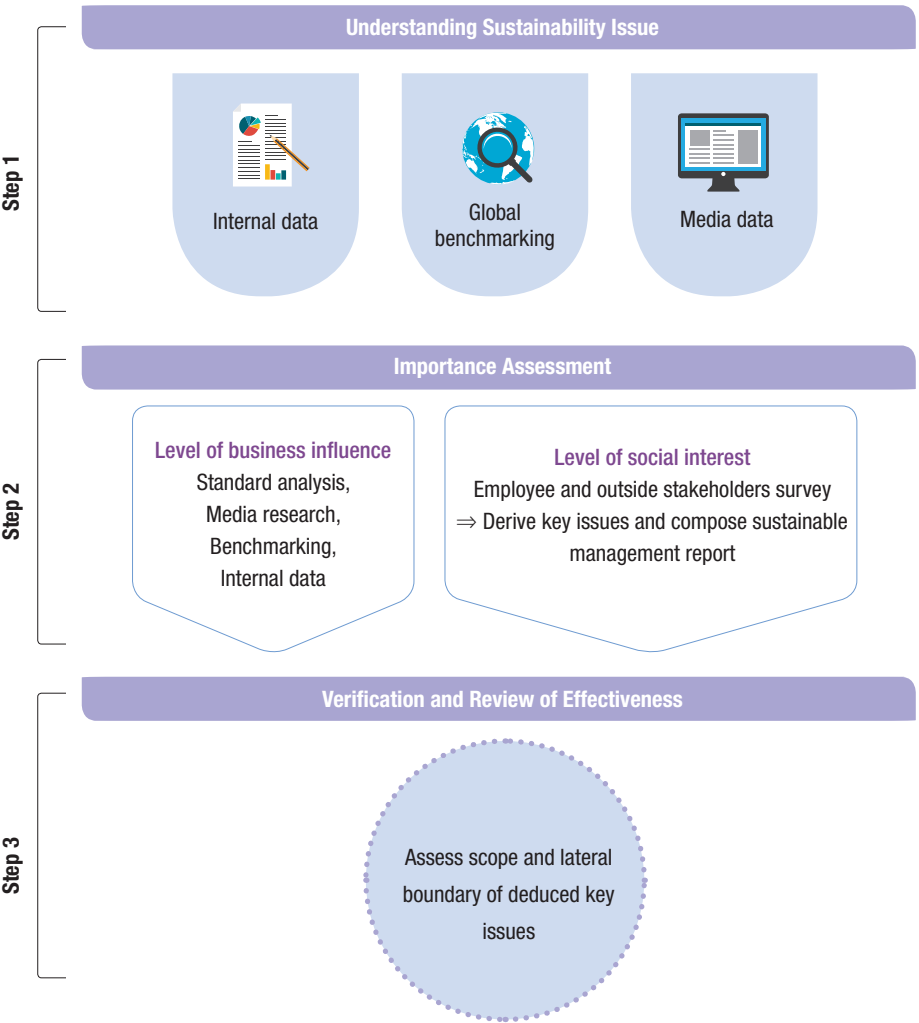
Our railroads are going through dynamic changes. Our railroad competition system is actively settling into place and KORAIL's management structure is also changing with such things as the establishment of a division organization responsible for the logistics sector. At this point, when the Honam KTX line has been opened and the capital area KTX is being scheduled to open, the interests of the public regarding railroads are rapidly increasing along with the demands for improved services. This is the time for KORAIL to break away from its previously passive attitude and begin to take the lead in changes and innovations as the core axis of the railroad industry. In order to do this, KORAIL must normalize its management by reducing debt, etc., while at the same time always listening attentively to the customers' voices to raise the standard of service. The government shall also provide support for whatever is necessary, and shall cooperate closely with KORAIL in these processes. We look forward to the changes and growth of KORAIL achieved with the help of the people and government in developing our railroads.



Key Issues in Sustainable Management

KORAIL selects important issues through a structural method: by including them in our sustainable management report, the company communicates them with our internal and external stakeholders. Firstly, we conduct surveys and interviews of main stakeholders to collect their diverse opinions, through which we discuss the main issues. In addition, we have selected key issues by comprehensively analyzing related elements through benchmarking and media analyses to understand how they influence the economic/environmental/social aspects of the sustainable management issues.

The important issues derived as a result of these are being transparently disclosed in the sustainable management reports in accordance with international guidelines.



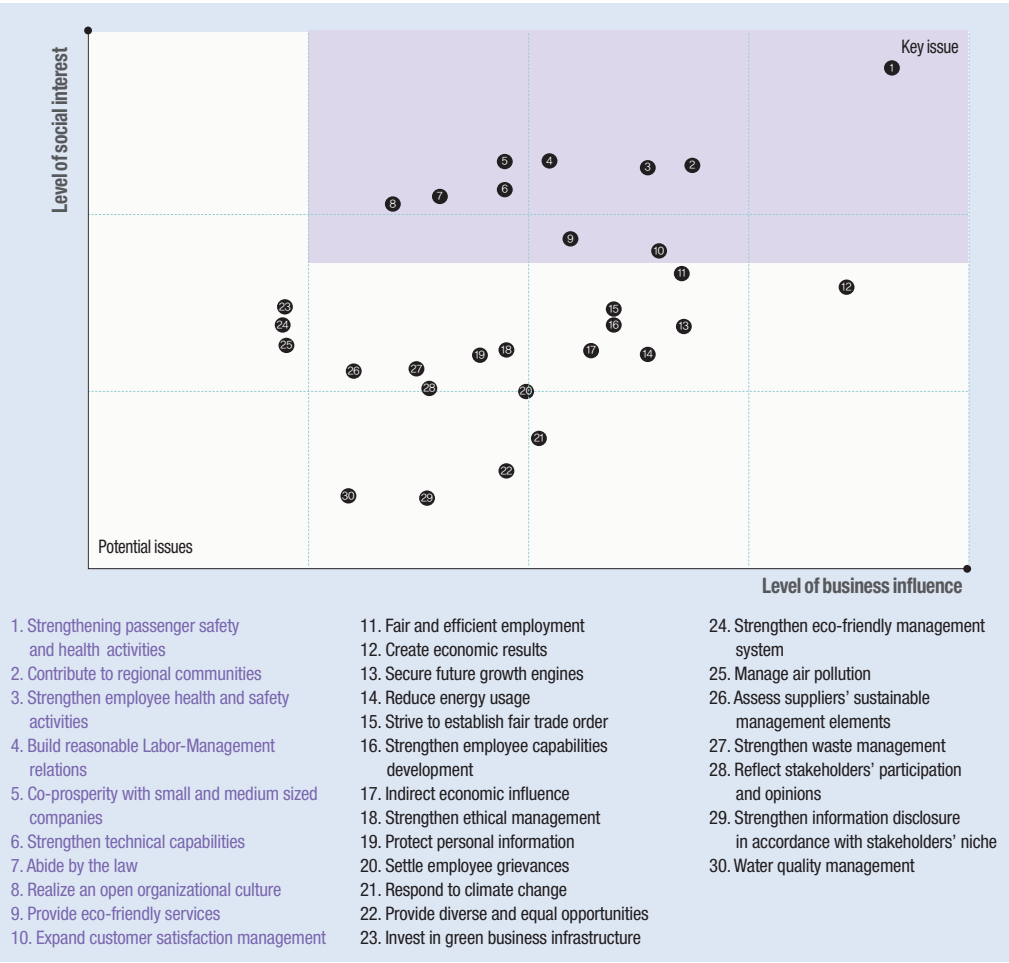
Step 1: Understanding Sustainability Issues

We have examined such internal data as the CEO management policies and internal reports to investigate the issues related to KORAIL's sustainable management.

We have also secured 30 relevant issues by analyzing media, investigating sustainable management issues of the same or similar global industries, and analyzing international standards in sustainable management.

Step 2: Importance Assessment

In accordance with the importance assessment process, we have selected and structuralized 10 key issues by considering such things as influences of stakeholders and business connections, and then presented them in the sustainable management report. The report focuses on the investigated key issues while also taking into account other important aspects related to those issues.



Step 3: Verification and Review of Effectiveness

The sustainable management report has been composed with key issues and potential issues at its center following the importance assessment results.

Accordingly, we have defined the report boundaries of each issue as the focus and are managing their influences.

Key Issues	Report Boundary				GRI Aspect	Sustainable Management Report Table of Contents
	Customer	Employee	Partner Company	Regional Community		
•Expand customer satisfaction management	●				Labeling of products and services Protection of customers' personal information	Issue 1. Customer value
•Build rational Labor-Management relations •Fair and efficient employment		●			Employment Labor-Management relations	Issue 2. Employee satisfaction
•Strengthen employee health and safety activities •Strengthen customer safety and health activities	●	●			Customer safety and health Industry safety and health	Issue 3. Safety management
•Co-prosper with small and medium sized companies			●	●	Supplier labor practices assessment investment	Issue 4. Co-prosperity
•Contribute to regional community				●	Regional community	Issue 5. Sharing with regional community
•Provide eco-friendly services		●		●	Energy emission	Issue 6. Environmental management
•Create economic achievements •Strengthen technical capabilities	●	●			Economic achievement	Issue 7. Values creation

The People, KORAIL Dreams of a World Where Everyone is Happy

In order to fulfill our role as the Korean railroad that works together with the people, the world, and the future, we are pushing forward with management innovation activities based on a sustainable management system.

We are striving to become a world-class railroad that enhances the nation's happiness by moving forward one step at a time to fulfill our responsibilities regarding the economy, the society, and the environment.

Special #1. ○

A remote mountain village station sought by 10 people a day, to a Santa village crowded with 2,000 people



Issue 2. ○

Employee satisfaction



Issue 1. ○

Customer values



Issue 1.

Customer Values

KORAIL is striving to raise the quality of our service to enable customers to use the railroads safely and conveniently. We are pushing ahead with customer centered management activities to provide customers with enjoyable and pleasant travel services, and we are reinforcing public services to enable everyone to easily enjoy our railroads. We are also working diligently in product development and service improvements that reflect the opinions of our valued customers.

(Unit : points)

	2012	2013	2014
Public institution customer satisfaction level	88.8	91.5	93.1
Service monitoring	97.5	97.9	96.8
VOC treatment satisfaction level	80.7	84.5	87.4



Business & Social Context

Customer value is an important factor of sustainable management and is created through the mutually cooperative efforts between the provider and user. We shall continue to make improvements in the customer-centered facilities environment and personal services, as well as gradually raising customer value in an environment where institutional support is being continuously improved. We shall also prepare the foundations for the sustainable growth of our company.



Progress

We are raising the time value of our customers by making it more convenient to purchase tickets through KORAIL Talk and our website. We are also expanding our high-speed train routes and to make using our railroads more convenient. We have constructed transfer facilities for transportation links such as bicycle parking lots and transportation plazas to minimize our customers' lines of movement, and we are also making it easier for the elderly and people with disabilities to use our services by expanding elevators, escalators, and wheelchair lifts. Through the various shops that have taken residence in our stations, we are working hard to enhance the spatial value of customers by focusing on environmental improvement work that will enable customers to use our railroads safely and conveniently.



Future Plan

KORAIL shall continue striving to increase customer satisfaction and realize creative customer values. Not only will we manage railroad experiences to achieve total satisfaction through customer experience management systems, we shall also commit our utmost efforts in enhancing customer satisfaction services by implementing an advance service notice system that utilizes big data and performing on-site inspection activities of our guest reception environment.



Performance

- Certified as Customer Centered Management (CCM) for 3 consecutive years
- Certified as model organization by for 2 consecutive years, VOC review of actual conditions, Ministry of Land, Infrastructure, and Transport
- Received the 2014 Korea Creative Economy CEO Grand Prize
- Received the 2014 GOOD Design Grand Prize
- Received the Runner-up Prize in the Korea Public Design Award
- Received the Korea Gyeongwandaesang History and Culture Top Prize



Customer (Stakeholder) Interview



Jeong Yeon-Shim, member of the National Happiness KORAIL Action Group, Busan Gyeongnam head office

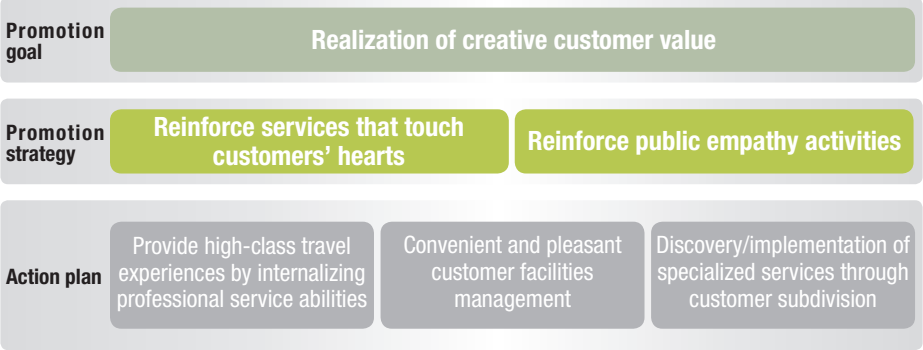
I feel that not only should railroads provide customers with safety, but also with diverse and meaningful values. One way to naturally promote railroads is to alert customers about railroad-related events or travel news on the electronic displays in the station, as well as providing them with discounts through railroad Apps and online media. The railroads can improve connectivity with other forms of public transportation in all stations and build companion seats for small scale organizations to provide them with the opportunity of creating precious memories with their acquaintances. I hope KORAIL will continue working hard to become a company that thinks from the customers' perspective.



Customer Centered Management

KORAIL is strengthening national empathy activities and working to touch customers' hearts by providing them with new cultural services so that they may perceive railroads as cultural spaces in their lives. We have held people-friendly events such as flash mobs, KORAIL Symphony Orchestra concerts, and free wedding ceremonies in our stations. We have also constructed themed stations including the Seoul Station Love Letter Stairs, the Buncheon Station Santa Village, as well as work to attract people to famous local restaurants. We have held various cultural concerts in isolated country whistle stops, the Imjingak Pavilion, and other locations centered around railroad stations to provide high-class cultural experience services that everyone can enjoy.

Customer Centered Management System



Strengthening Customer Communications

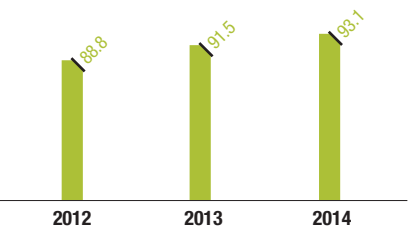
Strengthening Online Communications

KORAIL is striving to enhance our 24 hour online communications with customers through "KORAIL Talk" and "KORAIL Subway Talk". As part of these efforts, we opened "Let's KORAIL", a customer participation type web portal that provides the necessary services for all stages of their travels. Through the web portal, we have created a community where customers can personally create travel content that they can spread and share, while the daily average number of visitors of the website has increased by 260% compared to our previous website. We have also signed an MOU with a company that specializes in culture tourism content and have developed a "Train Journey" app that is being utilized by the PR channels of the 5 tourism belt and major railroad travel packages. In addition, we have strengthened communications with customers by providing them with information on convenience facilities such as train schedules for each station, accommodations recommended by the local government, local restaurants, and many others. The "Train Journey" app has been downloaded more than 10,000 times and is being utilized by a great number of customers.

Spreading Railroad Contents

KORAIL has opened up our railroad service data in accordance with the Government 3.0 keynote to create a convenient environment that customers can use even more easily. We have signed an MOU with the web portal Naver to provide real-time train service information when using their map and "directions to" services to enable customers to select the fastest and most convenient transport method.

| Customer Satisfaction Level |



Public institution customer satisfaction level investigation process
Overseer Ministry of Strategy and Finance

| Customer Centered Management (CCM) Certified 3 Consecutive Times |



Customer centered management (CCM) certified 3 consecutive times
Selected as model organization twice in a row, Ministry of Land, Infrastructure, and Transport VOC status inspection



Spreading railroad contents



Realization of Creative Customer Values

Expansion of Speed Centered Subway Network

Following the expansion of integrated transfer serviceable regions and direct services of existing routes, we have made it more convenient for customers to use public transportation. Responding to the increase in the importance of time values, we have pushed ahead with improving the speed of the capital area subway to raise values for customers. We have expanded the metropolitan railroad express train service ratio that takes into consideration the track conditions of each line and have diversified our train service patterns, such as rearranging the stations where express trains stop, and we have endeavored to minimize customer wait times and lines of movement through such efforts as directly connecting to existing lines.

We have connected the Jungang line directly to the Gyeonggi Line after its opening and have purchased 40 new carriages to help in enabling customers travel without having to transfer. We have also made efforts to increase customer convenience through facilities inspections, comprehensive test runs, and the establishment of optimum train service schedules. Through such efforts, we have been able to shorten our customers' traveling times to a maximum of 30 minutes.

We have built transfer passageways and engaged in other efforts to improve the metropolitan area subway to construct an integrated transfer system with the privately-run Yongin and Uijeongbu light rail transit systems. Through such efforts, we have succeeded in servicing over 1.1 billion subway passengers in 2014, with a record-breaking number of 3 million 65 thousand people on October 24th, 2014, as well as recording 2.5 billion KRW in sales profit.

Express Service Expansion

Category	Reasons for Improvement	Increased Number	Effect
Gyeongin Line	Express train congestion intensification	10	Easing of express train congestion
Gyeongbu Line	Strengthening transport capacity during commuting hours	4	Increased transport efficiency with new express trains
Ansan-Gwacheon Line	Absence of express trains during evening rush hour	3	New services provided during evening rush hour
Gyeonggi-Jungang Line	Absence of long distance express trains	3	Time shortened for long distance passengers

Punctual Service Compliance

With the expansion of KTX services, KORAIL has focused on analyzing and improving the main causes of delays to meet our customers' expectations on punctuality. We have taken into particular account the fact that many delays are caused due to accidents and defects, so we have endeavored to prevent problems arising from human error and material defects. We have also placed additional attendants on the station platforms to prevent carriage breakdowns and shorten boarding and unboarding delays. Through such efforts, we have been able to reduce train delays by 30%, from 29,928 minutes in 2013 to 20,881 minutes in 2014.

Our "punctual train service council" meets each quarter to discuss the current status of punctuality ratios and causes of delay, and to collect various internal/external opinions to plan methods for improving the punctuality ratio.

We have established May and October (when there are great numbers of travelers) as periods when we focus the management of punctual train services, as well as making other efforts to improve the punctuality ratio such as carrying out punctual service campaigns.

Protection of Customer Personal Information

As an organization that provides railroad services that the entire country uses, KORAIL is aware of the importance of security management. We have increased the number of our information security control personnel by 10 and have also increased the related budget by 6% compared to 2013. A thorough checkup of PC weak spots is implemented once a month, and we have also strengthened the protection of personal information by separating the business network from the internet network. Through such efforts, we have acquired the "Personal Information Management System" certificate in April 2014, which was a first for a public enterprise.



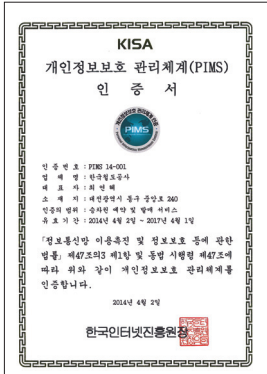
Connection of Gyeonggi Line and Jungang Line



Punctual train service council working-level meeting



Punctual service campaign



PIMS certification

| KORAIL Design Standards |



Standardized shop design



Daejeon Station travel center design

| Expansion of connecting transfer service |



Cheonan Station west plaza transportation plaza



Ulsan Station parking lot canopy installation

Expansion of Services that Touch Customers' Hearts

Reservation Service Improvement

We have improved the ticketing system by analyzing the VOC regarding online reservations, and we have strived to reflect customers' opinions through prior customer tests of the automatic ticketing machines' UI while improvements were being made. Furthermore, we have launched our online-centered customer participation type railroad travel portal site "letsKORAIL.com", which provides all the information necessary for reservations and travels. We also operate a "One-Call reservation service" hotline for the convenience of groups who tend to be weak in the field of IT and technology usage, such as the elderly and people with disabilities, to enhance their ease of convenience.

National holiday reservation services improvement through VOC analysis

VOC type	Resolved customer complaints	Customer satisfaction
Frequent access error	Significant extensions of server equipment	
Request for additional number of reservations	Number of reservations expanded from 2 to 6	Chuseok train reservation rate 58.4% Reservation congestion reduced
Request for information on available seats	Real-time information provided about available seats for each train	

One-call reservation service for IT vulnerable social groups

Previous service	Improved service
Train tickets reserved by talking to operator over the telephone (Passengers receive tickets after paying for them at a ticket window in the train station)	Passengers can pay for and receive tickets over the telephone (Tickets sent as a text message to the registered telephone number)

We are increasing the convenience of using our railroads for IT-vulnerable groups through our One-Call service. The accumulated number of members for this service in 2014 was 1,843 with an average of 52.4 new members joining each month. We also provide discount benefits that are identical to those provided on the internet when using our One-Call service to protect socially disadvantaged groups.

Enhancement of Spatial Value in Stations

We have established a "KORAIL design standard", which is KORAIL's distinct design principle that we have used to raise the spatial values of our stations by establishing company-wide joint design guidelines. Not only have the standardized shop designs and guide sign specifications helped in preventing customer confusion, they have also been used to enhance the aesthetics of the stations. Through such high-class design management, we have received the runner-up prize in the "Korea Public Design Award". We are also providing cultural services in our stations to create a space that is not just simply used as a means of transportation, but also as a space where everybody can enjoy themselves. In promoting cultural prosperity business with the cooperation of the Arts Council Korea, we have held 11 "KORAIL Symphony Orchestra" concerts and other events that have transformed our stations into cultural spaces.

Railroad Station Centered Transfer Service Expansion

KORAIL has strengthened the accessibility of outside modes of transportation by building transfer networks with linked traffic. We have built transportation plazas that increase convenience of access by including buses, taxis, and Kiss&Ride in seven stations, including Cheonan Station. We have also strengthened customer convenience by improving the parking facilities in four stations, including Ulsan Station, and improving the bicycle parking facilities in three stations, including Gokseong Station. We have also constructed new entrances in five stations, including Wolgye Station, and transfer passageways in three stations, including Heoryong Station, to improve transfer convenience.



New entrance at Wolgye Station



Construction of transfer passageway at Heoryong Station

| Theme Station Built with Local Government |



Buncheon Santa Village

| Membership Lounge Renewal |



Membership Lounge

| Incheon Asian Games Transportation Support |



Expansion of Customer Convenience

KORAIL has cooperated with outside organizations, such as local governments, to expand various businesses for the enhancement of customer convenience. We have worked with Woori Bank to renew the “Membership Lounge”, a waiting area for passengers. Through corporate partnerships, we have also introduced a system that enables customers to pay for tickets with “OK Cashbag Points”.

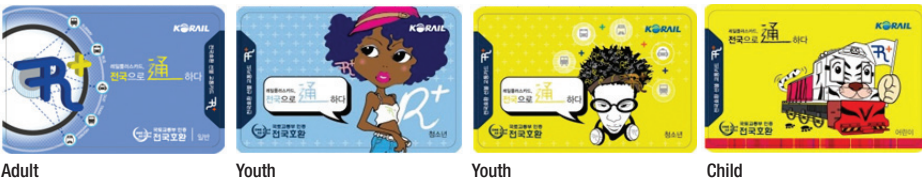
Linked traffic has also been expanded to increase convenience for tourists. We are also working hard to provide opportunities for our customers to create unforgettable memories, such building the Santa Village in Buncheon Station and the trekking course in Yangwon Station.

Launch of Transportation Card Compatible Nationwide

KORAIL has released “Rail Plus (R+)”, a single prepaid card that is compatible nationwide for all “buses, subways, railroads, and expressways”, and this is the first time a transport provider has released such a versatile card. This has resolved the inconvenience for customers who were unable to use the same transportation card in different regions due to the providers being different, and also prepared a foundation from which transport providers can provide customized railroad services by consolidating and collecting public transportation usage information.

To this end, we have signed business agreements with stakeholders nationwide, including local governments, transportation card providers, and many others, and built infrastructure such as autonomous and automated fare collection and payment systems to enable the card's usage throughout the country. Furthermore, we have attempted to raise awareness of the Rail Plus card by selecting its design through a nationwide contest, and we have also entered into partnerships with the financial world to improve convenience for the card users, such as enabling refills, searches, and refunds from Nonghyup and Woori Bank ATMs.

Rail Plus (R+)



Support for National Events

KORAIL is supporting major national events through our railroads. We have increased the trains in service for the Incheon Asian Games and changed the train schedules for the convenience of the spectators. We are also continuing to provide support and hold discussions for the successful hosting of the Pyeongchang Winter Olympics. In addition, we are running additional late-night metropolitan services during state events, such as the ringing event of the Watch-Night Bell, and are adjusting service times for some trains during the period when students take the scholastic ability tests so they do not get disturbed by the noise.

Of particular note was the PR booth opening event that was planned in Seoul Station by Ikea, a company that experienced some controversy for indicating the East Sea as the Sea of Japan on their website and wall-mounted world maps products. In carrying out its mission as a public enterprise, KORAIL judged that it was inappropriate for a company—that violated the public's sentiments in such a way—to hold an event in a public space such as Seoul Station. It therefore cancelled the permit for the event.



Issue 2. Employee Satisfaction

KORAIL is working hard to create jobs and prohibits discrimination when it comes to recruitment, promotion, transference, welfare, etc. We are improving the system so that employees can enjoy stable work and family lives, and we are providing a host of programs to that end.

We have expanded the on-site communications channels to spread a win-win organizational culture through the establishment of a KORAIL-type Labor-Management relationship built on trust and cooperation.

	2012	2013	2014
Fixed number (Active service) (Unit: person)	27,866 (28,967)	27,981 (27,930)	27,981 (27,621.25)
Full-time employment (Unit: person)	410	159	500
Female administrator ratio (Unit: %)	6.99%	7.49%	7.97%
Personnel management satisfaction level (Unit: points)	85.2	85.3	87.3
Labor-Management co-prosperity index (Unit: points)	82.5	80.9	83.7



Business & Social Context

The intense normalization pressure from the government to overcome the management crisis is connected to labor conditions, and it is important to form sustainable bonds of empathy with labor unions and employees. We are mediating between opinions regarding public enterprise normalization and function adjustments, and we are also striving to form company-wide bonds of empathy through open communications.



Progress

In order to abolish restrictions due to education level and gender, and to spread an open employment culture that focuses on work competence, we have not only expanded the employment of high-school graduates and women who have had to cut their careers short, but have also worked hard to secure talented individuals without focusing on their paper qualifications, instead implementing blind, in-depth interviews, etc. Furthermore, we have instituted flexible work hours to realize GWP through balancing work and private life, and we have created an environment where maternity leave can be used without burden. We have constructed an organizational culture where labor and management can co-prosper through the activation of a range of communications channels, and are working together for the happiness of the people.



Future Plan

As Korea's representative public enterprise, KORAIL and all its employees plan to lead the way for happier lives. We are respecting employee opinions through the expansion of various communications channels, and we are constantly pushing ahead with fair personnel systems that focus on work competence. We shall do our best to create a work environment that balances work and personal lives, thus enhancing our employees' desire to work.



Performance

- Implementation of recruitment type internship (2 times) and new recruitment (485 people)
* Permanent position conversion rate: 49.6% in 2012, 62.6% in 2013, 71.1% in 2014
- New employment for social activity support of career-interrupted women (15 people)
- Certified as “Outstanding organization in human resources development” by the Ministry of Employment and Labor (Sept. 2014)
- Agreement on public institution reckless management normalization measures (Oct. 27 2014)
- Certified as Family-friendly Management for 5 consecutive years



Employee (Stakeholder) Interview



Kim Yeong-Hoon, Chairperson of Korea Railway Workers' Union

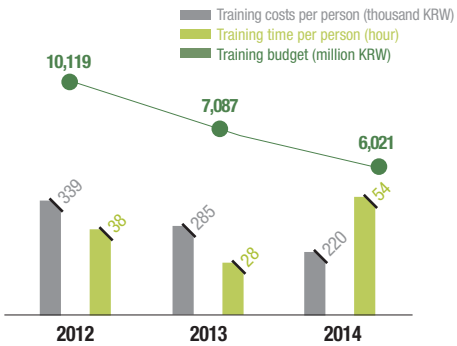
The railroad is working to build stable channels between labor and management to resolve complaints filed by employees, etc., along with Labor-Management negotiations such as collective bargaining or Labor-Management conferences. Furthermore, we are working to improve the employees' overall satisfaction levels through job security, improvement of labor conditions, ensuring publicness, etc., so that they may work with stability and self-respect. Moving forward, we shall continue to show our interest to avoid the outsourcing of main businesses for the improved stability and sustainable growth of the railroad industry, and we shall strive to prioritize improvements in employee work environments, such as working hours, wages, welfare, etc.

I Current Status of Employees I

Position	Job Category	Number of People
Executive		7
Class 1	General office work	213
Class 2	General office work	417
Class 3	General office work, technical	7,737.125
Class 4	General office work, technical	12,311.25
Class 5	General office work, technical	3,958.625
Class 6	General office work, technical	2,036.5
Class 7	General office work, technical	692.125
Special service	Clerical assistance	88.625
Total		27,461.25

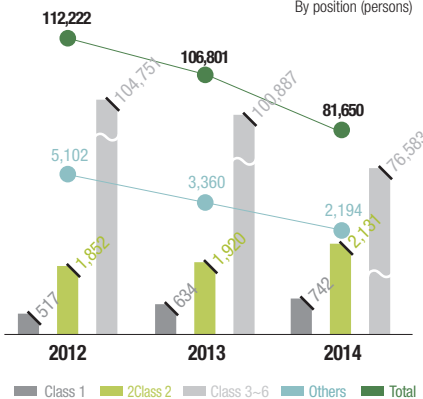
* Short-time workers converted to Ministry of Strategy and Finance standard

I Current Status of Training I



* Decreased training budget reduced in accordance with tightening of the cost estimates (24.4% compared to 2013)

I Current Status of Trainees I



Open Employment

Job Performance Centered Socially Balanced Employment

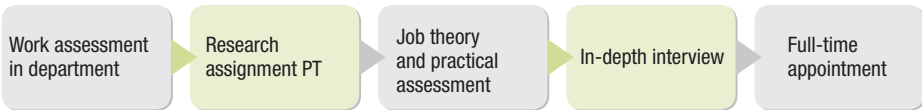
KORAIL is strengthening our competence-based, socially balanced, and open employment system to not only fulfill our social responsibilities as a public enterprise, but also to strengthen the organization's competitiveness by employing talented individuals equipped with core competencies and expertise. 66 high-school graduates were employed in 2014, 24 more than the 42 employed in 2013, and they have undergone systematic job training regardless of their promotion or remuneration. We have created a competitiveness culture that is equal to university graduates by supporting their acquisition of bachelor's degrees.

We have secured potential talented individuals, such as women who have had to cut their careers short, and we have recruited 15 "flexible work hour employees" who work 20 hours a week to participate in the social trend known as "balance between work and life".

Securing Customized Talented Individuals

KORAIL runs a recruitment process that looks past mere paper qualifications by using character/aptitude work competence assessments to eliminate academic background discrimination and implementing blind job interviews in which the names and backgrounds of candidates are not disclosed. Through such efforts, we are providing job opportunities for various members of society. Through our system in which internships lead to jobs, 485 former interns, or 71.1% of them, were employed as permanent employees in 2014.

Recruitment process that places ability over paper qualifications



Customized Training

KORAIL is fostering 39 advanced safety experts and 46 advanced technical experts by strengthening our specialized education in safety and technology, through which the accident defect rate has decreased by 10.8%. We are also implementing education and training to foster future global talent by dispatching 20 employees to the Hankuk University of Foreign Studies. We are currently training 18 specialists in international contracts.

We have improved our processes to raise the quality of education. Although we have had to decrease the number of trainees, the education hours have increased to 54 hours, an 86.2% increase compared to the previous year.

Balance Between Work and Life

Implementation of Flexible Work Hours

KORAIL is actively pushing ahead with a flexible work hour system to improve employee morale and satisfaction. To this end, KORAIL is expanding the operation of a time selection system, a weekend-focused short time work system, and a staggered commuting hours system. The number of employees utilizing the flexible work hour system has increased by 1,160 while the satisfaction level has increased by 3.6 points compared to 2013.

Diversification of flexible work hours

		Active Service	2013 Record (persons)	2014 Record (persons)	Fluctuation
Part-time			118	129	11
Flexible work hours	Staggered commuting hours type	27,461.25	92	1,243	1,151
	Intensive work type		4	2	△2
Total			214	1,374	1,160



I Certified as Best Family-Friendly Management for 5 consecutive years I



I Fulfillment of social responsibilities following joint Labor-Management activities I

	Main Results
Social contribution activity (Donating talent to community service activities and running the KORAIL Love Fund)	<ul style="list-style-type: none">• (Community service) Volunteer group (44 groups nationwide), symphony orchestra performance (35 performances), safety experience, KORAIL Village, ceremonial service provisions, etc.• (Love Fund) Sisterhood relationships (3,768 relationships), Happy Train (233 times), donations (1.46 billion KRW)
Expansion of flexible work hours (improved work environment for employees by making their work compatible with family life)	<ul style="list-style-type: none">• Part-time (short-time) 118 employees in '13 ⇒ 129 employees in '14 (11)• Staggered commuting times employees in '13 ⇒ 1,245 employees in '14 (1,149) * Work satisfaction level increase: 80.8 points in '13 ⇒ 84.4 points in '14 (3.6 points)
Socially equal open employment (expansion of women and high-school graduate recruits)	<ul style="list-style-type: none">• (Women) 33 employees in '13 149 employees in '14 (455%)• (High-school graduates) 42 employees in '13 66 employees in '14 (150%)

Family-Friendly Organization Culture

The number of employees that has utilized their maternity leave, which KORAIL actively recommends to promote childbirth and maternity protection, increased by 65.8% compared to 2013. KORAIL is also continuing efforts to create a productive working culture and to expand the compatibility of employees' work and private lives. We have adopted a system through which the working hours for pregnant employees have been shortened to 2 hours per day to overcome the low birthrate problem and to prevent women's careers from being interrupted due to pregnancy and childbirth. For women with twins or more, their rest days before and after childbirth have been expanded from 90 to 120 days to give them ample time for recovery and to help lessen their childcare burdens.

Building Reasonable Labor-Management Relations

Labor-Management Relations Advancement Strategy Development

Labor-Management mid to long term strategy framework

Vision	Value creation happy workplace KORAIL Labor-Management				
Slogan	Foster win-win Labor-Management relations through communication and trust				
Strategy assignment	Advancement of Labor-Management strategy for organizational innovation	Recovery of operational capabilities for site centered management	Activation of Labor-Management communications for restoring trust	Strengthening of cooperative activities for preventing conflicts	Rationalization of Labor-Management relations through collective agreements
Implement-ation assignment	① Re-establish Labor-Management strategy framework ② Strengthen Labor-Management strategy power of execution ③ Construct performance indicator/ feedback	④ Strengthen organization in exclusive charge of Labor-Management ⑤ Strengthen field unit teamwork ⑥ Improve effectiveness of Labor-Management training	⑦ Realize consistent communications leadership ⑧ Institutionalize open management ⑨ Activation of grievance settlement	⑩ Company-wide system of carrying out negotiations ⑪ Joint Labor-Management social contribution activities ⑫ Continue Labor-Management partnership activities	⑬ Comply wages and collective agreements with government guidelines ⑭ Reform unreasonable personnel management system

Mid to long term strategy development process

Category	Contents
Scope of task	Constructing a Labor-Management relation of a new KORAIL type paradigm
	① Diagnose Labor-Management relations level and analyze performance ② Define KORAIL type Labor-Management relations model ③ Design Labor-Management relations performance indicator measurement scheme ④ Establish measures to strengthen labor relations management capabilities ⑤ Prepare win-win communications measures ⑥ Prepare strategy assignments and action plans
Principal agent of task	Internal/external specialist group joint TF management * 6 people from an organization specializing in human resources, 5 people from an internal exclusively responsible department, and 60 people responsible for labor
Development procedure	Environmental analysis (rigorous analysis of government policy, labor environment, standard of Labor-Management relations, etc.)
	↓ In-depth diagnosis (deduce implications through surveys and interviews)
	↓ Establishment of mid to long term ("15~18 years) strategy framework for Labor-Management relations (SWOT analysis)

I Systemization of conflict management I

On-Line (KORAIL Park, etc.) Understanding employee sentiments, information supply	Analyze cause of conflict	Prevent · resolve conflict	Create results
Off-Line (On-site management activity responsibility system) Executives above Class 2 designates department in charge, permanent communications activities and monitoring	<ul style="list-style-type: none">• Implement government policy• Make operation of organization and personnel more efficient• Reform practices and institutions	<ul style="list-style-type: none">• CEO leadership• Advance sharing of information and communications empathy• Joint Labor-Management conference and discussions, etc.	<ul style="list-style-type: none">• Increase trust in management• Increase railroad safety• Reasonable personnel management• Achieved very first business profits

I Indication of a will to communicate to reform reckless management I
(Normalization measures bureau meeting, February 23 2014)

We shall engage in conversations, regardless of the time and place, and with an open mind to normalize management and resolve reckless management. We shall not give up until all the workers' hearts become as one.



KORAIL family empathy activity

Labor-Management Cooperation Efforts

Building Reasonable Labor-Management Relations

Differences in opinions and positions regarding government policies on follow-up measures of railroad strikes and reckless management have intensified the conflict between labor and management. A task force was formed to realize a reasonable and co-prosperous Labor-Management culture. The task force works to prevent conflicts by strengthening functions through PR and communications activities of all executives including the CEO, and we have concentrated all our energies to resolving such conflicts at their early stages.

Through multidimensional communications channels, we have also developed regular on-site communications activities to share in advance and help everyone in the company understand the government's and company's management policies. We are also constructing and operating company-wide conflict management systems to prevent/resolve conflicts and to analyze the causes that change the relationship between labor and management by understanding the sentiments of the employees.

Building Labor Relations Management Collaborative Systems

Strikes and continued conflicts notwithstanding, KORAIL has carried out the Ministry of Employment and Labor partnership support business for five consecutive years, which is a first for a public institution. Furthermore, we have run internal joint Labor-Management activities programs separately to amicably carry out 18 tasks, promoting cooperative Labor-Management relations and amending unreasonable Labor-Management practices.

Revitalization of Labor-Management Communications Channels

Company-wide Communications

During the agreement between labor and management to resolve the reckless management issue, the CEO personally met with the union head to hold seven negotiations and have also carried out 28 on-site communications activities, such as conferences and others, to strengthen communications with the site staff.

A briefing session of management issues and 46 weekend-focused briefing sessions were held in April and May of 2014 that focused on the executive staff, while 130,000 copies of our newsletter were distributed to strengthen employee bonding and company loyalty. Such efforts helped to persuade the labor unions and formed a consensus among the employees for the need of reform, through which the reckless management resolution item was hammered out in its entirety.

Results of mutual communications channels between labor and management

Communications Channel	Results
CEO leading by example (leadership display)	<ul style="list-style-type: none">• Meetings between labor and management representatives and permanent operation of conversation channels (25 times)• Employee family empathy activities (15 times) and direct communications through CEO chatroom (157 cases)
Official (regular communications)	<ul style="list-style-type: none">• Consultative groups such as collective bargaining, Labor-Management conferences, discussions, etc. (365 times)• Sharing of management values through meetings and workshops in each class (150 times)
Hot-line (real-time sharing)	<ul style="list-style-type: none">• Strengthened communications with the opening of KORAIL Park (visitors increased by 10.7 times after opening)• Permanent operation of grievance settlement (settled 118 cases)
On-site sensibilities (strengthened physical contact)	<ul style="list-style-type: none">• On-site management activities (35 briefing sessions, on-site labor leader communications 370 people)• Continued operation of joint Labor-Management programs (18 programs)

Special Page #1.



A remote mountain village sought by 10 people a day, To a Santa village crowded with 2,000 people

KORAIL has constructed railroad tourism belts in Korea's 5 metropolitan areas for the co-prosperity of the company and the region, where trains are the main forms of transportation. In order to secure continuous demand in the winter off-season for the Jungbu inland tourism belt and to revitalize the O, V trains, we have constructed a Santa-themed village in Buncheon Station (Gyeongsangbuk-do, Bonghwa-gun), the station where the V-train departs.

A council to push ahead with the work was formed with the local government with whom we worked in close cooperation, and labor was divided amongst the organizations. Firstly, **KORAIL provided support for the construction plans, the manufacture of a themed tourist train, the management of connected tourism products, and site provision.** The local government provided the budget investment and residents personally managed the local specific tourism content such as local food markets and other attractions. Furthermore, **a large tree, a Rudolph photo zone, and other attractions were prepared while a snow sleigh park, food and beverages that utilize local specialty products, the leaving of wish cards, and various other special performances have all helped to transform the area into a new tourist attraction.**

The Christmas atmosphere of the V-train was enhanced to make it Santa themed, with Christmas decorations adorning the interior of the V-train and crew members dressed in Santa outfits. Fun events are also held, such as identifying carols, carol performances by the crew members, having passengers submit their stories in red socks with some of them being broadcast, and many others. A package tour has also been developed in which the train stops at Buncheon Station for longer than 90 minutes, allowing the tourists to travel around freely. As a result, **this country station that only serviced 10 people a day has been transformed into a major tourist destination that is visited by an average of 2,000 people a day.**



In such ways, KORAIL is making various efforts to co-prosper with different regions through railroads. By developing new tourism products that our customers are unable to experience in their daily lives, we are providing opportunities for regional communities to develop, as well as providing our customers with happy memories.



The World, KORAIL Shares Dreams and Hopes with the World

KORAIL fully considers safety before carrying out any and all work. We hope to lead the global railroad industry based on the world's highest railroad safety standards.

Co-prosperity with partner companies and local communities is important to take off as an integrated transportation company. We provide strong support to reinforce the capabilities of partner companies, and we are building a world where we lead the development of local communities to grow together.

-  Special #2.
A happy world connected by railroads,
love, and sharing
-  Issue 5.
Sharing with regional communities
-  Issue 4.
Co-Prosperity
-  Issue 3. **SAFETY**
Safety Management

Issue 3.

Safety Management

KORAIL considers safety to be a top priority objective as well as a core value, and we are striving to build an absolute safety system. We have sought out and improved a safety index to build railroads that immediately give people a sense of safety. At KORAIL, we shall continue to commit our utmost efforts to provide convenient and safe railroad services to the nation.

	2012	2013	2014
Safety budget (Unit: hundred million KRW)	2,421	3,064	4,187
Track length (Unit: km)	8,419.0	8,456.4	8,465.4
Vehicles in possession (Unit: carriages)	18,343	17,915	17,115
Number of train services (Unit: times/day)	3,366	3,354	3,103
Transport performance (Unit: thousand people)	1,152,907	1,230,396	1,269,606



Business & Social Context

As much as the nation's self-reflection and concern of social safety nets increased after the Sewol Ferry incident, people's interests and expectations of railroad safety have also risen. To this end, KORAIL has improved and maintained a system to ensure that minor negligence does not lead to accidents. Safety is the most important factor in our customer service and an unchanging core value at KORAIL.



Progress

KORAIL has built a railroad safety management system, strengthened our emergency response system, cooperated with outside organizations, and pursued on-site communications activities to achieve our safety management objectives. In line with this, we have built a pleasant and safe workplace by establishing an occupational accident prevention collaboration system and implementing system improvements, such as psychological counseling for employees, prohibition of cell phone usage, etc. We have also increased technical capabilities and reinforced train service lines and safety management in stations.



Future Plan

In order to establish an absolute safety system, KORAIL is planning to push ahead with four major strategic agendas that include advancing our safety system, strengthening safety capabilities, increasing vehicle safety, and enhancing the stability of our facilities. We shall create a safety culture with the public by establishing a safety management system and strengthening our human error management system.



Performance

*() Ratio compared to previous year

- Safe operation service rate (case/million km): 1.942 (17.7% ↓)
- Reduction in human error rate (case/million km): 0.701 (10.2% ↓)
- Secure workplace realization rate (no. of industrial disaster victim/yearly average worker): 0.273 (10.2% ↓)
- Vehicle breakdown rate (case/million km): 0.107 (7.8% ↓)
- Facility defect rate (case/thousand km): 1.238 (35.7% ↓)



Academic (Stakeholder) Interview



Professor Hwang Shi-Won, Department of Railroad Vehicle Engineering, Dongyang University

In 2014, the railroad company has built a railroad safety system recognized by the country in accordance with the amendment to the Railroad Safety Act that the country has acknowledged. The control room has been reorganized as the safety headquarters while its head was upgraded to executive director, demonstrating the strong will of the CEO with regard to safety. In addition, the emergency response system for crisis situations has been strengthened and the system and component quality management systems have been improved. By scientifically managing human error, the safety and health characteristics of the job have been emphasized and placed as a top priority. We are looking forward to KORAIL's sustained growth through the pioneering of railroad technology development based on KORAIL's very own technical skills.

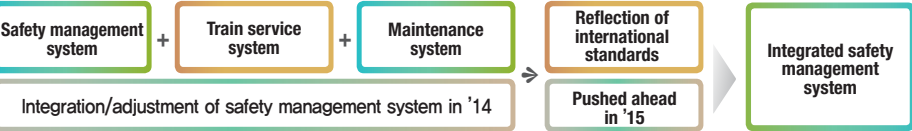


Safety System Advancement

State Recognition of Railroad Safety System

In accordance with the amendment to the Railroad Safety Act, KORAIL has updated the previous safety management, train service, and maintenance and management systems into an integrated safety management system to build a railroad safety management system that is acknowledged by the country. In 2014, KORAIL has integrated the safety-related company regulations from a three-stage 12 regulations system to a two-stage 7 regulations system to fit the safety management system, and a risk management system has also been prepared by reestablishing the railroad accident risk analysis profile. Through such efforts, in December of 2014 KORAIL has constructed a railroad safety management system acknowledged by the country while also recording the lowest incidences of accidents and defects since our company's founding.

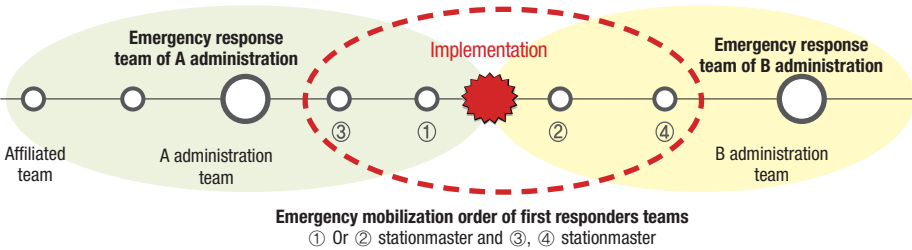
I Integrated railroad safety management system I



Construction and Internalization of Emergency Response System

KORAIL has developed early preparedness measures that can swiftly provide aid to passengers within the golden time once an extraordinary incident occurs. Focusing on the stationmaster that is closest to the scene of the accident, emergency response teams have been formed that can be deployed to emergency rescue operations. In particular, KORAIL is also doing our utmost in providing emergency response training so that the emergency response system can properly operate in accident sites. Assuming the worst case scenarios, a total of 3,189 training sessions have been carried out compared to 1,228 sessions in 2013. Improvements have also been made to the provision of emergency supplies that can help in the response to extraordinary incidents. The types of emergency supplies have been expanded from the existing 5 to 11, while their provision has also been expanded from the existing 39 stations to 61 stations. Meanwhile, cooperative systems have been built with 52 related organizations, including the Construction and Management Administration, to swiftly carry out passenger rescue missions in isolated regions, such as mountainous areas.

I First responders team conceptual diagram I



Safety Management System of Cooperation and Communication

In order to spread the safety culture of railroads, we have strengthened cooperative systems that encompass employees, the government, related organizations, and even the general public. The problems of the national support system and railroad operators have been analyzed, and debates have been held with the Ministry of Land, Infrastructure, and Transportation four times a year to prepare preventive measures while MOUs have been signed with 8 organizations to make improvements to the safety system. KORAIL is concentrating our efforts in nationwide communications, including running a reward program (which has been claimed by fifteen people so far) for the reporting of electrical line risk factors to ensure the safe operation of trains. In particular, KORAIL is sharing risk factors in real-time through employees and the "KORAIL Safety Madang".



Strengthening of Safety Capabilities

Safety Consciousness Reform

KORAIL is aware that momentary carelessness on the part of employees can lead to accidents, and so we are focusing all our company's capabilities to instill effective safety consciousness among our employees. Each month, the CEO presides over a meeting for comprehensive inspection of safety measures and makes her rounds to business establishments and stations across the country to spread the importance of safety to employees and to share her vision. She has also made on-site visits more than twice a month to raise the safety consciousness of employees.

Additionally, KORAIL is running a range of programs to foster safety consciousness nationwide, such as the railroad safety experience center, safety experience study center, safety campaigns, and many others in which approximately 51,000 people have participated.

Strengthening of Employee Mental Health Management

Having understood the correlation between the job stress of train operators and human error, KORAIL has prepared customized management measures by remedying the psychological and environmental factors from a new perspective. KORAIL has also reflected 41 advisory projects, including human error analysis methods, into major business plans that we are pushing ahead, while 66 counselors in 36 counseling offices in 22 regions are working towards improving the mental health management of our employees. To dispel the insecurities that follow labor strikes, rotation transfers, and train accidents, KORAIL has conducted special counseling for the relevant employees so that they may regain their psychological well-being.

Improvement of Human Error Prevention System

KORAIL has made improvements to various facilities for three-fold supplementation of equipment that are prone to human error. A signaller has been reinstalled to improve visibility while dual safety devices, such as an ATS alarm for trains that violate signals, and a wireless protection device that stops all nearby trains have been installed. Cell phone usage has been prohibited and amendments have been made to the signal verification procedure to improve the level of safety. KORAIL has formed and is running a "Human Error Research Committee" that is composed of outside experts to prevent train operator human error to investigate fundamental causes and to prepare customized improvement measures.

	Primary committee	Secondary committee
Composition	<ul style="list-style-type: none">● Number of people: 18 (outside members)● Organization: 3 departments<ul style="list-style-type: none">- Error analysis department- Psychological analysis department- Curative measures department	<ul style="list-style-type: none">● Number of people: 11 (outside members)● Organization: 2 departments<ul style="list-style-type: none">- Error analysis department- Psychological analysis department
Working period	Apr. 2012 ~ Oct. 2012	Apr. 2013 ~ Mar. 2014
Research results	<ul style="list-style-type: none">● 25 recommendations by field (Preparation of operation room design criteria, etc.)→ Reflect in company-wide safety management master plan	<ul style="list-style-type: none">● 41 recommendations by field (Human error analysis method, etc.)→ Reflected in major business plans, etc. and being pushed ahead



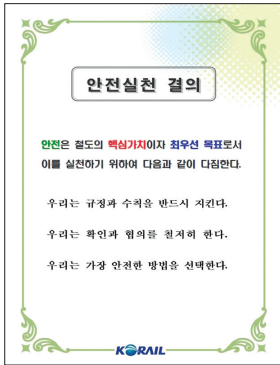
Employee on-site activities



Railroad transportation safety campaign

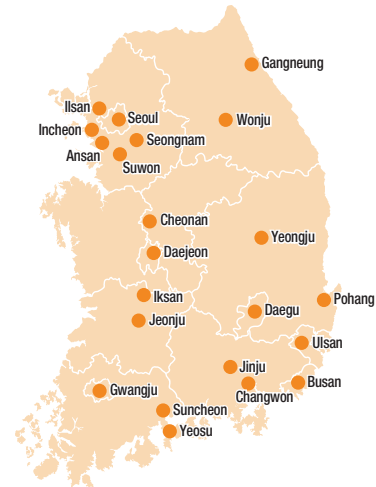


CEO on-site activities



Safety Practice Resolution

I Holding of the human error research committee I



KORAIL Psychological Counseling Network (22)

I Vehicle breakdown minimization I



I Track defect minimization I



Track inspection

Rail replacement



Track irregularities correction work

I Electrical faults minimization I



Detailed inspection of electrical line



Detailed inspection of railroad switch

Safety Improvements of Railroad Vehicles and Facilities

Improvement of System and Component Quality Management System

By incorporating the latest IT technologies, KORAIL has upgraded the system that wirelessly transmits train service information and has also made improvements to the maintenance system. Time between Overhaul (TBO) has been expanded to be applied to general vehicles to prevent vehicle breakdowns and to ensure the quality of components.

Ensuring of Safety Based on Reliability

The railroad vehicle RCM (Reliability Centered Maintenance) application procedure has been enacted in 2014 for systematic maintenance. The reliability management system has also been upgraded while the railroad vehicles have been stabilized following the implementation of specialist education.

Securing of Railroad Vehicle Core Technologies

The high-speed train management technical skills and national R&D businesses have been combining for the past ten years to improve the core technical skills in maintaining important component parts. This led to the successful localization of the core equipment, such as motor blocks, in high-speed trains.

Prevention-Centered Facility Management

In order to reduce track breakdowns due to broken rails, KORAIL has built a broken rail prevention system that tracks, manages, and analyzes rail defects. Thirteen electrical installations that are prone to defects, including subway track insulating rods, railroad switches, and contact detectors have been replaced over the past five years to improve their performance.

Ensuring of Maintenance Quality by Improving Method of Assessing Condition of Electrical Installations

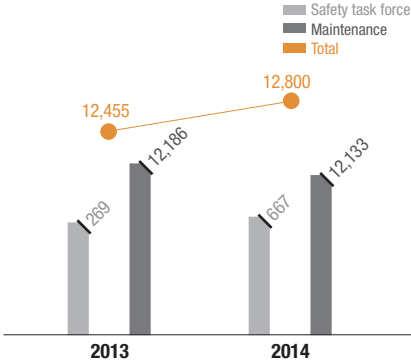
A maintenance system has been built that checks and evaluates the conditions of electrical installations by using the same inspection methods and procedures.

Importantly, the two-stage facilities evaluation method has been further subdivided into four-stages while the facilities measurement data have been periodically analyzed. Equal quality has been ensured as a result while the occurrences of defects have been prevented in advance.

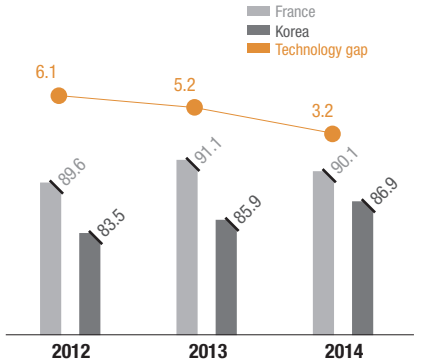
Strengthening of Railroad Crossing Safety Management

Railroad crossing accidents are mostly caused by the inattention of those who drive cars (97.3%). In order to prevent railroad crossing accidents caused by human error, KORAIL has expanded safety installations, such as obstruction detecting devices, in 43 locations and improved vulnerable factors, such as accident road faulty gradient sites, in 433 locations.

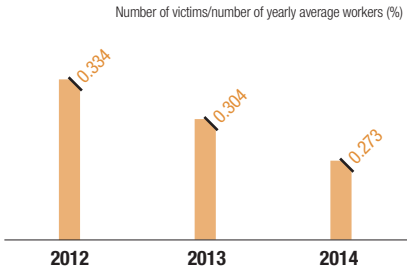
I Current status of safety personnel I



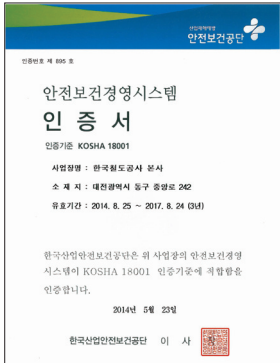
I Maintenance technology gap I



| Secure workplace implementation rate |



Interagency joint field inspection



Safety Health Management System Certificate



KORAIL safety campaign prize

Creation of a Pleasant Workplace

Industrial Accident Management

KORAIL has been focusing on preventing employees from getting into job accidents. We are creating a pleasant and safe workplace by seeking out and improving unsafe factors in work areas. We have inspected such unsafe factors by holding 4 industrial accident prevention councils with the Safety and Health Agency and 19 consultations with the safety and health management to prepare improvement measures.

Strengthening collaboration systems with stakeholders

KORAIL has strengthened cooperative systems with various stakeholders, such as the labor unions and partner companies, to build an absolute safety system.

We have run a joint labor and management railroad safety special committee 16 times and have discussed 26 items such as the installation of video tape recorders in the control room. We have also held 764 conferences with outside stakeholders, such as partner companies, provided risk information 274 times, and held 111 consultations.

Occupational Safety and Health Emphasis Month

KORAIL has been striving to spread a culture of safety within the organization to create a safe and happy workplace. We have designated July of each year as Occupational Safety and Health Month. During this month, we have held production and PR events of industrial accident prevention UCCs and benchmarking of outstanding organizations. We have also sought out and improved 1,627 unsafe factors. We retain domestically and internationally certified safety and health management systems and have reduced the incidences of industrial accidents by 10.2% compared to 2013.

Safe work environment creation efforts

Supervisor training-assessment	<ul style="list-style-type: none">Overall reorganization of management supervisor cyber education contents (September)<ul style="list-style-type: none">Strengthened effectivenessAssessment of level of understanding of industrial safety and health ordinances (November)<ul style="list-style-type: none">Special education for low scorers
Workplace guidance inspection	<ul style="list-style-type: none">Korea Occupational Safety & Health Agency joint consulting (3 times)<ul style="list-style-type: none">Identify and improve risk factors with an outside perspectiveGuidance inspection of actual conditions of implementation of industrial safety and health ordinances (November) ▶ 127 cases of improvement factors discovered
Work environment improvement	<ul style="list-style-type: none">Implementation of workplace-wide investigation into factors of musculoskeletal harm (June~December) ▶ Establishment of 164 cases of improvement plansImplementation of first and second half-year work environment measurement and establishment of measurement result reflection improvement plans

Employee and partner company health support

Target	Category	Supported item
Employee	Physical examination	Physical examinations such as CT scans for all employees
	Health promotion activities	Prevention of various diseases caused by stress, cardiovascular problems, musculoskeletal problems, and smoking with the cooperation of three organizations (two doctors, one clinical counselor, one nurse, four others)
	Mental health management	Management of 66 counselors in 36 counseling offices in 22 regions
Partner company	Industrial accident prevention	Risk information supplied 273 times, consulting 111 times
	Information exchange	Safety information exchange through operating a council 764 times



Issue 4. Co-Prosperity

KORAIL is developing various co-prosperity activities to ensure our competitiveness in the railroad industry by establishing fair trade and strengthening our cooperation with small and medium sized businesses. We shall continue working diligently to move forward into an era of national happiness by creating and developing cooperative corporate ecosystems through co-prosperity with small and medium sized businesses. To do this, we will be entering into technical co-operations and joint projects, opening new markets, spreading a benefits-sharing system, and other measures.

	2012	2013	2014
Small and medium sized company products Total purchase amount	6,160	6,967	6,703
Social enterprise products Purchase amount	40	101	124
Female-owned business products Purchase amount	447	370	494
Products made by people with severe disabilities Purchase amount	16	13	22



Business & Social Context

Mutual cooperation and co-prosperity between large corporations and small and medium sized companies are the roads to recover Korea's economy from the swamp of slow growth. They are not choices, but necessities to secure sustainable competitiveness of companies in a rapidly changing global corporate environment. KORAIL has recognized the importance of co-prosperity so that we may fulfill our social role as a public enterprise, and are making efforts to become the foundation for Korea's future growth.



Progress

In order to help boost the competitiveness of small and medium sized companies, KORAIL is strengthening technical co-operation and spreading a benefits-sharing system. We are also pursuing various businesses to support their markets and management stability, and we are working hard to establish a fair contract culture by implementing various regulatory reforms and systems improvements to strengthen win-win co-operations.



Future Plan

KORAIL plans to continue providing support for small and medium sized businesses acquiring quality certifications by paying for the evaluation costs and providing consultations if they were to acquire certifications for new products, new technologies, ISO, etc. We shall also spare no efforts in supporting small and medium sized businesses by further spreading a multi-lateral benefits-sharing system in which results are shared with secondary and even tertiary partner companies.



Performance

- Selected as an outstanding public institution for 3 consecutive years in public purchase loan support
- Received the "Technical Cooperation Outstanding Demand Source" Runner-up Prize in the Large Corporations and Small and Medium Sized Businesses Co-Prosperity Fair
- Received the 2014 Korea Invention Patent Exhibition Silver Prize
- Joint execution of national R&D with small and medium sized businesses (10 projects of localization of core technologies)



Partner Company (Stakeholder) Interview



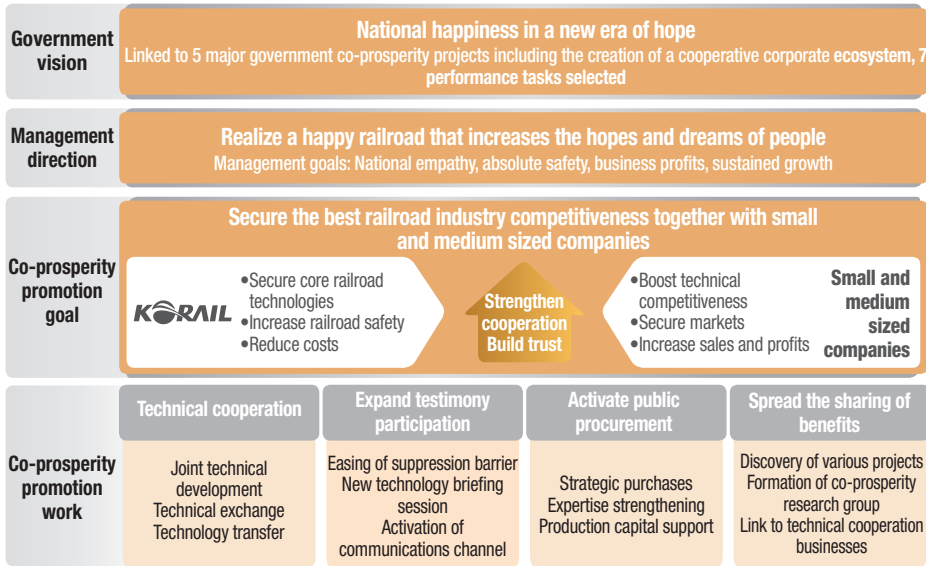
Lim Seung-Gu, CEO of Samsung Precision Co. Ltd.

With the spread of the general public's awareness of co-prosperity, I feel companies must also think fundamentally about it while partner companies should also strive to build a foundation for co-prosperity. Small and medium sized businesses were able to boost their technical competitiveness in 2014 by actively utilizing the program in which KORAIL transferred the intellectual property rights they owned to them. I look forward to KORAIL continuing to work hard in the future for true co-prosperity by strengthening mutual competitiveness of themselves and their partner companies through various programs such as the transfer of superior technologies and technical co-operations.



Strengthening Small and Medium Sized Business Competitiveness

Co-Prosperity Implementation System



Technical Cooperation between KORAIL-Small and Medium Sized Businesses

KORAIL is strengthening technical co-operations with small and medium sized businesses to reduce costs and develop the latest technologies. In 2014, we have carried out 10 national R&D joint projects with 20 small and medium sized businesses for the localization of core technologies, and we have purchased approximately 5 billion KRW worth of new products by revitalizing the purchase-conditional new product business.

KORAIL has enabled small and medium sized businesses to use the intellectual property rights that KORAIL retains to boost their competitiveness, and we are also striving to revitalize technical exchange, such as passing down safety and environmental work know-how, through health and safety councils and environmental pro bono work. In recognition of our efforts, we have received the “Technical Cooperation Outstanding Demand Source Runner-up Prize” and the “Project Discovery Award” in the Large Corporations and Small and Medium Sized Businesses Co-Prosperity Fair, as well as the Silver Prize in the 2014 Korea Invention Patent Exhibition.

Spreading the Sharing of Benefits

KORAIL has formed the “KKORAIL small and medium sized business co-prosperity research group” and is working hard to realize co-prosperity with small and medium sized businesses by seeking out eight new projects and completing two of them to seek out various cooperative models, such as entering into joint co-prosperity projects.

We have hosted a railroad corporation co-prosperity benefits-sharing academy that was attended by eight organizations, including regional urban railroad corporations, to spread the benefits-sharing system and enable it to take root in the early stages.

I Technical cooperation awards I



2014 Co-Prosperity Fair Project Discovery Award



2014 Korea Invention Patent Exhibition Silver Prize

I Small and medium sized company technology transfer and support I



Portable assembly-type assistant truck technology transfer



Industry-academia technology seminar with small and medium sized companies



KORAIL small and medium sized businesses co-prosperity research group



Railroad corporation co-prosperity benefits-sharing academy

I Small and medium sized company market support I



Outstanding products of small and medium sized companies' participation support



Development of model train traditional wine



Export support for businesses that enter into the small and medium sized companies' Masterworks Maru

I Current status of small and medium sized companies' Masterworks Maru I

	Current status
Average monthly sales	688 million KRW
Number of businesses entered	301
Number of products for sale	2,720
Number of customers	374,015

I DMZ-train I



“KORAIL's peace train DMZ-Train has been selected as a 'Hit product that brought honor to Korea in 2014' by the Digital Chosun Daily”

Co-Prosperous Cooperation

Market Support

The “small and medium sized business Masterworks Maru” is run to support small and medium sized business markets, which helps to spread local distribution as well as provide these businesses with opportunities to export their products to foreign countries. By combining KORAIL's corporate reputation with the small and medium sized businesses' creative products, we have helped to raise product awareness and increase purchase confidence. In particular, we have contributed to the expansion of new market openings both domestically and internationally, such as exclusive contracts that were concluded with some of the Masterworks Maru companies and foreign buyers.

We are helping to increase the sales for regional travel agencies and small businesses with railroad tourism products and packages, such as the model train traditional wine experience, the Paldo Marketplace tourism train, Rail Green, train services in the five major tourism belts, and many others. We have made many contributions to revitalize the economies of small businesses in the isolated and underdeveloped northern Gyeonggi and Gangwon regions with the only DMZ-themed tourist train in the world.

Current status of small and medium sized company support

Item		2012	2013	2014
Capabilities strengthening support	Small and medium sized company product purchase amount (hundred million KRW)	6,610	6,967	6,703
	Small and medium sized company product purchasing ratio (%)	50.2	63.6	58.9
	Safety-environment technology transfer companies (no. of companies)	16	19	24
Financial support	Financial support performance (hundred million KRW)	880	861	645
Joint R&D	Small and medium sized company technology innovation budget (hundred million KRW)	63	153	53
	Number of joint research development cases, participating companies (cases/no. of companies)	17/30	26/37	15/25
Market expansion support	Construction participation (cases)	1,472	1,281	1,380
Regional business sales support	Opening of regional businesses	0	5	12
Joint entering into foreign markets	Number of cooperating civilian businesses	3	12	11
	Business revenue (hundred million KRW)	75	94	128

Management Stability Support

KORAIL is supporting the management stability of small and medium sized businesses through such things as cash payments, funds liquidity, loan supports, and others. The cost of delivered goods have been raised 3.1% in 2014 to reflect the inflation rate while 100% of the total of 31.7 billion KRW in 187 cases of the amount requested by businesses have been paid by adjusting advance payments to 70%. In particular, we have supported 5.1 billion KRW as a public purchase system* to support the stable production capital of small and medium sized businesses.

* This is a system that supports low interest loans by putting down contract performance as collateral

Shop Development inside Stations

We are supporting the expansion of outstanding small and medium sized business markets and the development of KORAIL-type co-prosperity models that contribute to the development of regional economies.

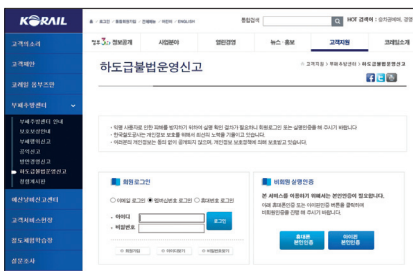
We have investigated famous local restaurants and examined appropriate companies and formed business-directed bonds of empathy suited to the revitalization of regional economies. In 2014, we have introduced into Busan Station 12 local famous restaurants, including Samjin Fish Cakes, that have created 214 jobs and recorded a monthly average of 2 billion 16 million KRW in sales.



I Co-prosperity conference I



Technical assessment management system

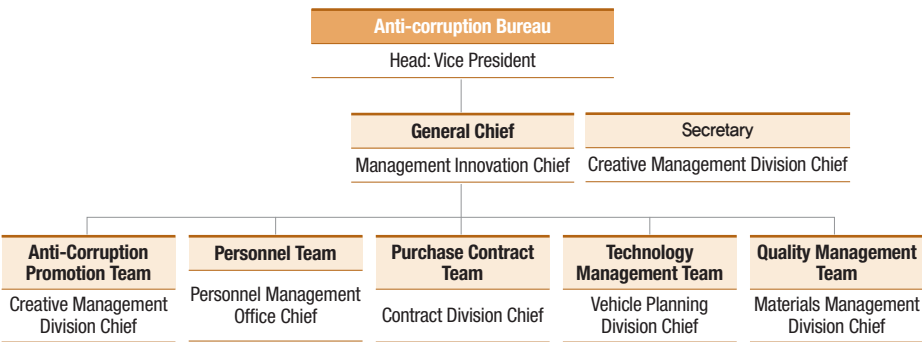


Illegal subcontract reporting center

Internalization of Co-Prosperity Culture

Regulatory Reforms and Institutional Improvements

KORAIL continues to abolish unreasonable regulations and implement reforms to mitigate the obstacles that are preventing small and medium sized businesses from penetrating into markets. We are holding discussions with partner companies and gathering proposals that we reflect in systems improvements, and we have enacted 23 such improvements in 2014. We have formed an anti-corruption bureau to seek out and remedy corruption risk factors, and are pushing ahead with a total of 28 projects.



Establishment of Fair Contract Culture

KORAIL has linked the electronic procurement system with the Nara Marketplace to register 100% of bid objects (4,603 items) in the Nara Marketplace. Not only have we applied regulations in accordance with the Public Service Ethics Act to resolve the problem in candidate screening by blocking the privileges from one's former post, we have also established a transparent and fair contract culture with the appointment and formation of a review committee through the institution and management of a technical review committee management system.

In the future, KORAIL will continue to improve this system so that disadvantages will not result from unfair use of transaction status, and we shall permanently restrict bid participation of distribution companies that tamper with or forge test results. Through the institution of such systems, we are striving to continue being recognized by everyone as a clean public enterprise.

Eradication of Illegal Subcontracts

Since 2013, KORAIL has been striving to eradicate unfair subcontract practices regarding all contracts of constructions, services, and goods. We have made the current status of subcontract price payment in the electronic procurement system public in real-time. By monitoring payment flows every month, we are strengthening the payment oversight of secondary and tertiary partner companies. In particular, we are running a reporting center to eradicate illegal subcontracts for more thorough management oversight, and we are performing checks on the actual conditions of subcontracts targeting 112 companies. Through such efforts, we have performed 100% of the subcontract price direct payment system and payment confirmation system in 2014, and we are planning to ensure the transparency and effectiveness of subcontract price payments by continuously making improvements to these systems.

Current status of real-time disclosure and monitoring of subcontract price payment status

Direct payment system of subcontract price			Payment verification of subcontract price			Payment verification implementation rate
Number of direct payment cases	Amount	Compared to 2013	Number of contracts	Number of verifications	Amount	
142	347 billion KRW	↑ 27 billion KRW	18	18	12 billion KRW	100%

Issue 5.

Sharing with Regional Communities

KORAIL is fulfilling our social responsibilities with social contribution activities appropriate to our business characteristics.

With the KORAIL community service group at the center, we are running specialized social contribution programs through internal and external partnerships. It is our company's priority to engage in on-site contact type volunteer activities that share our talents. We are aspiring towards sustained and systematic volunteer activities and are strengthening the participation of stakeholders.

(Unit : hundred million KRW)

	2012	2013	2014
Funds raised (Unit: million KRW)	1,202	1,311	1,307
Volunteer hours per person (Unit: hour)	6.62	12.2	12.8



Business & Social Context

Following the demands of stakeholders with regard to the fulfillment of social responsibilities, as well as the increased expectations in the role of public enterprise in serving public interest, social contribution programs and sharing management activities have become ever more important. As a company that forms deep contact points with regional communities, we shall continue to expand railroad centered welfare to satisfy the various demands of the public.



Progress

With the objective of becoming a company devoted to our social role for the development of regional communities, we have established a new promotion system called the "Five-Colors Happiness KORAIL" and have developed social contribution activities specialized for each class of the public. With our employee volunteer group at the center, we are encouraging voluntary social contribution participation and creating productive synergy by building cooperative systems suited to the characteristics of each program's activities and strengthening partnerships.



Future Plan

We shall continue to develop and operate specialized social contribution programs by strengthening core competency analyses and investigations of needs. We shall also strengthen the incentives for employees to participate more actively in volunteer activities and spare no effort in various types of education and support for the enhancement of capabilities.



Performance

- Improvement of residential environment of underdeveloped villages on each train line
- Support for Sewol Ferry victims' families and efforts to revitalize Jindo economy
- Invitation of separated families to DMZ Happy Train
- Invitation of marginalized social classes to attend the 2014 Incheon Asian Games
- "Seat of Love and Sharing" to commemorate the Pope's travel on KTX, donation of profits
- Received a Korea Volunteer Work Award

NGO Organization (Stakeholder) Interview

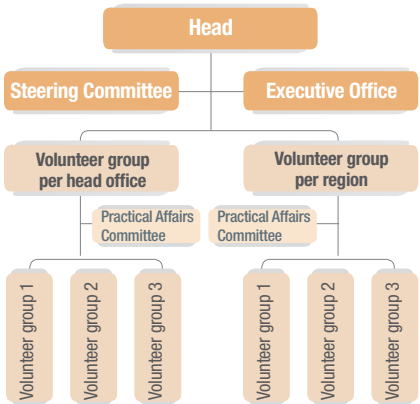


Kim Seong-Keun, Director General of International and Inter-Korean Bureau, the Korea National Red Cross

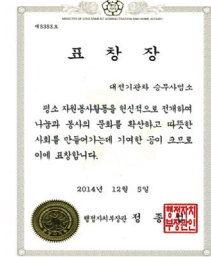
The "Invitation of Separated Families to the Hope Windmill Happy Train" is a program that utilizes the railroad infrastructure that has been built from Dorasan Station in Panmunjeom to Woljeongri Station in Cheorwon, Gangwon Province. This program is a way of consoling the families who were tragically separated from their family members, and is an indication of the desire to solve the problem of separated families. The program that provides family vacation opportunities to marginalized classes, such as multi-cultural families, is highly significant in its active utilization of the railroad infrastructure. Although they are being run using KORAIL's very own characteristics, considerations need to be made regarding how to carry out sustained sharing activities, such as forming 1:1 relationships with the youth or elderly in the low-income bracket, or forming relationships with community centers, etc.



I KORAIL Community Service Group Organization Chart I



Outside partnerships



Korea Volunteer Work Award



Company-wide blood donation day event

Social Contributions Promotion Strategy







Vision	National Happiness KORAIL		
Core value	To realize a beautiful society through empathizing with the people		
Slogan	A happy world connected by railroads (Five-Colors Happiness KORAIL)		
Key areas / main activities	Talent sharing	Happiness sharing	Regional contributions
	• Railroad experience center • KORAIL Village	• Happy Train • KORAIL Wedding Station • “Seat of Love and Sharing” management	• Self-support program for the homeless • Support for various regional activities

We are contributing to the development of regional communities and fulfilling our social responsibilities through social contribution activities that are based on the railroad industry.


We have selected and are pushing ahead three key areas of talent sharing, happiness sharing, and regional contributions, and we are continuing to support our marginalized neighbors who live around railroads through donation activities that utilize the capabilities of a wide range of employees.

With the KORAIL community service group at the center, which is composed of 44 volunteer groups in 446 volunteer organizations nationwide, we are pushing ahead and expanding our social contribution activities by entering into strategic partnerships with NGOs and other groups. In 2014, the head of the group was promoted from vice president to president to strengthen the powers of execution of social contribution activities, and we have also enacted the community service group management regulations. As a future-oriented company, KORAIL has also reorganized the promotion system in the hopes of carrying out social contribution activities that have tightly integrated the railroads with culture. We are striving to become a railroad company that makes the public happy with specialized services that reflect the demands of the times and serves society by linking our social contribution emblem with each class's programs.

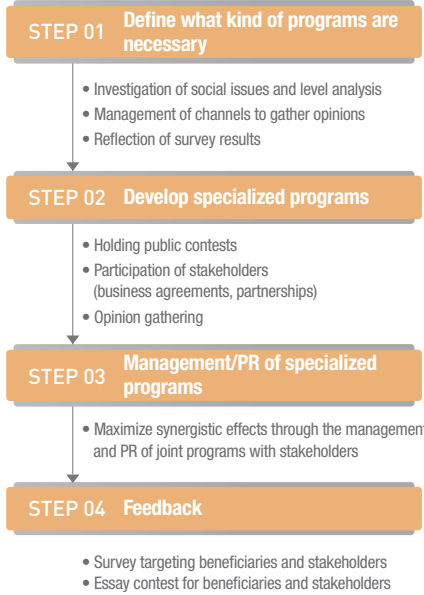
Current status of social contribution activities management

	2012	2013	2014
 Number of activities	5,872	11,297	9,840
 Number of beneficiaries	419,907	1,229,016	948,090
 Accumulated volunteer time (hours)	192,932	356,319	301,761
 Aggregate number of volunteer workers	52,234	80,383	71,079
 Volunteer time per person (hour)	6.62	12.60	12.8
 Resources spent (million KRW)	1,393	1,470	1,413

I Five-Colors Happiness KORAIL I

	Yellow	Children	Railroad Experience Center
	Green	Youths	Railroad Love Camp
	Red	University students	Whistle Stop Pilgrimage Expedition
	Black	Local residents	Cultural events in major stations
	Purple	The entire nation	Children's song train service for families with young children

I Social contribution activities operation process I



Railroad experience center



KORAIL Village

Social Contribution Activities that Reflect Needs

KORAIL is developing programs appropriate to the basic ideologies of social contribution activities, and through management processes, are also developing social contribution programs customized to the beneficiaries by taking into consideration our business characteristics. We have developed specialized programs to increase the participation of internal and external stakeholders by investigating social issues and analyzing the needs of the stakeholders. We are also making improvements to our social contribution programs through surveys targeting the beneficiaries and stakeholders with regard to those programs.

Current status and plans of KORAIL customized social contribution programs development

Category	2012	2013	2014
Main programs	• Management of consumer centered career experience program • Self-support program for the homeless • Customer assistance-type model proposal (Customer Helper Volunteer Work Group)	• Specialized programs for the implementation of government projects (Happy Train invitations of separated families, Happy Sharing education donation exhibition) • Regeneration projects for underdeveloped villages on each railroad line	• "Seat of Love and Sharing" management • Railroad experience center (job experience-type) management • KORAIL sports team happiness refill talent donation (football, judo, cycling teams)

※ 2015 plans: National Happiness Children's Song Train, Railroad Love Camp, KORAIL University Student Volunteer Group

Specialized Social Contribution Activities that Link with Businesses

Sharing Talent

Railroad Experience Center

KORAIL is supporting the government project for the healthy growth and development of the capabilities of the youth, and we are also running education donation programs that utilize the railroad infrastructure to provide a space for career and cultural experiences, which are lacking in some regional communities. By expanding the implementation of the middle school free semester system in 2014, we have developed and are running job experience programs in which middle school students can participate. As a result, a total of 56,628 people have visited our 16 railroad experience centers in 2014.

KORAIL Village

KORAIL is carrying out work to improve the living spaces of socially marginalized classes by donating the talents of our employees. We have made improvements to the residential environments of the marginalized class who live in the areas surrounding railroads nationwide and have also developed study pro bono activities, such as building study rooms for the children of the marginalized class. A total of 8,045 people have received benefits in 2014 through 219 of these activities.

Current status of development and execution of financial resources

	Category	2012	2013	2014
Financial resource development	Number of participants in Donation of Love (persons/%)	23,985/81.5	24,247/86.1	19,616/65.9
	Love Fund (ten thousand KRW)	67,282	69,070	63,031
	Matching Grant (ten thousand KRW)	53,000	62,032	67,680
	Happy Train (ten thousand KRW)	50,428	59,074	48,646
Activity cost execution	KORAIL Village (ten thousand KRW)	10,408	9,387	8,519
	Donations (ten thousand KRW)	43,724	39,693	6,926
	Others (ten thousand KRW)	29,408	38,825	59,209



Hope Windmill Happy Train



Children's Song Happy Train



KORAIL Wedding Station

| Lessons from the Past Project |



Sharing Happiness

Happy Train

The Happy Train is KORAIL's representative social contribution program in which we provide train travels to provide hopes and dreams to socially disadvantaged people who find it difficult to travel. We have operated the "Hope Windmill Happy Train" that utilized our DMZ Train where we invited 100 people from separated families to share their pain and pray together for the unification of Korea. We have also operated the "Children's Song Happy Train" where we targeted 250 children from the marginalized class to recover their childhood innocence and support the proper building of their character.

We have thus planned variously themed train travel experiences that reflect the needs of the beneficiaries and have provided train services to a total of 19,884 people in 233 trips in 2014.

KORAIL Wedding Station

KORAIL is providing free but unforgettable weddings in our headquarters building and stations to people with disabilities and multi-cultural couples who are unable to afford to hold wedding ceremonies due to economic difficulties. In 2014, a total of three couples held their weddings through this program, and they also received support for their honeymoons using our railroad tourism package. KORAIL plans to continue supporting socially marginalized couples to help provide them with precious memories they can keep their whole lives.

Regional Contributions

Strengthening Relief Activities and Support

KORAIL is striving to push ahead with sharing and healing activities in the lives of people nationwide. We have provided the Sewol Ferry victims' families and volunteer workers with free train travel for all our trains except for the KTX, which came up to a total of 2,395 tickets and 80 million KRW in support.

To support the economic revitalization of the stagnated Jindo region, we have shared the consolatory goods of the marginalized class as Jindo agricultural and marine products and have purchased specialty products amounting to a total of 45 million KRW.

Self-Support Program for the Homeless

In order to fundamentally solve the homeless problem, KORAIL is running a self-support program that provides jobs to homeless people who have the will for self-support. In 2014, we have continued to employed twenty sanitation workers and have provided them with knowledge and technical education, as well as helping five of them find employment in related cleaning companies. We are planning to continue working to help realize national happiness in the future by leading the way in solving social problems.

Customized Contribution Activities for Regional Communities

KORAIL is developing specialized social contribution activities in each region based on our nationwide infrastructure. In the Gyeongbuk head office, which is located in Yeongju, Gyeongbuk Province, where railroads are the main modes of transportation, we have carried out the "Lessons from the Past Project" in which we selected 10 students related to school violence to solve the problems of the local community. As a long-term project, we provide psychological treatments through monthly character education and healing journeys, and we have raised the school violence prevention index by 10.4% compared to 2013.



A happy world connected by railroads, Love, and sharing

Pope Francis had initially planned to attend the "Assumption of the Blessed Virgin Mary" mass that was held on August 15, 2014 in Daejeon World Cup Stadium. However, to be able to meet more people, he later decided to go there by train and took Seat 2C in the fourth carriage of KTX Train 5 that went from Seoul to Daejeon. To celebrate the ideals promoted by the Pope and convey his message of peace, love, and hope to the public, KORAIL has designated the Pope's seat as the "Seat of Love and Sharing".

By doing so, KORAIL has linked a social contribution activity to our most basic transportation business. We have not only created a shared value, but have also expanded the joy of sharing in the lives of the passengers who use the KTX.

The "Seat of Love and Sharing" generated a total of 15 million KRW in sales from its beginning on September 6, 2014 until the end of the year, preparing donations by matching them with our social contribution financial resources. KORAIL donated the entire proceedings to the Catholic Diocese of Daejeon, requesting that they be used—in accordance with the Pope's spirit of love and sharing that he displays every day—in works that provide hope to our neighbors who face difficulties. The donation was in turn delivered in its entirety to the Daejeon Jamowon, a facility that offers protection to single mothers, and is being meaningfully used in the protection and education of single mothers who are wandering about without direction.



Although the “Seat of Love and Sharing” was originally conceived to be a temporary program in 2014, we are planning to operate it as a regular program to inspire people to review the significance of sharing in their lives and to expand the culture of donation.


The Future, KORAIL Creates a Warmer Tomorrow

KORAIL is continuously pursuing changes and challenges to prepare for the future.

We are hoping to strengthen our competitiveness based on our technical skills and achieve profitable management through more efficient management, creating a sustainable future with a KORAIL-type creative management. We look forward to the eco-friendliness of railroads playing a more important role for future generations.

We shall minimize our environmental impact with reinforced standards and lead the way in environmental preservation so that the next generation can enjoy a better environment.

○ Special #3.
Achievement of very first company profits

○ Issue 7. 
Values Creation

○ Issue 6. 
Environmental Management

Issue 6.

Environmental Management

The carbon emissions of railroads are lower compared to other modes of transportation, and to make use of railroads' advantage of excellent energy efficiency, we shall fully carry out our responsibilities towards environmental preservation and eco-friendly green growth by pushing ahead with the government policies on greenhouse gas reduction.

We are actively investing in projects to install and improve environmental pollution control facilities to minimize the emission of environmental pollution generated in the workplace, and we are minimizing our environmental impact by managing resources according to criteria that is stricter than existing environmental regulations.

	2012	2013	2014
Reduced greenhouse gases (tCO ₂)	186,680	112,267	321,215
Reduced energy (TJ)	1,115	1,343	3,277
Environmental improvement investment business (million KRW)	506	2,435	1,414



Business & Social Context

We are pushing ahead with activities to reduce greenhouse gas emissions in an effort to stem global warming, while ramping up our activities to respond to climate change. As problems such the depletion of fossil fuels worsen, the role of railroads, a superbly eco-friendly mode of transportation, is coming to the fore when it comes to energy reduction.



Progress

We have established a response process regarding environmental regulations based on our environmental management information system and are sharing environmental resources and information by using this system to support swift decision-making for environmental investments, facilities management, etc. We are complying with related domestic and international laws and guidelines to minimize environmental impact through environmental management of a higher standard.



Future Plan

Recognizing the importance of environmental management as the importance of greenhouse gas and energy work are increasing, we shall play a leading role as a representative eco-friendly company by strengthening co-operations with foreign organizations.



Performance

- Awarded Green Product of the Year for 3 consecutive years
- Received the Korea Eco-Friendly Management Merit Minister of Environment Minister Award
- Received a Prime Minister Citation in the Energy Conservation Promotion Contest
- Received the Minister of Environment Minister Award in the Practice to Reduce Greenhouse Gases by 1 Ton per Person Contest



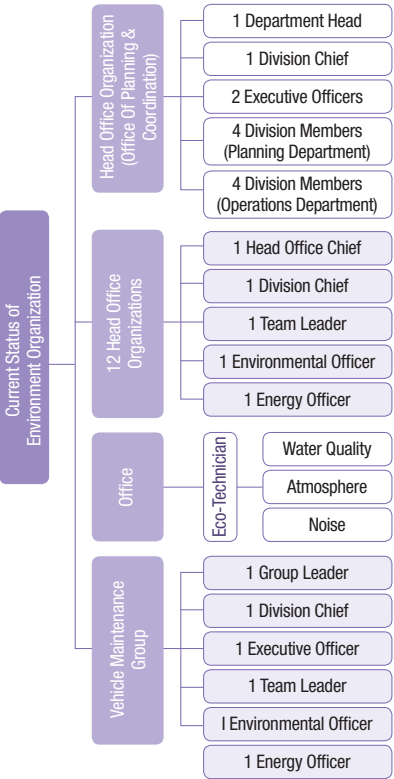
Internal (Stakeholder) Interview



Kim Hee-Man, Environmental Management Division Chief, KORAIL

Just as national and international management conditions regarding sustainable management are not easy, the atmosphere is also tough when it comes to our company's environmental management. There are currently 60 or so individual environmental laws, such as the Water Reuse Act, the Sewerage Act, and many others, while the increasing trend of legislation enactments and amendments is resulting in an increasing number of environmental regulations and civil complaints being filed. To cope with this, an environmental management organization was created for the first time in 1996 that has been doing its utmost in realizing green management. In order to preemptively respond to the greenhouse gas emissions trading system, all our employees are participating in environmental management. KORAIL is taking part in mock emissions trading programs, reducing energy in general, obtaining four certificates for carbon emission quantities such as the KTX (Seoul~Busan) and Nuriro (Seoul~Sinchang), pushing ahead with being selected as the Green Product of the Year, and many other activities so that we may be reborn as Korea's best eco-friendly company.

Environmental management organization chart



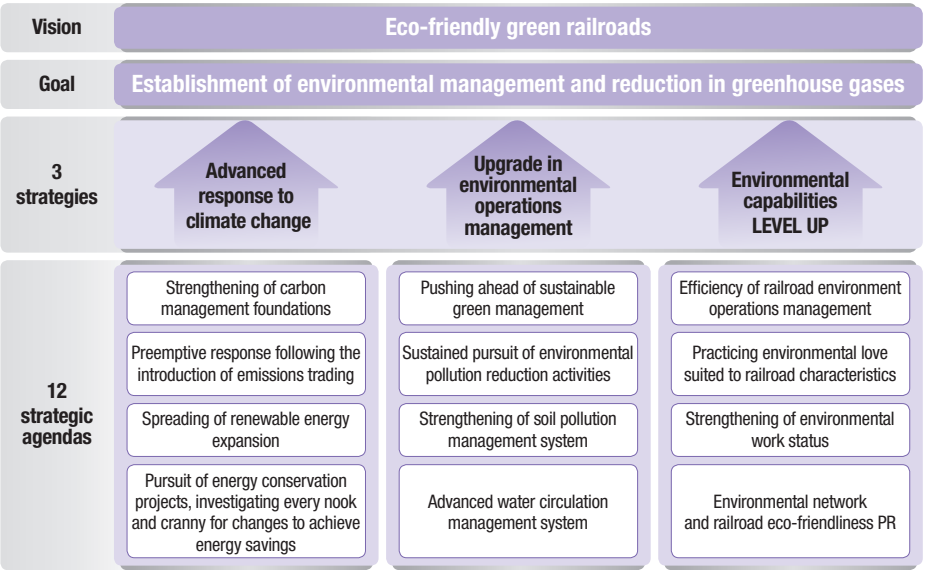
Environmental Management Strategy Achievement Key Performance Indicator (KPI)

Category	Reduction goal achievement (Unit: tCO ₂ -eq)	Environmental facilities improvement effort (Unit: no. of cases)
2013	237,007	8
2014	151,963	6
2015	151,342	2
2016	154,296	4
2017	170,813	3
2018	172,343	3
2019	186,973	4
2020	188,962	3

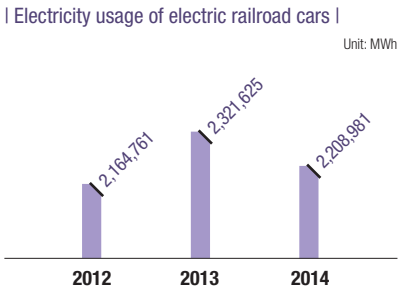
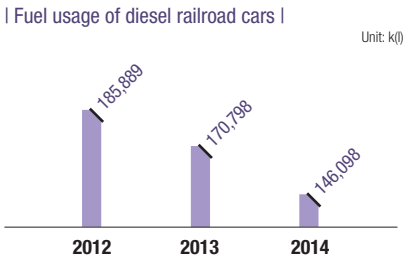
Environmental Management Strategy System

For low carbon green growth, KORAIL has established company-wide environmental management strategic agendas and is pushing ahead with upgraded environmental management of the highest standards. We have set up a process to respond to environmental regulations through the environmental management information system. By combining with the internal ERP system KOVIS we are supporting the systematic analyses and swift decisions of environment-related information, such as environmental resources, investment, facilities management, etc. KORAIL is thus continuously upgrading our environmental management to optimize our environmental operations management and reduce greenhouse gases.

Environmental Management Strategy System



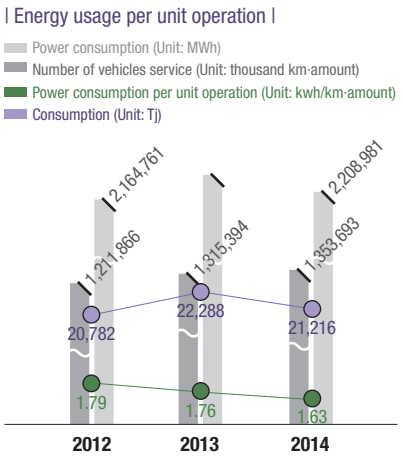
Railroad Environment Advisory Committee	Railroad Environment Council	Environmental Technology Exchange Meeting	Fostering of Environment Specialists
Reflects the advice of civilian environmental groups when establishing basic measures and policies for the preservation of the railroad environment, and increases work efficiency by building organic cooperative systems	Shares environmental management improvement measures through exchanges between railroad operating organizations and seeks mutual growth	Holds mutual technology exchanges to share the latest environmental technology information and for sustainable environmental management	A "Green Environmental Management Course" was established to strengthen the expertise of those in charge and to play a leading role in the response to environmental changes. It has been held 3 times and has trained 79 people. Outside environmental specialist organizations were commissioned to help foster experts who will lead environmental management. This program has prepared experts in greenhouse gas target management systems and has given specialist education in different fields including administrative affairs (40 people trained in 6 courses)



| Usage per energy type |

Unit: TJ

Category	2012	2013	2014
Railroad-exclusive diesel	7,008	6,439	5,508
Railroad-exclusive electricity	20,782	22,288	21,216
Living energy	3,272	3,411	3,335
Heating and cooling fuel	348	321	262
Business-use automobiles	62	58	62
Total	31,472	32,517	30,383



Energy

High Efficiency of Energy

KORAIL classifies and manages the energy we use as energy used for transportation operations and general energy used for facilities management.

KORAIL's energy consumption is mainly focused on the energy used for railroad transportation. We are reducing diesel trains, which emit a high amount of pollutants into the atmosphere, and are actively investing in introducing high-efficiency electric trains. We are continuously expanding subway zones to expand the services of electric trains: in 2014, the operable zones of electric trains account for 68.4% of our railroads.

Sustained expansion of electrical trains

Year	Perambulator		Locomotive	
	Electric	Diesel	Electric	Diesel
2012	3,637	397	204	315
2013	3,705	303	188	286
2014	3,848	204	200	309

Energy Reduction

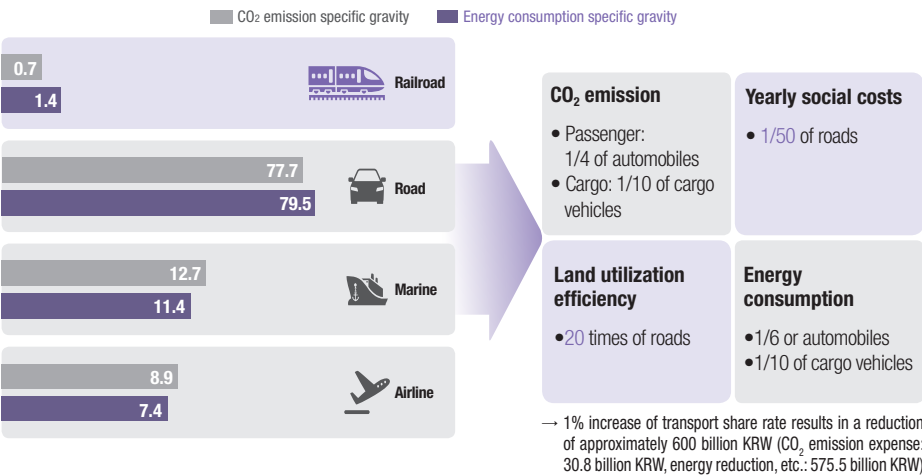
Diesel Fuel and Flexible Carriage Organization

In order to reduce the use of diesel fuel, KORAIL has developed and is operating diesel train fuel consumption measurement devices. We are also analyzing fuel usage for each train service that is being operated. Based on these results, we have begun to refuel our trains with just the amount that is needed to decrease the weight of the trains, and we are also minimizing energy loads such as by taking into consideration the passenger demands for each day of the week to make adjustments to the number of passenger trains we provide.

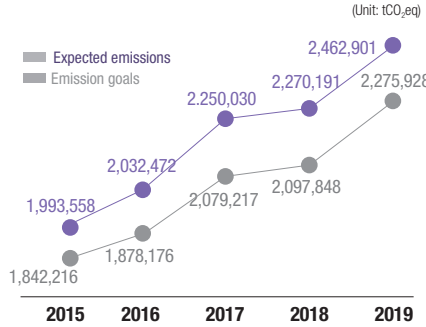
Company-wide Living Energy Conservation Activities

We have designated an energy protector in each department and are inspecting the actual energy conservation performance conditions twice each month. We are leading the way in fuel conservation by implementing Weekly No Driving Day Programs, encouraging the use of bicycles, training employees in economic fuel usage when driving company vehicles, and many other programs company-wide. We are making the conservation of general energy a way of life by installing automatic switch-off devices for unused electrical facilities, maintaining and spot checking optimal indoor temperatures, and controlling the quantity of water used in sinks and toilet bowls.

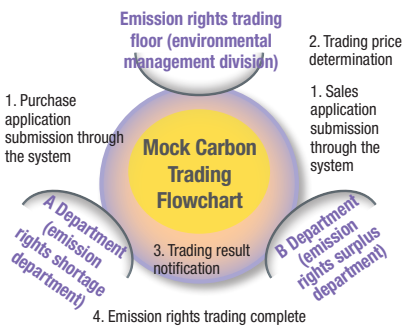
| CO₂ emissions by transportation mode and energy consumption specific gravity |



| Greenhouse Gas Mid-term Self-reduction Goals |



| Mock Carbon Trading Process |



Solar energy generation facility (Yeosu Expo Station)



Geothermal facility (Osong Station)



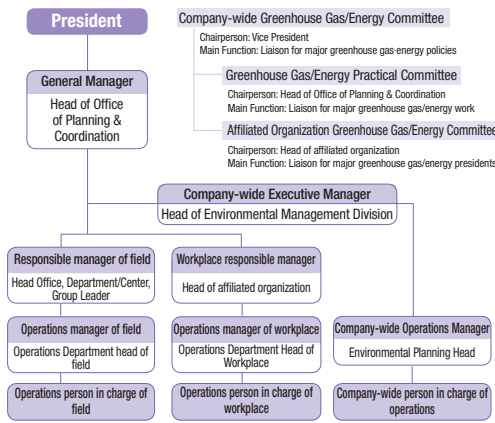
Solar energy facility (Dongsan Station)

Response to Climate Change

Greenhouse Gas Objectives Management

In order to reduce greenhouse gases, KORAIL is striving to establish our greenhouse gas reduction goals to be stricter than the emissions quantity permitted by the government. We are running committees throughout our company and in affiliated organizations to systematically manage greenhouse gases. By carrying out mock emissions trading programs, not only are we reducing greenhouse gases, but we are also managing reliable data through our monitoring verification system.

| Greenhouse gas-energy management system |



Carbon Labeling Certification

Certification Details	Related Vehicle	Total Greenhouse Gas Emission	Emission Per 1km	Standard	Certification Logo
KTX (Seoul → Busan) Based on one way transport per person		10.21kg	24.1g	1/7.0 compared to passenger car	
Gyeongchun Line (Sangbong → Chuncheon) Based on one way transport per person		2.09kg	25.7g	1/6.5 compared to passenger car	
Railroad distribution Based on 1km transport per ton		45g	45g	1/6.7 compared to freight car	
Nuriro (Seoul → Sinchang) Based on one way transport per person		2.5kg	21.5g	1/7.8 compared to passenger car	

Current status of greenhouse gas emission

(Unit: tCO₂e)

Category		2012	2013	2014
Greenhouse gas for train operation use	Diesel	544,968	500,742	428,329
	Electricity	1,009,321	1,082,459	1,030,405
Greenhouse gas for living use	Electricity	158,901	165,675	162,000
	Heating and cooling fuel	19,299	18,424	14,309
	Automobile for business use	4,322	4,154	4,323
Total		1,736,811	1,771,454	1,639,366

Renewable Energy

Management of Solar Energy Generation Facility

KORAIL has been actively pushing ahead to introduce renewable energy equipment for our railroad facilities. In 2014, we are currently operating 16 solar energy generation facilities (total capacity 506KW, excluding solar streetlamps). Through these efforts, we are producing eco-friendly electricity amounting to 554MWh every year.

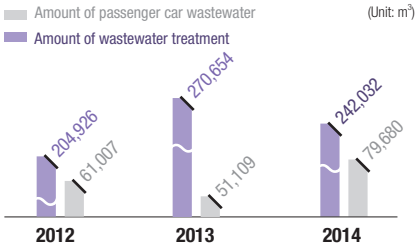
Management of Geothermal Facility

Since 2009, KORAIL has been expanding generation facilities that utilize geothermal heat to conserve energies for heating and cooling railroad facilities. In 2014, we are currently operating 20 geothermal facilities that can produce 4,201kw of energy.

Management of Solar Facility

In order to supplement our geothermal facilities, KORAIL operates a total of 6 solar facilities of 8,559kcal to save on energy for heating and cooling.

I Current Status of Water Pollutant Emissions I



Automatic water pollutant meter



Soil pollution monitoring

I Current Status of General Waste Recycling, 2014 I

(Unit: kg/year)

Category	Train recycling	Station recycling
Paper	277,465	1,236,738
Plastics	82,810	449,805
Cans	30,138	361,781
Bottles	30,625	418,014
Others	309	191,071
Total	421,347	2,657,409

I Noise Level I

(Unit: db)

		Measure- ment item	Noise ceiling	Measurement results (average)		
				'12	'13	'14
Above ground	Day	218 times	Residential area, etc. 70 Industrial area, etc. 75	58	58	58
	Night		Residential area, etc. 70 Industrial area, etc. 75	57	57	55
Estimate for highest floor	Day		Residential area, etc. 70 Industrial area, etc. 75	62	62	62
	Night		Residential area, etc. 70 Industrial area, etc. 75	61	61	59

Environmental Management

Water Quality Management

The total water intake volume in 2014 was 4,810 tons, which was used from 61 water intake stations including the Paldang dam. We are encouraging the reuse of water to secure water resources, and we are collecting rainwater from the roofs of stations and depots and using it for toilets, cleansing and cleaning, landscaping, and watering plants. 139 tons, or 2.61%, of the total amount of water used in 2014 had been reused. KORAIL also operates wastewater treatment facilities, and through periodic monitoring of water quality, we are complying with legal water quality standards regarding effluent water, and we are also operating 24-hour monitoring systems.

Atmosphere Management

Dust generated from the maintenance process of trains, dust particles generated from the process of painting the exterior of trains, and exhaust fumes generated by diesel trains can be found in the air pollutants emitted into the atmosphere by the railroads. We are managing atmospheric pollutants by inspecting our ventilation facilities and by installing and making improvements to atmospheric pollution prevention facilities to improve the indoor air quality of our stations and trains. In accordance with the "Indoor Air Quality Management such as multiple usage facilities" regulations, the air quality of all trains and routes are specified and managed according to the law, and we are making efforts to improve indoor air quality by strengthening the cleaning cycles for filters in the air conditioners and heaters inside train cabins.

Railroad Station Air Quality Measurement Results

	Measurement item	Baseline	Measurement results (average)					
			2012		2013		2014	
			Under- ground	Above ground	Under- ground	Above ground	Under- ground	Above ground
Maintenance criteria	Fine dust (µg/m³)	Under 150	91	68	86	35	82	63
	Carbon dioxide (ppm)	Under 1,000	478	458	510	299	513	488
	Formaldehyde (µg/m³)	Under 100	10	14	16	18	43	24
	Carbon monoxide (ppm)	Under 10	1	1	1	1	1	1

* Multiple usage facilities management target railroad stations (28 aboveground, 48 underground)

Soil Management

We are sharing our railroad area soil measurement network information with the Ministry of Environment and have built permanent monitoring systems and installed measurement networks in 24 locations in railroad areas to monitor the level of soil pollution. We have installed oil absorbing mats to prevent soil pollution from oil leaking from trains, and we are pushing ahead with various joint development activities such as replacing the lubricants applied in the operating parts of railroad switches to biodegradable lubricants, and many others.

Waste Management

In accordance with the Waste Management Act, we are storing the wastes produced in the workplace according to their properties, handling them in accordance with the law, and entering their records in the Ministry of Environment's Allbaro System. We are enforcing a waste discharge real-name system as designated by the chief manager to reduce waste generation and lead the way in recycling.

Noise/Vibration Management

We have prepared reduction plans regarding noise sources and are continuously making improvements to those plans. In particular, we have developed a device that reduces the noise generated in the exhaust pipes of diesel trains when they are undergoing maintenance. We have introduced 230 low-noise vehicles, and through close co-operations with the Korea Rail Network Authority, we have expanded soundproof and dustproof facilities used when building and making improvements to train tracks, and are continuing to enact efforts to minimize damage caused by noise and vibrations.



Issue 7.

Values Creation

KORAIL has developed and is pushing ahead with medium to long term strategies to overcome crises and take off as a comprehensive global transportation company. We are not only switching over to profitable management through strengthened competitiveness and management efficiency, but we are also working to prepare the foundations for sustainable future growth with a KORAIL-type creative management. We are creating profits and jobs through our business, contributing to the development of regional economies, and striving to provide these created values to our stakeholders.

	2012	2013	2014
Sales (Unit: hundred million KRW)	48,153	48,661	50,937
New growth business specific gravity (Unit: %)	8.5	8.5	8.6
Business profit and loss (Unit: hundred million KRW)	-3,591	-1,932	1,034
Overseas business profits (Unit: KRW)	75	94	158



Business & Social Context

Not only is KORAIL involved in the transportation business, but we are also increasing our economic achievements by expanding our business foundations to tourism, asset development, and other fields. The recently increasing combinations of tourism trends and the railroad industry are not just providing new opportunities for business growth, but also creating direct and indirect ripple effects to all of society. Not only are profits maximized through such economic values creation, but jobs are also created and the economies of regional communities are revitalized. We as a public enterprise are striving to share these diverse values with society.



Progress

With medium to long term strategies linked with our vision and implementation projects at the center and through increased revenue and cost reductions, we have achieved business profits for the first time since the founding of our company nine years ago. As a public enterprise, KORAIL is not only creating profits through our business, but we are also sparing no efforts in strengthening our job creation and public service functions to revitalize regional economies and stabilize prices.



Future Plan

As the best railroad operating public enterprise in Korea, KORAIL will push ahead with various activities that will not only bring us continued profits, but also fulfill our public service functions. We shall do our utmost to contribute to the development of the national and regional economies and realize national happiness.



Performance

- Achievement of very first business profits since the company's founding (103.4 billion KRW)
- Joined the OSJD as affiliate member and visited Pyongyang
- Direct KTX service to Incheon International Airport
- Creation of civilian jobs (26,094 people)
- Achieved AAA rating from KoBEX SM for 6 consecutive years



Local Government (Stakeholder) Interview



Park Nam-Ju, section chief of Culture and Tourism Department in Bonghwa-gun, Gyeongsangbuk-do

Although the building of close cooperative systems between the railroads and local governments have created abundant tourism resources, we have constructed a Santa Village in Buncheon Station to create continuous tourism demands in such areas that have low public transportation accessibility. Buncheon Station has been transformed into a new tourist attraction by offering food items that use local specialty products and by preparing a wide range of attractions such as a large Christmas tree, a Rudolph photo zone, a snow sleigh park, various special performances, and many others. We have prepared a new experience for visitors as well as creating economic values amounting to 1 billion 60 million KRW in new tourism packages that were developed by KORAIL and Bonghwa-gun. We have also constructed a new paradigm in domestic travel by building an "International Santa Village" close to Buncheon Station to continue developing the tremendous popularity that the original Santa Village is experiencing. This will enable the development of a creative tourism industry model that will transcend the revitalization of a single region to make contributions to the national economy.

I Transportation Business I



3,226 services, 3 million 48 thousand passengers, and 100,000 tons of cargo daily
(Daily average sales 9 billion KRW)



Station influence area and multiple business

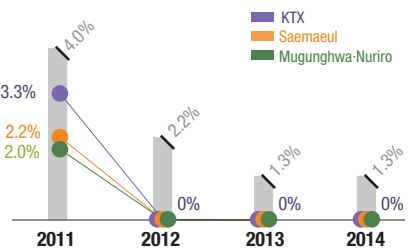


Vehicle maintenance



Facilities maintenance

I Rate of Consumer Price Rise and Railroad Fare I



Economic Values Creation

Economic Values Allocation

We are creating economic values through the transportation of passengers and cargo, tourism, asset development, and others businesses. All economic values acquired through management activities are allocated as various expense payments for such things as working expenses, goods purchases, taxes, etc. By redistributing the relevant expenses to other businesses and regional communities, we are creating direct and indirect ripple effects throughout society.

Economic values allocation with stakeholders

(Unit: hundred million KRW)		
Employee	Labor costs (wages, sundry allowances, retirement allowance, fringe benefits)	17,739
Partner company	Business expenses, small and medium sized business goods purchase, etc.	15,575
Local community	Social contribution funds	12
Government agency	Tax (tax & dues and corporate tax)	13.1 billion KRW Tax 19.2 billion KRW Corporate tax -6.1 billion KRW
Other	Regular operating expenses, loan repayments, etc.	13,585

* IFRS (International Finance Reporting Standards) criteria

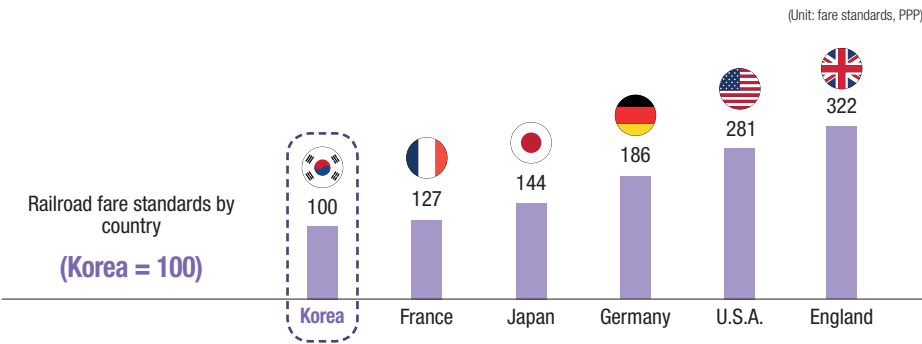
Price Stabilization Efforts

In accordance with the government's price stabilization policy, since 2008 we have minimized fare increases to alleviate the public's burden. Notwithstanding rising costs such as industrial electricity price increases, side effects of increasing train fares—such as the possibility of inflation and the shrinking of commoners' economies—have been taken into consideration; therefore, fares have been frozen since 2012.

We have expanded public service support such as providing non-profit regional train services and protecting the mobility of the transportation-vulnerable (elderly and people with disabilities) through the public discount system. Although the regular train services for the transportation-vulnerable are supported in accordance with related regulations such as the Welfare of the Aged Act, KORAIL is voluntarily implementing discount programs for KTX, for which there exists no such regulations. The discounts for KTX have totaled 196.9 billion KRW as of 2014.

We are also doing our utmost in controlling fare increases through various management improvement efforts such as scientific inventory management, upgraded revenue management, and many others.

I Railroad Fare Standards by Country I

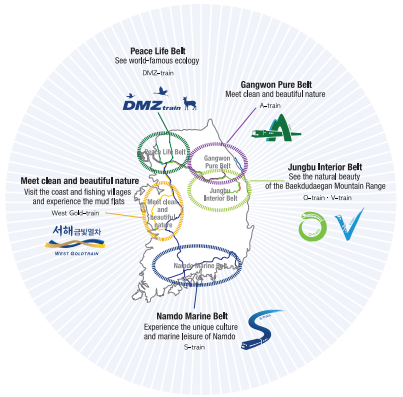


I OSJD I



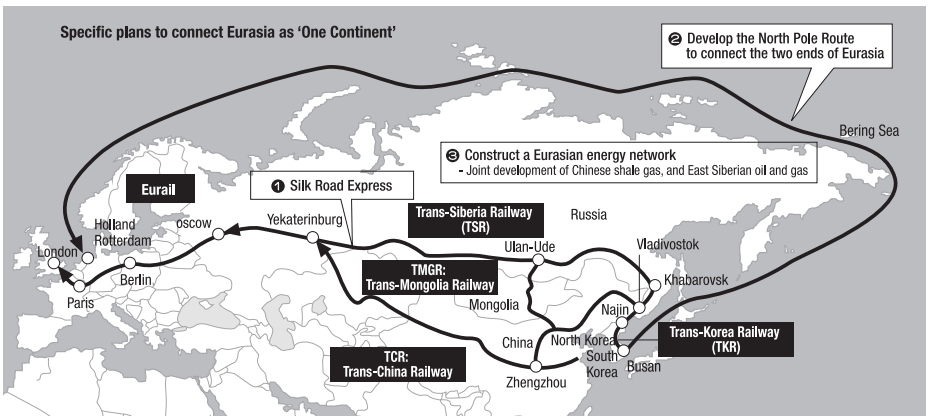
Founded in 1956, 27 regular member countries, 40 affiliate member companies
280,000km of tracks including the TSR and TCR, 2 million trains in service

I Five Railroad Tourism Belts I



Realization of Creative Economy

Eurasia Initiative Promotion



<The 3 Eurasia initiatives of President Park Geun-Hye>

1. A single continent: The formation of an enormous single market by constructing distribution, transportation, and energy infrastructures
2. A creative continent: The entire Eurasian region operating as a global growth engine through the pursuit of creative economies
3. A peaceful continent: The biggest obstacles to the exchange of economic trade and culture are the threats to peace and security. This is solved through the formation of Northeast Asian peace co-operations and the Korean Peninsula trust process.

KORAIL is developing various efforts to realize the Eurasian Initiative, which will connect Europe, Russia, Central Asia, China, and the Korean Peninsula into a single continent through railroads. We have built official cooperative foundations with Eurasian railroads by joining the OSJD as an affiliate member, and in April 2014, CEO Choi Yeon-Hye visited Pyongyang on a North Korean train, the first time a local public figure had done so. The OSJD directors' meeting and the 10th International Railroad Logistics Meeting were brought to Seoul and held successfully between May 27~29, 2015. The excellence of Korea's railroads was publicized through these meetings, while the duty for the connection of trans-Korea and continental railroads was emphasized with the unanimous adoption of the Seoul Declaration. KORAIL is working diligently to create the opportunity for passengers to travel from Busan to Europe via Russia as well as raising Korea's value from the leading position of the Eurasia Initiative.



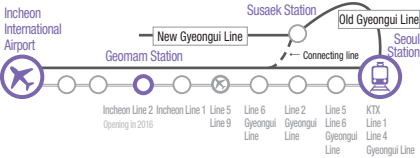
International railroad training course program

Construction of Five Railroad Tourism Belts

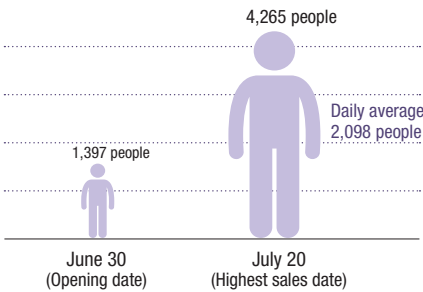
To keep up with the changing tourism trends where travel and leisure activities are increasing, from July 2012, KORAIL has pushed ahead with constructing the "Five major tourism belts" that span the whole country. The five major railroad tourism belts are networks that combine regional tourism resources with railroad-whistle stops that are isolated and underdeveloped, but nonetheless boast beautiful natural landscapes to create tourism demands and jobs as well as achieving regional economy support effects.

In order to strengthen the creation of synergies, the government, local governments, and public enterprises have torn down the partitions separating them to build a pan-regional cooperative system and link it with government policies to push ahead with projects such as the Ministry of Land, Infrastructure, and Transport Inland Area Development Pilot Project and the Ministry of Government Administration & Home Affairs border region support business. As a result, the 'Five major railroad tourism belts' have been enjoyed by 900,000 people within 1 year and 8 months, from April 12, 2013 to the end of 2014, and has resulted in ripple effects creating production worth 82.1 billion KRW and 1,040 new jobs. The stations in Buncheon, Yangwon, and Cheolam—where fewer than ten people went through each day—are now being visited by around 2,000 people every day, and is being loved by many as a miraculous tourist train that transformed an underdeveloped region into a creative economy through things such as traditional and flash marketplaces in the surrounding areas.

I Incheon International Airport KTX I



I Sales performance following the direct KTX line to Incheon International Airport I



I Linked transportation business I



Hanam Station CY



Improvement of KTX special transportation service

Opening of Direct KTX Line to Incheon International Airport

A KTX service that connects directly to Incheon International Airport has been opened to provide a faster and more convenient mode of transportation for locals and foreigners using the airport. Adjustments needed to be made to the signaling system for trains with different characteristics to open this line, while various manuals have been prepared and frequent emergency response training is being carried out to ensure safety. Various convenience facilities in the trains have been improved for the passengers. Through the signing of MOUs with airlines, combined KTX-airline products have also been developed that are currently available for sale.

Maximum 1 hour 40 minutes saved compared to using the **Seoul~Busan** limousine bus
Used by a **daily average of 2,098 people** (388,078 people in total), created freight revenue of **18 billion KRW**



Job Creation

KORAIL has created jobs for 2,524 civilians through activating tourism-exclusive trains fused with regional cultures and the opening of train service data. Bringing in local famous restaurants into stations all over the country has resulted in the creation of 4,532 jobs while 207 jobs have been created by pushing ahead with overseas businesses through the building of domestic and foreign railroad networks. 4,242 civilians have been employed by outsourcing non-core regular works such as ticketing and shunting operations. To contribute to the stable operations of small and medium sized businesses, we have supported social businesses, such as female-owned companies and products manufactured by the severely handicapped, when making purchases. This contributed to the creation of 10,289 jobs. By continuously administering 611 billion KRW of our investment budget when purchasing railroad vehicles, etc., we have helped to create jobs for 4,300 people and are pushing ahead with other investment projects such as the selection of priority bidders in the development business of area north of Seoul Station and the conducting of due diligence in North Korea for participation in the Najin-Hasan project.

Securing of Future New Growth Engines

Expansion of Linked Transport Businesses

KORAIL has improved the railroad CY operations manual to strengthen the railroad transportation increase standard. We have also expanded the cargo handling service operations region under the direct management of KORAIL to increase our railroad transportation and cargo handling sales. By combining the civilian-run Gwangju area cargo handling service with Hanam station, we have expanded the provision of reasonable and fair cargo handling services to increase railroad transportation by 37,000 TEU and sales by 2.1 billion KRW. To improve the KTX special transportation services, we have made spatial improvements, reorganized operation systems, and expanded service items to enhance the convenience and benefits for the public, which also resulted in an improvement in sales profits by 6.5%.

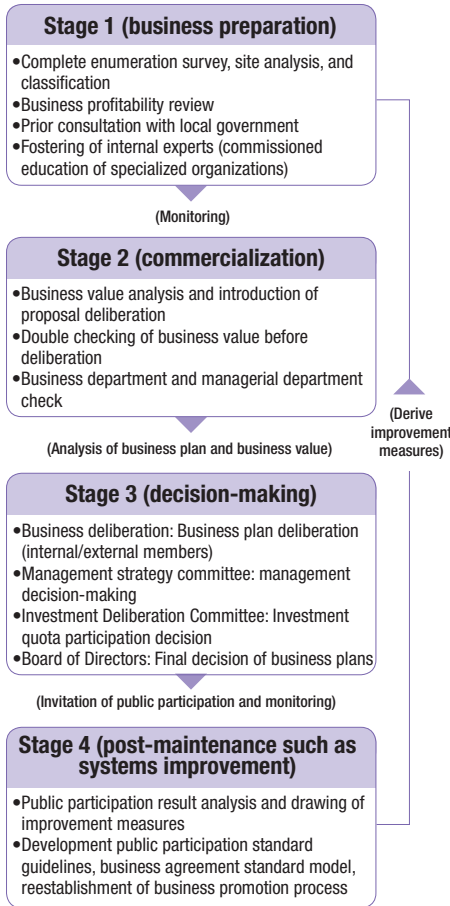
Mid to long term job creation strategy roadmap

Year	Quota	Outsourcing	Investment budget	Partnership	Others
2012	27,866 people	(Regular employee) 4,035 people	(Regular employee) 12,500 people	(Regular employee) 10,740 people	(Regular employee) 1,536 people
		-	(Temporary employee) 6,249 people	(Temporary employee) 5,398 people	(Temporary employee) 768 people
2013	27,981 people	(Regular employee) 4,009 people	(Regular employee) 18,307 people	(Regular employee) 4,248 people	(Regular employee) 5,544 people
		-	(Temporary employee) 8,853 people	(Temporary employee) 2,055 people	(Temporary employee) 2,603 people
2014	27,981 people	(Regular employee) 4,242 people	(Regular employee) 2,909 people	(Regular employee) 4,913 people	(Regular employee) 6,960 people
		-	(Temporary employee) 1,391 people	(Temporary employee) 2,350 people	(Temporary employee) 3,329 people



Najin-Hasan logistics business

I Advance Preparation for Sale of Assets and Post-maintenance System I



Najin~Hasan Logistics Business to make inroads into Continental Railroads

KORAIL has pursued the Najin-Hasan logistics business to actively satisfy the government's Eurasia Initiative and to lay the groundwork for the era of a trans-Korea/continental railroad. We have conducted two local surveys for successful participation in the project. Through such efforts, we have figured out how to make improvements to the railroads and harbor, decided the ideal amount to be invested, and inspected the renovated tracks and sections through due diligence on foot at all the sections. Through a pilot transportation project that imports approximately 40,000 tons of Russian coal through Najin port to Pohang, we have inspected the stability and economic feasibility of the business. As a specialized organization in the trans-Korea continental railroad business, KORAIL is fixing this business as a demonstration model of a triangular business involving Russia and North and South Korea. Moving forward, we are focusing our efforts to extend it to an active trans-Korea continental railroad such as the Trans-Korea Railway.



View of the Number 3 wharf in Najin harbor



Main locomotive for the Najin-Hasan section

Activating Sale of Assets

Virtuous Cycle Efforts for Sale of Assets

In order to reduce debt and manage assets efficiently, KORAIL has been seeking out and selling or leasing out usable idle sites and subway influence area development sites. We have also been developing various efforts to recover asset values. In order to do this, we have taken into consideration the characteristics of railroad sites and selection criteria to identify asset development target sites, and we are planning to focus on selling non-core assets that have secured marketability by establishing medium to long term asset sales plans. For successful implementation, we have established advance preparations and post maintenance systems of asset development (sales), and through periodic monitoring and discussions with local governments, we have remedied the defect factors and have sold such sites as Udong in Haeundae, the Gunsan freight station, and others.

Introduction of Divided Account and Debt Reduction

KORAIL has instituted divided accounts to clarify the causes of debt and improve the reliability and acceptability of accounting information. We also secured our debt management functions by matching the divided account units with the budget units. We have formed a T/F to prepare a stable management foundation for the divided accounts, and we have also made efforts to prevent work confusion by providing guidelines, etc. Not only have the benefits of financial information been maximized with the subdivision of divided account units, but the public's right to know has also been satisfied and we prepared the foundations for compliance with relevant laws. We are also planning on implementing performance evaluations from 2016 to strengthen debt management per divided account unit.

Debt Reduction Performance

Debt Category	2013	2014 Debt Reduction Performance				remarks column
		Plan	Scale of Debt	Compared to 2013	Compared to Plan	
Total debt	173,382	155,091	178,609	5,227	23,518	Company + affiliated company
Construction debt	145,883	153,563	150,335	4,452	△3,228	
Financial debt	127,237	131,888	131,443	4,206	△445	
Loan debt	126,786	131,473	130,770	3,984	△703	Bonds, etc.
Other financial debt	451	415	673	222	258	Derivative liabilities, etc.
Non-financial debt	18,646	21,675	18,892	246	△2,783	
Reserve debt	8,435	9,610	9,641	1,206	31	Retirement benefits, etc.
Other non-financial debt	10,211	12,065	9,251	△960	△2,814	Purchase liabilities, etc.
Affiliate company debt	27,499	1,528	28,274	775	26,746	Airport railroad non-sale



There was a time when KORAIL was hit by a management crisis when pending issues, such as the rapid increase in debt when the Yongsan subway influence area development project fell through, had been piling on top of lowered staff morale as an aftermath of the strikes. There were limits to improving profitability as there was a freeze on railroad fares, even though consumer prices have been rising each year. However, as a result of multilateral profit increasing efforts and the pursuit of strengthened management efficiency in 2014, we have made the monumental achievement of **leading the company from a loss of approximately 500 billion KRW at the time of the company's founding to gaining a profit of more than 100 billion KRW within nine years.**

Turn Crisis to Opportunity! Building a Virtuous Cycle Management Structure Foundation

We have stabilized Labor-Management relationships through communications and cooperation among all employees, and we have pushed ahead with groundbreaking profit increases and strong cost structure improvements to switch to business profits.



Firstly, we have upgraded the yield management system (YMS) based on big data to diversify the scheduling, seating, route, and price per train systems as well as to minimize vacancy rates, which resulted in a 3.7% increase in profits. Furthermore, **through various efforts such as developing regional traditional wine-themed model trains, bringing in local famous restaurants into our stations, and overseas businesses such as the repair and sale of used locomotives/passenger trains, we have increased our multiple business sales by 45.9 billion KRW compared to the previous year.**

Along with increased profits, improvements to the cost structure through strengthened management efficiency also played a major role in profitable management. We have made efforts to innovate our cost structure by scientifically managing inventory, expanding crew members, making non-profitable stations and trains more efficient, designating freight stations as bases, and many other programs. Notwithstanding the increase in business volume, we have made 1,119 people more efficient and have maximized business efficiency through the reduction of labor costs by 214.5 billion KRW by minimizing various benefits. **We have achieved business profits in 2014 amounting to 103.4 billion KRW for the first time since the founding of the company.**

With the achievement of business profits, KORAIL has finally been able to break the shackles of loss, and in January 2015, proclaimed a second founding and a vision for the next decade. By maintaining the conditions for business profits while at the same time focusing more capabilities on reducing debt, KORAIL shall be reborn as the best public enterprise that leads the happiness of the people and the country.

I Changes in Fixed Number/Active Service I



I Business Profits and Losses by Year I



With the achievement of business profits, KORAIL has finally been able to break the shackles of loss, and in January 2015, proclaimed a second founding and a vision for the next decade. By maintaining the conditions for business profits while at the same time focusing more capabilities on reducing debt, KORAIL shall be reborn as the best public enterprise that leads the happiness of the people and the country.



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Reader Questionnaire

Sustainable Management Results

Social Performance

Category			Unit	2012	2013	2014
Employee						
Employment	Total number of employees		Persons	28,967	27,930	27,461.25
	Number of short-term workers (male/female)		Persons	284(17)	280(15)	276(25)
	Number of employees by age	Under 25	Persons	114	90	59
		25~34	Persons	3,918	3,123	2,159.625
		35~44	Persons	11,682	11,075	9,766
		45~54	Persons	10,897	11,261	11,910.875
		More than 55	Persons	2,356	2,381	3,565.75
	Employment of persons with disabilities (Mandatory employment rate 3.0%)		%	818(3.0)	904(3.4)	938(3.3)
	Employment of the elderly (Mandatory employment rate 6.0%)		Persons (%)	2,600(8.9)	2,623(9.2)	2,725(9.7)
	Average years of service		Year	17.8	18.3	18.2
Safe workplace implementation rate		Number of victims / Number of workers	0.334	0.304	0.273	
Recruitment	Number of new recruits		Persons	410	159	500
Retirement	Retirement rate		%	3.6	3.3	4.0
Female workforce	Number of female employees		Persons	2,545	2,555	2,689.5
	Employment of women (Mandatory employment rate 7.67%)		%	8.8	9.0	9.7
	Number of female administrators (Above class 2)		Persons	19	17	19
	Number of women above team leader		Persons (%)	178(7.0)	193(7.5)	210(8.0)
	Number of new female recruits		Persons (%)	97(23.5)	34(20.5)	149(29.8)
Education	Education budget		Million KRW	10,119	7,087	6,021
	Education costs per person		Thousand KRW	339	285	220
	Education time per person		Hours	38	28	54
Customer						
Customer satisfaction level	Public Corporation Satisfaction Index (PCSI)		Points	88.8	91.5	93.1
	Customer opinions handling satisfaction level		Points	80.7	84.5	88.0
Punctual service rate	KTX punctual service rate		%	99.83	99.63	99.88
Partner Company						
Support	Small and medium sized business products purchase		Hundred million KRW	6,160	6,967	6,703
	Small and medium sized business purchase rate		%	50.2	63.6	58.9
	Financial support record		Hundred million KRW	880	861	645
Regional Community						
Fundraiser	Love Fund		Hundred million KRW	670	690	630
	Matching Grant		Million KRW	530	620	603
Volunteer time	Volunteer work per person		Hours	6.6	12.6	12.8

* The calculation standard for active service employees is the standard used by the Ministry of Strategy and Finance for short-time workers

Environmental Performance

Category		Unit	2012	2013	2014
Energy Usage	Diesel used in railroad services	TJ	7,008	6,439	5,507
	Electricity used in railroad services	TJ	20,782	22,288	26,217
	General electricity	TJ	3,272	3,411	3,335
	Heating and cooling fuel	TJ	348	321	262
	Company vehicles	TJ	62	58	62
	Total	TJ	31,472	32,517	30,372
Greenhouse gas Emission quantity	Diesel used in railroad services	tCO ₂ eq	544,968	500,742	428,329
	Electricity used in railroad services	tCO ₂ eq	1,009,321	1,082,459	1,030,405
	General electricity	tCO ₂ eq	158,901	165,675	162,000
	Heating and cooling fuel	tCO ₂ eq	19,299	18,424	14,309
	Company vehicles	tCO ₂ eq	4,322	4,154	4,323
	Total	tCO ₂ eq	1,736,811	1,771,454	1,639,366
Environmental facility Investment	Water quality	Million KRW	344	283	179
	Air pollution	Million KRW	108	360	10
	Soil	Million KRW	47	104	1,145
	Wastes	Million KRW	7	39	80
	Total	Million KRW	506	786	1,414
Environmental impact	Recycled water volume	ton	114,842	119,457	138,848
	Recycling rate	%	2.57	2.47	2.61
	Wastewater treatment volume	m ³	204,926	270,654	242,031
	Workplace waste (general) treatment volume	ton	1,690	2,127	1,370
	Designated waste treatment volume	ton	1,933	1,712	1,292
	General waste recycling (trains)	kg	485,085	406,094	421,347
	General waste recycling (stations)	kg	1,118,850	1,818,163	2,657,407
Green product Purchase	Green product purchase amount	Million KRW	9,614	8,728	8,678
	Green product purchase rate	%	90.91	91.10	96.59

Economic Performance

Summary link statement of financial position (Unit: hundred million KRW)

Category		2012	2013	2014
Assets	Current assets	16,898	19,698	55,188
	Noncurrent assets	184,954	200,949	166,893
	Total assets	201,852	220,647	222,081
Liabilities	Current liabilities	24,846	45,605	55,492
	Noncurrent liabilities	118,363	127,777	123,117
	Total liabilities	143,209	173,382	178,609
Capital	Capital (government equity)	95,827	95,852	96,037
	Others	-38,330	-49,913	-54,481
	Proprietary equity of dominant firm	57,496	45,939	41,556
	Non-dominant equity	1,147	1,326	1,916
Total capital		58,643	47,265	43,472

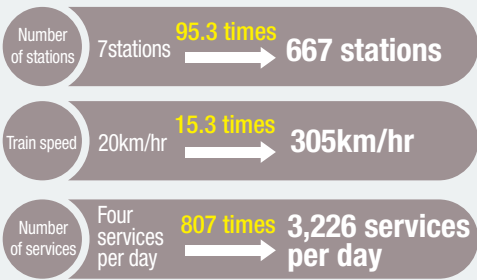
Condensed Consolidated Comprehensive Income Statement (Unit: hundred million KRW)

Category	2012	2013	2014
Returns (sales)	48,153	48,661	50,937
Sales cost	47,526	47,466	47,205
Sales and general management costs	2,680	3,046	2,732
Business profits	-2,054	-1,851	1,001
Other returns	263	111	99
Other costs	27,387	1,195	307
Other profits	2,225	-47,009	-1,228
Financial returns	6,212	613	1,030
Financial costs	6,800	5,146	6,154
Profits related to equity method target companies	107	240	199
Net profit before subtracting corporate tax expenses	-27,434	-54,237	-5,361
Corporate tax expenses	768	-8,938	-41
Net profit during term	-28,202	-43,310	-3,383
Other included net profit	-391	31,915	-597
Total included net profit	-28,593	-11,395	-3,981
Net profit during term belonging to owner of dominant firm	-28,296	-43,477	-3,542
Net profit during term belonging to non-dominant equity	94	167	158

* K-IFRS consolidated financial statement standard
* Financial statements changed in 2013 from the decision to sell the KORAIL Airport Railroad

The History of the Korean Railway

“The footprints of the Korean Railway with proud 116-year history after blowing its first whistle with the Gyeongin Line”



1800~1900

1899 Opening of the Gyeongin Line (Noryangjin-Jaemulpo), Mogul: Average speed 20km/hr.

- 1887 Groundbreaking ceremony for the Gyeongin railroad (Ugak-ri, Incheon)
- 1899 The very first Mogul steam locomotive at the time for the Gyeongin Line
- 1899 Opening ceremony for the Gyeongin Line (Noryangjin Station)



1900~1960

1945 Operation of the Chosun Haebangjaho Train, the first steam train manufactured with our technology

- 1905 Opening ceremony for the Gyeongbu Railroad (Namdaemun Station)
- 1955 Operation ceremony for the Tongilho Train on the Gyeongbu Line
- 1956 Opening ceremony for the Yeongam Line



1960~1980

1963 The Railroad Administration Bureau inaugurated as a Ministry of Transportation government agency

- 1969 Seoul-Busan/Maengho Train: Average Speed – 77km/hr.
- 1973 Opening ceremony for Jungang Line subway (Cheonnyangni-Jaechon)
- 1974 Opening of capital area subway
- 1979 Operation of domestically manufactured diesel locomotive



1980~2000

1980 Operation ceremony of domestically manufactured Saemaeul perambulator

- 1985 Seoul-Busan Saemaeul Train: Average Speed – 107km/hr.
- 1999 100 year anniversary of the Korean National Railroad



2000~2010

The KTX is changing Korea.

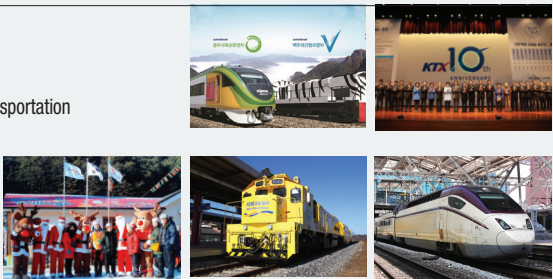
- 2004 Opening ceremony of the 1st stage of the Gyeongbu high-speed railroad
- 2005 Establishment of the Korea Railroad Corporation
- 2007 Inauguration of trans-Korea freight trains
- 2008 Successful hosting of UIC
- 2010 Opening of the 2nd stage of the Gyeongbu high-speed railroad



2010~2015

We are realizing national happiness through KORAIL-type creative management.

- 2010 KTX-Sancheon service
- 2012 Commencement of ITX-Cheongchun business
- 2013 Inauguration of O-V-S-Train
- 2014 10 year anniversary of inauguration of KTX, launch of Rail Plus transportation card compatible nationwide
 - Direct KTX line to Incheon International Airport, opening of Bundeon Santa Village
 - Achievement of first business profits since establishment of company
- 2015 Inauguration of West Coast Golden Train (G-train), 10 year anniversary of founding of company
 - Inauguration of Honam high-speed railroad and Donghae high-speed railroad
 - Hosted the OSJD directors' meeting in Seoul



Current Status of Association and Organization's membership / Record of Awards

Current status of associations joined

Domestic

- UN Global Compact Network Korea
- The Korean Association for Public Administration
- The Korean Association for Policy Studies
- The Korean Society for Railway
- The Korean Association for Public Enterprises
- Railroad Industries Committee
- Korea Logistics Association
- UN Global Compact Network Korea
- The Korean Association for Public Administration
- The Korean Association for Policy Studies
- The Korean Society for Railway
- The Korean Association for Public Enterprises
- Railroad Industries Committee
- Korea Logistics Association
- The Seoul Association for Public Administration
- Korea Management Association
- The Institute of Internal Auditors
- Korean Society of Transportation
- Korean Standards Association

Overseas

- UN Global Compact
- UIC (International Union of Railways)
- OSJD (Organization for Cooperation between Railways) affiliate member nation
- WCRR (World Congress Railway Research)
- SGS certification
- EURAIL SPEED (international conference on high-speed railroads)
- Railroad exchange and cooperation between Korea, China, and Mongolia
- CCTST (TSR international transportation regulation council)
- Railroad exchange and cooperation between Korea and Russia
- Railroad exchange and cooperation between Korea and Japan (Ministry of Land, Infrastructure, Transport and Tourism, JR Kyushu, JR East Japan Railway Company)

Record of Awards in Sustainable Management Field

- 2014 The 2nd Korea Creative Economy CEO Grand Prize
- 2014 National Brand Innovative Management Field Grand Prize (for four consecutive years)
- 2014 Korea Sustainable Management Report Award (for three consecutive years)
- 2014 KTX Korean Brand Star 1st Place (for three consecutive years)
- 2014 Nuriro, selected as Green Product of the Year
- 2014 GOOD Design Grand Prize
- 2014 The 5th IAUD Awards Transportation Field Grand Prize
- 2014 The 22nd Korea Logistics Award Ceremony, Prime Minister Award
- 2014 The 26th Energy Conservation Promotion Awards, Prime Minister Citation
- 2014 The peace train DMZ-Train selected as This Year's Hit Product that Brought Honor to Korea
- 2014 Korea Eco-Friendly Management Merit Minister of Environment Minister Award
- 2014 The very first public enterprise to receive 'Personal Information Management System (PIMS) certification

The 3rd Party Assurance Statement

To the Stakeholders of KORAIL

The Korea Productivity Center (hereafter “the KPC” or “the assurance provider”) was commissioned to perform a third-party assurance engagement of the “2014 KORAIL Sustainable Management Report” (hereafter “the Report”) by the Korean Railroad Corporation. The KPC presents its findings as follows.

Responsibility and Independence

The responsibility for the information and statements included in the Report lies solely with KORAIL. The KPC is responsible for the assurance findings generated in the Report. As an independent assurance provider, the KPC was not engaged in the preparation of the Report in any way and does not have any interest in KORAIL in a way that may hamper its independence as an assurance provider.

Assurance Standards

The KPC performed a Type 1 Moderate Level assurance engagement of the Report in accordance with AA1000AS (2008). Furthermore, following these assurance standards the KPC verified the Report against such principles as inclusivity, materiality, and responsiveness in accordance with AA1000APS (2008), and the KPC verified whether the Report complied with the GRI G4 Guidelines.

Limitations

This assurance engagement covers KORAIL’s 2014 performance in accordance with the assurance standards stated above. Materials submitted to government organizations were reviewed as reference for a portion of the environmental data, such as greenhouse gas emission quantities and volume of water used, etc., while data such as financial and economic data were verified through official data of ALIO and financial statements that were audited by audit agencies. The KPC verified other social data by performing a Type 1 and sample-based Moderate Level assurance engagement. On-site inspections were limited to KORAIL’s headquarters located in Daejeon, and it should be noted that the results may change if additional verification procedures are carried out.

Assurance Methods

The KPC adopted the following methods in assuring this Report.

1. The KPC verified whether the Report met the requirements of the Core Option of the GRI G4 Guidelines.
2. The KPC verified whether the Report abided by the principles that concern the report contents and quality in accordance with the GRI G4 Guidelines.

3. The KPC, based on media research and benchmarking analysis, reviewed whether major issues were selected and described appropriately in this Report.
4. The KPC verified the appropriateness of the report contents and any errors regarding the representation of such contents, through comparative analyses made with other sources.
5. The KPC conducted on-site inspections to verify the evidence of major data and information as well as internal processes and systems.

Findings

The KPC believes that the Report is a sincere and fair representation of KORAIL’s sustainability management initiatives and achievements. The KPC verified that the Report satisfies the requirements of the Core Option of the GRI G4 Guidelines.

The KPC has verified that the Core Option’s requirements have been met in the case of General Standard Disclosures. As for Specific Standard Disclosures, the KPC has examined the DMA (Disclosure on Management Approach) and Indicators regarding the Material Issues that were derived from the following report item decision process.

Findings and Opinions

The KPC has discussed several times with KORAIL regarding revisions to the Report based on the results of document reviews and interviews, and has inspected the final version of the Report in order to verify the items recommended for revision and improvement have been reflected. As a result of the assurance, the KPC was unable to discover any inappropriate parts in KORAIL’s sustainable management report regarding compliance with principles.

Contents	Material Aspect	DMA & Indicators
Customer value	Product and service information	DMA, PR3, PR5
	Customer information protection	DMA, PR8
Employee satisfaction	Employment	DMA, LA1, LA2
	Labor-management relations	DMA, ELA3
Safety management	Occupational safety and health	DMA, LA5, LA6, LA7, LA8
	Customer safety and health	DMA, PR1
Co-prosperity	High-quality network labor practice assessment	DMA, LA14
	Investment	DMA, HR1
Sharing with regional community	Regional community	DMA, SO1
Environmental management	Energy	DMA, EN3, EN5, EN6, EN7
	Emissions	DMA, EN15, EN16, EN19, EN21
Values creation	Economic performance	DMA, EC1

■ Inclusivity: Stakeholder Engagement

Inclusivity refers to the principle whereby an organization develops responsible and strategic response measures regarding sustainability and includes the stakeholders in the process of their achievement. In order to comply with the inclusivity principle, KORAIL has defined stakeholders as value purchasing customers (railroad passengers, consignor and transport companies, etc.), value influencing customers (the government, media, local governments, etc.), value delivering customers (affiliated companies, partner companies, etc.), and value producing customers (employees, etc.) and have introduced communications channels and shared values with each group, demonstrating their active communications with stakeholders. In particular, by collecting the various opinions of the stakeholders, KORAIL has developed a range of customer services while their improvement performances are assessed to be excellent.

■ Materiality: Selection and Reporting of Key Issues

Materiality refers to the principle whereby issues that are relevant and important to the organization and the main stakeholders surrounding the organization must be decided. KORAIL is deriving issues not only through their internal sustainable management performance, but also by utilizing the results of various analyses and research. They have been verified as having selected 10 key issues by implementing materiality assessment processes based on the levels of business impact and social interest. Furthermore, it has been verified that the key issues have been structuralized as seven topics and arranged in order of importance, activity, performance, and planning in order to satisfy the DMA requirements.

■ Responsiveness: Organizational Response to Issues

Responsiveness refers to the principle whereby the organization must respond to issues that can exert an influence on the performance of stakeholders. KORAIL has developed seven topics in the composition of their Report and are faithfully making public their response efforts for each relevant topic by reporting in detail on such items as external environment, internal processes, promotion strategies, major performances, and others. Through this, stakeholders may look forward to being able to check the new trends of the railroad industry and the response efforts of KORAIL.

Recommendations

The KPC rates highly the various efforts and performances of KORAIL to

enhance their sustainability, and the following are proposals to improve the issuance of future Reports and sustainable management standards.

- There needs to be a more thorough management of data related to sustainable management by setting up collection criteria, collection scope, a managing department, etc. In particular, we recommend that KORAIL clearly establish a reporting scope for affiliated companies and partner companies, etc., and to continuously collect data by establishing official data collection and management processes. We also recommend that KORAIL make improvements to their system by having a supervising department periodically inspect data so that the data may be presented based on criteria that are identical throughout the Report.

- KORAIL’s stakeholder engagement system corresponds to the purpose of deriving issues related to sustainable management. However, there needs to be a promoting organization that plays a pivotal role in managing the derived issues in an integrated manner so that they may be managed more systematically. We recommend that this promoting organization collect the issues that are brought up periodically or occasionally and to manage the various activities and performances.



July 2015

Hong Soon-Jick, Chairman and CEO of Korea Productivity Center

Hong Soon Jick

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The Korea Productivity Center Sustainability Management Center is an assurance agency officially certified by Accountability, which established AA1000 (international standards for stakeholder engagement and assurance), and is qualified to perform independent assurance engagements. Our Assurance Committee is comprised of competent experts who have ample experience in sustainability management consulting and assurance and have completed the relevant professional training.

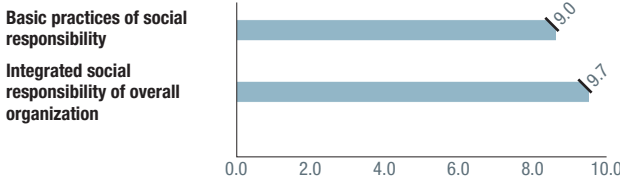
- AA1000AS Assurance Standard (2008): A global assurance standard developed by AccountAbility that provides methods for reporting on an organization’s management of sustainability issues beyond financial indicators including its adherence to the AccountAbility Principles Standard and the reliability of its sustainability performance information
- AA1000APS AccountAbility Principles Standard (2008): A global assurance principles standard developed by AccountAbility that provides a framework for the AA1000 standards

ISO 26000 Implementation Standard Diagnosis

Diagnosis Outline

KORAIL is complying with the international standard ISO 26000 in all our business operations with regard to social responsibilities to practice social responsibility management. Each year, KORAIL diagnoses the ISO 26000 implementation standard to understand the current status of social responsibility management and are utilizing them as reference materials for making improvements. In 2015, KORAIL has inspected the implementation standard with regard to the social responsibility processes and 7 key topics demanded by ISO 26000 by utilizing a diagnostic checklist developed by the Korea Productivity Center, and we are planning to reflect the assessment results in future social responsibility management promotion plans.

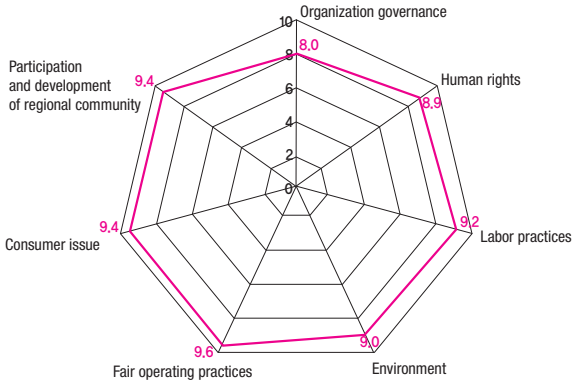
Social Responsibility Process (2 Main Areas)



Diagnosis Results

KORAIL's ISO 26000 implementation standard derives its results by dividing it into processes and key topics. The score for the social responsibility process, which is composed of two domains, is 8.8, while the score for the social responsibility key topic, which is composed of seven domains, is 8.1. The detailed results of each domain are categorized as positively assessed activities and activities required for future improvements so that they may provide the implications for implementation.

Social Responsibility Core Themes (Seven Main Areas)



Category	ISO 26000	Diagnosis Score
Process	Basic practices of social responsibility	+ Awareness of the economic, environmental, and social influences exerted by the railroad industry - Introduction of stakeholder grievance settling channel and integrated management and operation
	Integrated social responsibility of overall organization	+ Establishment of company-wide sustained strategy, "TRAIN" - Sustainable management implementation KPI configuration and monitoring
Core Themes	Organization governance	+ Organization management by field for the sustainable management activities of the company - Absence of organization and advisory committee exclusively in charge of sustainable management
	Human rights	+ Abolition and dispersal of regulations unreasonable for small and medium sized businesses when it comes to entering the market - Implementation of partner company human rights impact assessment
	Labor practices	+ The spread of cooperative labor-management relations through joint labor-management programs + Efforts towards social dialogue through discussions with partner companies
	Environment	+ Expanded use of renewable energy for sustainable use of resources - Protection of biodiversity around railroads
	Fair operating practices	+ Establishment of fair contract culture by the institution of a technical assessment committee management system + The formation and activation of an anti-corruption bureau with the vice president as its chief
	Consumer issue	+ Expansion of service access through the diversification of railroad contents and channels - Efforts to resolve services and support for railroad passengers as well as for complaints and disputes
	Participation and development of regional community	+ Contributions to the society and regional communities through the active use of railroad infrastructure + Efforts to access infrastructure of regional communities

GRI G4 Index

General Standard Disclosures					
Aspcet	G4	Indicators	ISO 26000	Reporting Status	Page
Strategy and Analysis	G4-1	CEO Message	4.7/6.2/7.4.2	●	4~5
	G4-2	Key impacts, risks and opportunities		●	12
Organizational Profile	G4-3	Name of the organization	6.3.10/6.4.1-6.4.2/ 6.4.3/6.4.4/6.4.5/6.8.5/7.8	●	8
	G4-4	Primary brands, products, and services.		●	10~11
	G4-5	Location of the organization's headquarters.		●	8
	G4-6	Number of countries where the organization operates, and names of countries where either the organization has significant operations or that are specifically relevant to the sustainability topics covered in the report.		●	8
	G4-8	Target markets (including geographic breakdown, sectors served, and types of customers and beneficiaries).		●	8
	G4-9	Scale of the organization		●	8, 32
	G4-10	Total number of employees by employment contract, region, and gender		●	32
	G4-12	Organization's supply chain		●	8, 48~50
	G4-15	External principles or initiatives that the company complies with		●	71
	G4-16	Memberships of associations (such as industry associations) and national or international advocacy organizations		●	71
Identified Material Aspects and Boundaries	G4-17	Organization's consolidated financial statements or equivalent documents	5.2/7.3.2/7.3.3/7.3.4	●	About This Report
	G4-18	Process for defining the report content and the Aspect Boundaries		●	About This Report
	G4-19	Material Aspects identified in the process for defining report content	5.2/7.3.2/7.3.3/7.3.4	●	About This Report
	G4-20	Aspect Boundary within the organization		●	About This Report
	G4-21	Aspect Boundary outside the organization		●	About This Report
	G4-22	Effect of any restatements of information provided in previous reports, and the reasons for such restatements		●	About This Report
	G4-23	Significant changes from previous reporting periods in the Scope and Aspect Boundaries		●	About This Report
Stakeholder Engagement	G4-24	List of stakeholder groups engaged by the organization.	5.3	●	20~21
	G4-25	Basis for identification and selection of stakeholders with whom to engage		●	20~22
	G4-26	Organization's approach to stakeholder engagement, including frequency of engagement by type and by stakeholder group, and an indication of whether any of the engagement was undertaken specifically as part of the report preparation process		●	20~23
	G4-27	key topics and concerns that have been raised through stakeholder engagement, and how the organization has responded to those key topics and concerns, including through its reporting. Report thestakeholder groups that raised each of the key topics and concerns.		●	20~24
Report Profile	G4-28	Reporting period	7.5.3/7.6.2		About This Report
	G4-29	Date of most recent previous report			About This Report
	G4-30	Reporting cycle			About This Report
	G4-31	Contact point for questions regarding the report or its contents		●	About This Report
	G4-32	The 'in accordance' option the organization has chosen		●	About This Report
	G4-33	Organization's policy and current practice with regard to seeking external assurance for the report		●	About This Report
Governance	G4-34	Governance structure of the organization, including committees of the highest governance body	6.2/7.4.3/7.7.5	●	16~17
	G4-35	Process for delegating authority for economic, environmental and social topics from the highest governance body to senior executives and other employees		●	16~17
	G4-36	Whether the organization has appointed an executive-level position of positions with responsibility for economic, environmental and social topicsm and whether post holers report directly to the highest goveranace body		●	16~17
	G4-38	Composition of the highest governance body and its committees		●	16~17
	G4-39	Whether the chair of the highest governance body is also an executive officer		●	16~17
	G4-40	Nomination and selection processes for the highest governance body and its committees, and the criteria used for nominating and selecting highest governance body members		●	16~17
	G4-56	Organization's values, principles, standards and norms of behavior such as codes of conduct and codes of ethics	4.4/6.6.3	●	18
Ethics and Integrity	G4-57	Internal and external mechanisms for seeking advice on ethical and lawful behavior, and matters related to organizational integrity, such as helplines or advice lines		●	18
	G4-58	Internal and external mechanisms for reporting concerns about unethical or unlawful behavior, and matters related to organizational integrity, such as escalation through line management, whistleblowing mechanisms or hotlines		●	18

GRI G4 Index

● : Full / ● : Half

Specific Standard Disclosures					
Aspcet	G4	Indicators	ISO 26000	Reporting Status	Page
Economic Performance	G4-DMA			●	59
	EC1	Direct economic value generated and distributed	6.8.1-6.8.2/6.8.3/6.8.7/6.8.9	●	60
Indirect Economic Impacts	EC7	Development and impact of infrastructure investments and services supported	6.3.9/6.8.1-6.8.2/6.8.7/6.8.9	●	60~63
	EC8	Significant Indirect Economic Impacts, Including the Extcnt of Impacts	6.3.9/6.6.6/6.6.7/6.7.8/6.8.1-6.8.2/6.8.5/6.8.7/6.8.9	●	60~63
Materials	EN1	Materials used by weight or volume		●	56
Energy	G4-DMA			●	54
	EN3	Energy consumption within the organization	6.5.4	●	56
	EN5	Energy Intensity		●	56
	EN6	Reduction of energy consumption	6.5.4/6.5.5	●	56~57
	EN7	Reductions in energy requirements of products and services		●	56~57
Water	EN8	Total water withdrawal by source	6.5.4	●	58
	EN10	Percentage and total volume of water recycled and reused		●	58
Emissions	G4-DMA			●	54
	EN15	Direct greenhouse gas (GHG) emissions (Scope 1)	6.5.4	●	57
	EN16	Energy Indirect Greenhouse GAS(GHG) Emissions(Scope 2)		●	57
	EN19	Reduction of greenhouse gas (GHG) emissions		●	57
	EN21	NOx, SOx, and other significant air emissions	6.5.3	●	58
Effluents and Waste	EN22	Total water discharge by quality and destination	6.5.3/6.5.4	●	58
	EN23	Total Weight of Waste by Type and Disposal Method	6.5.3	●	58
	EN26	Identity, size, protected status, and Biodiversity value of water bodies and related habitats significantly affected by the organization's discharges of water and runoff	6.5.3/6.5.4/6.5.6	●	58
Employment	G4-DMA			●	31
	LA1	Total number and rates of new employee hires and employee turnover by age group, gender and region	6.4.3	●	32
	LA2	Benefits provided to full-time employees that are not provided to temporary or part-time employees, by significant locations or operation	6.4.4/6.8.7	●	32~34
Product Responsibility	G4-DMA	Identity, size, protected status, and biodiversity value of water bodies and related habitats significantly affected by the organization's discharges of water and runoff		●	31
	LA4	Minimum notice periods regarding operational changes, including whether these are specified in collective agreements	6.4.3/6.4.5	●	33

● : Full / ● : Half

Specific Standard Disclosures					
Aspcet	G4	Indicators	ISO 26000	Reporting Status	Page
Employment	G4-DMA			●	38
	LA5	Safety committees that help monitor and advise on occupational health and safety programs	6.4.6	●	40
	LA6	Type of injury and rates of injury, occupational diseases, lost days, and absenteeism, and total number of workrelated fatalities, by region and by gender	6.4.6/6.8.8	●	40~42
	LA7	Workers with high incidence or high risk of diseases related to their occupation		●	40
	LA8	Health and safety topics covered in formal agreements with trade unions	6.4.6	●	42
Training and Education	LA9	Average hours of training per year per employee by employee category	6.4.7	●	32
	LA11	Percentage of employees receiving regular performance and career development reviews	6.4.7	●	32
Diversity and Equal Opportunity	LA12	Composition of governance bodies and breakdown of employees	6.2.3/6.3.7/6.3.10/6.4.3	●	32
Labor	G4-DMA			●	43
	LA14	Percentage of new suppliers that were screened using labor practices criteria		●	46
	LA16	Numver of grievances about labor practices filed, addressed, and resolved through formal grievance mechanisms	6.3.6	●	34
Local Communities	G4-DMA			●	43
	HR1	Number and percentage of significant investment agreements and contracts that include human rights clauses or that underwent human rights screening		●	46
Local Communities	G4-DMA			●	47
	S01	Percentage of operations with implemented local community engagement, impact assessments, and development programs	6.3.9/6.5.1-6.5.2/6.5.3/6.8	●	48~50
Anti-corruption	S03	Total number and percentage of operations assessed for risks related to corruption and the significant risks identified	6.6.1-6.6.2/6.6.3	●	13, 18
	S04	Communication and training on anti-corruption policies and procedures		●	18
Compliance	S08	Monetary value of significant fines	4.6	●	18
Product Responsibility	G4-DMA			●	38
	PR1	Percentage of significant product and service categories for which health and safety impacts are assessed for improvement	6.7.1-6.7.2/6.7.4/6.7.5/6.8.8	●	39~41
Product and Service Labeling	G4-DMA			●	26
	PR3	Type of product and service information required by the organization's procedures for product and service information and laveling, and percentage of significant product and service categories subject to such information requirements	6.7.1-6.7.2/6.7.3/6.7.4/6.7.5/6.8.8	●	27~30
	PR5	Results of surveys measuring customer satisfaction	6.7.1-6.7.2/6.7.6	●	27
Customer Privacy	G4-DMA			●	26
	PR8	Total number of substantiated complaints regarding breaches of customer privacy and losses of customer data		●	28

Reader Feedback Survey

KORAIL has published the “2014 KORAIL Sustainability Report” by opening the company's performances for social responsibility in a transparent manner to communicate with stakeholders more smoothly. We want to hear stakeholders’ opinions by this survey and reflect them to the publication of future sustainability report and management activities, so please send us your opinions.

Dotted line

1. Which of the following stakeholder groups do you belong to?

- ☐ Executive or employee ☐ Shareholder ☐ Financial institution ☐ Customer
☐ Partner company ☐ NGO
☐ Local resident ☐ Academia ☐ Government ☐ Media ☐ Research institute
☐ Others ()

2. How did you come across this report?

- ☐ KORAIL website ☐ Media such as newspaper, etc. ☐ Web surfing
☐ Executives or employees of the company
☐ Seminar/Lecture ☐ Others ()

3. What is the purpose of this report to you?

(Multiple answers are allowed.)

- ☐ To obtain information on KORAIL
☐ To understand KORAIL's sustainability management activities
☐ To compare and analyze the characteristics of the industry in which KORAIL participates
☐ For research and education
☐ Others ()

4. What is your area of interest related to corporate social responsibility?

(Multiple answers are allowed.)

- ☐ Communication with stakeholders ☐ Organization governance
☐ Human rights ☐ Labor practice
☐ Environment ☐ Public operation practice ☐ Consumer issue
☐ Participation and development for local communities

5. What part of this report interested you most?

(Multiple answers are allowed.)

- ☐ KORAIL SUSTAINABILITY OVERVIEW
☐ The People – KORAIL Dreams of a World Where Everyone is Happy
☐ The World – KORAIL Shares Dreams and Hopes with the World
☐ The Future – KORAIL Creates a Warmer Tomorrow

6. Which part of this report do you think needs supplementation?

(Multiple answers are allowed.)

- ☐ KORAIL SUSTAINABILITY OVERVIEW
☐ The People – Everyone Dreams of a Happy World
☐ The World – Sharing Dreams and Hopes
☐ The Future – Creating a Warmer Tomorrow

7. Did this report assist you in understanding KORAIL's sustainability management activities?

- ☐ Very much ☐ Yes ☐ Only a little ☐ Not so much ☐ Didn't help at all

8. What is your opinion of this report?

[Comprehensiveness of information]

- ☐ Very satisfactory ☐ Satisfactory ☐ Only a little ☐ Unsatisfactory ☐ Very unsatisfactory

[Accuracy of information]

- ☐ Very satisfactory ☐ Satisfactory ☐ Only a little ☐ Unsatisfactory ☐ Very unsatisfactory

[Amount of information]

- ☐ Very satisfactory ☐ Satisfactory ☐ Only a little ☐ Unsatisfactory ☐ Very unsatisfactory

[Design]

- ☐ Very satisfactory ☐ Satisfactory ☐ Only a little ☐ Unsatisfactory ☐ Very unsatisfactory

9. Please let us know if you have any opinions about KORAIL's sustainability management activities or the overall composition and content of this report.

Send to

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