IMPORTANT NOTICE

THE SECURITIES DESCRIBED HEREIN ARE AVAILABLE ONLY TO INVESTORS WHO ARE EITHER (1) QIBs (AS DEFINED BELOW) UNDER RULE 144A OF THE SECURITIES ACT (AS DEFINED BELOW), (2) INSTITUTIONAL ACCREDITED INVESTORS (AS DEFINED BELOW) WHO AGREE TO PURCHASE THE SECURITIES FOR THEIR OWN ACCOUNT AND NOT WITH A VIEW TO THE DISTRIBUTION THEREOF OR (3) ADDRESSEES WHO ARE NON-U.S. PERSONS (AS DEFINED BELOW) PURCHASING THE SECURITIES OUTSIDE THE UNITED STATES IN AN OFFSHORE TRANSACTION IN RELIANCE ON REGULATION S UNDER THE SECURITIES ACT.

IMPORTANT: You must read the following before continuing. The following applies to the offering memorandum dated October 12, 2018 (the "**Offering Memorandum**") following this page. You are therefore advised to read this carefully before reading, accessing or making any other use of the Offering Memorandum. In accessing the Offering Memorandum, you agree to be bound by the following terms and conditions, including any modifications to them from time to time, each time you receive any information from us as a result of such access.

NOTHING IN THIS ELECTRONIC TRANSMISSION CONSTITUTES AN OFFER OF SECURITIES FOR SALE IN ANY JURISDICTION WHERE IT IS UNLAWFUL TO DO SO. THE SECURITIES HAVE NOT BEEN, AND WILL NOT BE, REGISTERED UNDER THE U.S. SECURITIES ACT OF 1933, AS AMENDED (THE "**SECURITIES ACT**"), OR THE SECURITIES LAWS OF ANY STATE OF THE UNITED STATES OR OTHER JURISDICTION AND THE SECURITIES MAY NOT BE OFFERED OR SOLD WITHIN THE UNITED STATES, EXCEPT PURSUANT TO AN EXEMPTION FROM, OR IN A TRANSACTION NOT SUBJECT TO, THE REGISTRATION REQUIREMENTS OF THE SECURITIES ACT AND APPLICABLE STATE OR LOCAL SECURITIES LAWS. NOTHING IN THIS ELECTRONIC TRANSMISSION CONSTITUTES AN OFFER OF SECURITIES FOR SALE IN ANY JURISDICTION WHERE IT IS UNLAWFUL TO DO SO.

THE SECURITIES MAY NOT BE OFFERED, SOLD OR DELIVERED, DIRECTLY OR INDIRECTLY, IN THE REPUBLIC OF KOREA ("**KOREA**") OR TO, OR FOR THE ACCOUNT OR BENEFIT OF, ANY RESIDENT OF KOREA (AS SUCH TERM IS DEFINED UNDER THE FOREIGN EXCHANGE TRANSACTIONS ACT OF KOREA AND ITS ENFORCEMENT DECREE), EXCEPT AS OTHERWISE PERMITTED UNDER APPLICABLE KOREAN LAWS AND REGULATIONS.

THE FOLLOWING OFFERING MEMORANDUM MAY NOT BE FORWARDED OR DISTRIBUTED TO ANY OTHER PERSON AND MAY NOT BE REPRODUCED IN ANY MANNER WHATSOEVER. ANY FORWARDING, DISTRIBUTION OR REPRODUCTION OF THIS DOCUMENT IN WHOLE OR IN PART IS UNAUTHORIZED. FAILURE TO COMPLY WITH THIS DIRECTIVE MAY RESULT IN A VIOLATION OF THE SECURITIES ACT OR THE APPLICABLE LAWS OF OTHER JURISDICTIONS. IF YOU HAVE GAINED ACCESS TO THIS TRANSMISSION CONTRARY TO ANY OF THE FOREGOING RESTRICTIONS, YOU ARE NOT AUTHORIZED AND WILL NOT BE ABLE TO PURCHASE ANY OF THE SECURITIES DESCRIBED THEREIN.

Confirmation and your Representation: In order to be eligible to view this Offering Memorandum or make an investment decision with respect to the securities, investors must be either (1) qualified institutional buyers ("**QIBs**") (within the meaning of Rule 144A under the Securities Act), (2) "accredited investors" (as defined in Rule 501(a)(1), (2), (3) or (7) under the Securities Act) that are institutions ("**Institutional Accredited Investors**") who agree to purchase the securities for their own account and not with a view to the distribution thereof or (3) addressees who are not U.S. persons (within the meaning of Regulation S under the Securities Act) ("**non-U.S. persons**") purchasing the securities outside the United States in an offshore transaction in reliance on Regulation S under the Securities Act. By accepting the e-mail and accessing this Offering Memorandum, you shall be deemed to have represented to us that (1) you are acting on behalf of, or you are, either (a) QIBs or (b) Institutional Accredited Investors or (c) the electronic mail address that you gave us and to which this e-mail has been delivered is not located in the United States, its territories or possessions and (2) that you consent to delivery of such Offering Memorandum by electronic transmission.

You are reminded that this Offering Memorandum has been delivered to you on the basis that you are a person into whose possession this Offering Memorandum may be lawfully delivered in accordance with the laws of the jurisdiction in which you are located and you may not, nor are you authorized to, deliver or disclose the contents of this Offering Memorandum to any other person.

The materials relating to the offering of securities to which the attached Offering Memorandum relates do not constitute, and may not be used in connection with, an offer or solicitation in any place where offers or solicitations are not permitted by law. If a jurisdiction requires that the offering be made by a licensed broker or dealer and the dealers or any affiliate of the dealers is a licensed broker or dealer in that jurisdiction, the offering shall be deemed to be made by the dealers or such affiliate on behalf of the Issuer (as defined in the attached Offering Memorandum) in such jurisdiction.

This Offering Memorandum has been sent to you in an electronic form. You are reminded that documents transmitted via this medium may be altered or changed during the process of electronic transmission and consequently, none of the Arranger and the Dealers named in this Offering Memorandum, nor any person who controls any of them nor any director, officer, employee nor agent of any of them or affiliate of any such person accepts any liability or responsibility whatsoever in respect of any difference between the Offering Memorandum distributed to you in electronic format and the hard copy version available to you on request from the Arranger and the Dealers.

You should not reply by e-mail to this distribution, and you may not purchase any securities by doing so. Any reply e-mail communications, including those you generate by using the "Reply" function on your e-mail software, will be ignored or rejected. You are responsible for protecting against viruses and other destructive items. Your use of this e-mail is at your own risk and it is your responsibility to take precautions to ensure that it is free from viruses and other items of a destructive nature.

OFFERING MEMORANDUM

Korea Expressway Corporation

(a statutory juridical corporation organized under the laws of the Republic of Korea)

US$3,500,000,000

Global Medium Term Note Program

This Offering Memorandum supersedes and replaces in its entirety the offering memorandum dated April 10, 2017, in relation to the US$3,500,000,000 Global Medium Term Note Program (as updated from time to time, the "Program") of Korea Expressway Corporation (formerly Korea Highway Corporation, and hereinafter referred to as the "Issuer"). Under the Program, the Issuer may from time to time issue notes in bearer and/or registered form (respectively, "Bearer Notes" and "Registered Notes," and together the "Notes") denominated in any currency agreed between the Issuer and the relevant Dealer (as defined below).

The maximum aggregate nominal amount of all Notes from time to time outstanding under the Program will not exceed US$3,500,000,000 (or its equivalent in other currencies calculated as described herein).

The Notes may be issued on a continuing basis to one or more of the Dealers specified under "Summary of the Program" and any additional Dealer appointed under the Program from time to time by the Issuer (each a "Dealer" and together the "Dealers"), which appointment may be for a specific issue or on an ongoing basis. References in this Offering Memorandum to the "relevant Dealer" shall, in the case of an issue of Notes being (or intended to be) subscribed by more than one Dealer, be to all Dealers agreeing to purchase such Notes.

Approval in-principle has been received from the Singapore Exchange Securities Trading Limited (the "Singapore Stock Exchange") in connection with the Program and application will be made for the listing and quotation of Notes that may be issued pursuant to the Program and which are agreed at or prior to the time of issue thereof to be so listed on the Singapore Stock Exchange. Such permission will be granted when such Notes have been admitted for listing and quotation on the Singapore Stock Exchange. The Singapore Stock Exchange assumes no responsibility for the correctness of any of the statements made, opinions expressed or reports contained herein. Approval in-principle from, admission to the Official List of, and listing and quotation of any Notes on, the Singapore Stock Exchange are not to be taken as an indication of the merits of the Issuer, the Program or the Notes. Notice of the aggregate nominal amount of Notes, interest (if any) payable in respect of Notes, the issue price of Notes and any other terms and conditions not contained herein which are applicable to each Tranche (as defined under "Form of the Notes") of Notes will be set out in a pricing supplement (the "Pricing Supplement") a copy of which, with respect to Notes to be listed on the Singapore Stock Exchange, will be submitted to the Singapore Stock Exchange before the date of listing of the Notes of such Tranche.

The Program provides that Notes may be listed or admitted to trading on such other or further stock exchange(s) as may be agreed between the Issuer and the relevant Dealer. The Issuer may also issue unlisted Notes.

See "Risk Factors" beginning on page 63 for a discussion of certain factors to be considered in connection with an investment in the Notes.

The Notes have not been and will not be registered under the U.S. Securities Act of 1933, as amended (the "Securities Act") and may not be offered or sold in the United States or its possessions, or to, or for the benefit of, U.S. persons (as defined in Regulation S under the Securities Act) unless the Notes are registered under the Securities Act or an exemption from the registration requirements of the Securities Act is available. See "Form of the Notes" for a description of the manner in which Notes will be issued. Registered Notes are subject to certain restrictions on transfer. The Notes will be subject to certain other restrictions on transfer described in "Subscription and Sale and Transfer and Selling Restrictions."

The Notes of each Series (as defined in "Form of the Notes") will be in either bearer form, with or without interest coupons attached, or registered form, without interest coupons attached. Bearer Notes will be issued only outside the United States to non-U.S. persons in reliance on the exemption from registration provided by Regulation S under the Securities Act ("Regulation S") and Registered Notes may be issued both outside the United States to non-U.S. persons in reliance on the exemption from registration provided by Regulation S and within the United States or to U.S. persons in private transactions (i) to "qualified institutional buyers" within the meaning of Rule 144A under the Securities Act ("QIBs") or (ii) to "accredited investors" (as defined in Rule 501(a)(1), (2), (3) or (7) under the Securities Act) that are institutions ("Institutional Accredited Investors") who agree to purchase the Notes for their own account and not with a view to the distribution thereof. Bearer Notes are subject to U.S. tax law requirements. Subject to certain exceptions, the Notes may not be offered or sold, or in the case of Bearer Notes delivered, in the United States or its possessions or to, or for the benefit of, U.S. persons (as defined in Regulation S under the Securities Act or, in the case of Bearer Notes, the U.S. Internal Revenue Code of 1986, as amended). See "Form of the Notes" for further description of the manner in which Notes will be issued. Notes are subject to certain restrictions on transfer. See "Subscription and Sale and Transfer and Selling Restrictions."

The Issuer may agree with any Dealer that Notes may be issued in a form not contemplated by the Terms and Conditions of the Notes herein, in which event (in the case of Notes intended to be listed on the Singapore Stock Exchange) a supplementary Offering Memorandum, if appropriate, will be submitted to the Singapore Stock Exchange and made available which will describe the effect of the agreement reached in relation to such Notes.

Arranger

Citigroup

Dealers

BofA Merrill Lynch	**Citigroup**
HSBC	**J.P. Morgan**
Korea Development Bank	**Morgan Stanley**
Nomura	**Société Générale Corporate & Investment Banking**
UBS	

The date of this Offering Memorandum is October 12, 2018.

The Issuer, having made all reasonable enquiries, confirms that this Offering Memorandum contains or incorporates all information which is material in the context of the issuance and offering of Notes, that the information contained or incorporated by reference in this Offering Memorandum is true and accurate in all material respects and is not misleading in any material respect, that the opinions and intentions expressed in this Offering Memorandum are honestly held and that there are no other facts the omission of which would, in the context of the issuance and offering of the Notes, make this Offering Memorandum as a whole or any information or the expression of any opinions or intentions in this Offering Memorandum misleading in any material respect. The Issuer accepts responsibility accordingly.

The Singapore Stock Exchange takes no responsibility for the contents of this Offering Memorandum, makes no representation as to its accuracy or completeness and expressly disclaims any liability whatsoever for any loss howsoever arising from or in reliance upon the whole or any part of the contents of this Offering Memorandum.

This Offering Memorandum is to be read in conjunction with all documents which are deemed to be incorporated herein by reference (see "Documents Incorporated by Reference" below). This Offering Memorandum shall be read and construed on the basis that such documents are incorporated and form part of this Offering Memorandum.

This Offering Memorandum is based on information provided by the Issuer. Accordingly, no representation, warranty or undertaking, express or implied, is made and no responsibility or liability is accepted by the Dealers as to the accuracy or completeness of the information contained or incorporated by reference in this Offering Memorandum or any other information provided by the Issuer in connection with the Program. No Dealer accepts any liability in relation to the information contained or incorporated by reference in this Offering Memorandum or any other information provided by the Issuer in connection with the Program.

No person is or has been authorized by the Issuer to give any information or to make any representation not contained in or not consistent with this Offering Memorandum or any other information supplied in connection with the Program or the Notes and, if given or made, such information or representation must not be relied upon as having been authorized by the Issuer or any of the Dealers.

Neither this Offering Memorandum nor any other information supplied in connection with the Program or any Notes (i) is intended to provide the basis of any credit or other evaluation or (ii) should be considered as a recommendation or constituting an invitation or offer by the Issuer or any of the Dealers that any recipient of this Offering Memorandum or any other information supplied in connection with the Program or any Notes should purchase any Notes. Each investor contemplating purchasing any Notes should make its own independent investigation of the financial condition and affairs, and its own appraisal of the creditworthiness, of the Issuer. Neither this Offering Memorandum nor any other information supplied in connection with the Program or the issue of any Notes constitutes an offer or invitation by or on behalf of the Issuer or any of the Dealers to any person to subscribe for or to purchase any Notes.

Neither the delivery of this Offering Memorandum nor the offering, sale or delivery of any Notes shall in any circumstances imply that the information contained herein concerning the Issuer is correct at any time subsequent to the date hereof or that any other information supplied in connection with the Program is correct as of any time subsequent to the date indicated in the document containing the same. The Dealers expressly do not undertake to review the financial condition or affairs of the Issuer during the life of the Program or to advise any investor in the Notes of any information coming to their attention. Investors should review, inter alia, the most recently published documents contained in and/or incorporated by reference into this Offering Memorandum when deciding whether or not to purchase any Notes.

This Offering Memorandum does not constitute an offer to sell or the solicitation of an offer to buy any Notes in any jurisdiction to any person to whom it is unlawful to make the offer or solicitation in such jurisdiction. The distribution of this Offering Memorandum and the offer or sale of Notes may be restricted by law in certain jurisdictions. Neither the Issuer nor the Dealers represent that this Offering Memorandum may be lawfully distributed, or that any Notes may be lawfully offered, in compliance with any applicable registration or other requirements in any such jurisdiction, or pursuant to an exemption available thereunder, or assume any responsibility for facilitating any such distribution or offering. In particular, no action has been taken by the Issuer or the Dealers which would permit a public offering of any Notes or distribution of this document in any jurisdiction where action for that purpose is required. Accordingly, no Notes may be offered or sold, directly or indirectly, and neither this Offering Memorandum nor any advertisement or other offering material may be distributed or published in any jurisdiction, except under circumstances that will result in compliance with any applicable laws and regulations. Persons into whose possession this Offering Memorandum or any Notes come must inform themselves about, and observe, any such restrictions on the distribution of this Offering Memorandum and the offering and sale of Notes. In particular, there are restrictions on the distribution of this Offering Memorandum and the offer or sale of Notes in the United States, the European Economic Area (including the United Kingdom and Italy), Japan, the Republic of Korea ("Korea"), the Republic of Singapore ("Singapore") and Hong Kong. See "Subscription and Sale and Transfer and Selling Restrictions."

In making an investment decision, investors must rely on their own examination of the Issuer and the terms of the Notes being offered, including the merits and risks involved. The Notes have not been approved or disapproved by the United States Securities and Exchange Commission or any other securities commission or other regulatory authority in the United States, nor have the foregoing authorities approved this Offering Memorandum or confirmed the accuracy or determined the adequacy of the information contained in this Offering Memorandum. Any representation to the contrary is unlawful.

None of the Dealers or the Issuer makes any representation to any investor in the Notes regarding the legality of its investment under any applicable laws. Any investor in the Notes should be able to bear the economic risk of an investment in the Notes for an indefinite period of time.

There are restrictions on the offer and sale of the Notes in the United Kingdom. All applicable provisions of the Financial Services and Market Act 2000 ("FSMA") with respect to anything done by any person in relation to the Notes in, from or otherwise involving the United Kingdom must be complied with. See "Subscription and Sale and Transfer and Selling Restrictions."

PROHIBITION OF SALES TO EEA RETAIL INVESTORS — If the final terms (or pricing supplement, as the case may be) in relation to the Notes includes a legend entitled "Prohibition of Sales to EEA Retail Investors," the Notes are not intended to be offered, sold or otherwise made available to and should not be offered, sold or otherwise made available to any retail investor in the European Economic Area ("EEA"). For these purposes, a retail investor means a person who is one (or more) of: (i) a retail client as defined in point (11) of Article 4(1) of Directive 2014/65/EU ("MiFID II"); (ii) a customer within the meaning of Directive 2002/92/EC ("IMD"), where that customer would not qualify as a professional client as defined in point (10) of Article 4(1) of MiFID II; or (iii) not a qualified investor as defined in Directive 2003/71/EC (as amended, the "Prospectus Directive"). Consequently no key information document required by Regulation (EU) No 1286/2014 (the "PRIIPs Regulation") for offering or selling the Notes or otherwise making them available to retail investors in the EEA has been prepared and therefore offering or selling the Notes or otherwise making them available to any retail investor in the EEA may be unlawful under the PRIIPs Regulation.

In respect of each issue of Notes, the applicable Pricing Supplement may include a legend titled "MiFID II Product Governance" which will outline the target market assessment in respect of the relevant Notes and which channels for distribution of the relevant Notes are appropriate. Any person subsequently offering, selling or recommending such Notes (a "distributor") should take into consideration the target market assessment; however, a distributor subject to MiFID II is responsible for undertaking its own target market assessment in respect of such Notes (by either adopting or refining the target market assessment) and determining appropriate distribution channels.

A determination will be made in relation to each issue of Notes about whether, for the purpose of the MiFID Product Governance rules under EU Delegated Directive 2017/593 (the "MiFID Product Governance Rules"), any Dealer subscribing for any Notes is a manufacturer in respect of such Notes, but otherwise neither the Arranger nor the Dealers nor any of their respective affiliates will be a manufacturer for the purpose of the MiFID Product Governance Rules.

NOTIFICATION UNDER SECTION 309B(1)(C) OF THE SECURITIES AND FUTURES ACT, CHAPTER 289 OF SINGAPORE (THE "SFA") — Unless otherwise stated in the Pricing Supplement in respect of any Notes, the Issuer has determined, and hereby notifies all relevant persons (as defined in Section 309A(1) of the SFA) that the Notes to be issued under the Program shall be prescribed capital markets products (as defined in the Securities and Futures (Capital Markets Products) Regulations 2018 of Singapore) and Excluded Investment Products (as defined in MAS Notice SFA 04-N12: Notice on the Sale of Investment Products and MAS Notice FAA-N16: Notice on Recommendations on Investment Products).

U.S. INFORMATION

This Offering Memorandum may be submitted on a confidential basis in the United States to a limited number of QIBs or Institutional Accredited Investors for informational use solely in connection with the consideration of the purchase of the Notes being offered hereby. Its use for any other purpose in the United States is not authorized. It may not be copied or reproduced in whole or in part nor may it be distributed or any of its contents disclosed to anyone other than the prospective investors to whom it is originally submitted.

The Notes may be offered and sold outside the United States to non-U.S. persons pursuant to Regulation S under the Securities Act ("Regulation S"). Registered Notes may be offered or sold within the United States only to QIBs or to Institutional Accredited Investors, in either case in transactions exempt from registration under the Securities Act. Each U.S. purchaser of Registered Notes is hereby notified that the offer and sale of any Registered Notes to it may be being made in reliance upon the exemption from the registration requirements of the Securities Act provided by Rule 144A under the Securities Act ("Rule 144A").

Purchasers of Definitive IAI Registered Notes will be required to execute and deliver an IAI Investment Letter (as defined under "Terms and Conditions of the Notes"). Each purchaser or holder of Definitive IAI Registered Notes, Notes represented by a Rule 144A Global Note (as defined under "Terms and Conditions of the Notes") or any Notes issued in registered form in exchange or substitution therefor (together "Legended Notes") will be deemed, by its acceptance or purchase of any such Legended Notes, to have made certain representations and agreements intended to restrict the resale or other transfer of such Notes as set out in "Subscription and Sale and Transfer and Selling Restrictions." Unless otherwise stated, terms used in this paragraph have the meanings given to them in "Form of the Notes."

The Notes in bearer form are subject to U.S. tax law requirements and may not be offered, sold or delivered within the United States or its possessions or to U.S. persons, except in certain transactions permitted by U.S. tax regulations. Terms used in this paragraph have the meanings given to them by the U.S. Internal Revenue Code of 1986, as amended, and the regulations promulgated thereunder.

AVAILABLE INFORMATION

To permit compliance with Rule 144A in connection with any resales or other transfers of Notes that are "restricted securities" within the meaning of the Securities Act, the Issuer has undertaken in the Program Agreement to furnish, upon the request of a holder of such Notes or any beneficial interest therein, to such holder or to a prospective purchaser designated by him or her, the information required to be delivered under Rule 144A(d)(4) under the Securities Act if, at the time of the request, the Issuer is neither a reporting company under Section 13 or Section 15(d) of the U.S. Securities Exchange Act of 1934, as amended (the "Exchange Act"), nor exempt from reporting pursuant to Rule 12g3-2(b) thereunder.

ENFORCEMENT OF CIVIL LIABILITIES

The Issuer is a statutory juridical corporation organized under the laws of Korea. All of the officers and directors named herein reside in Korea and all or a substantial portion of the assets of the Issuer and of such officers and directors are located in Korea. As a result, it may not be possible for investors to effect service of process outside Korea upon the Issuer or such persons, or to enforce judgments against them obtained in courts outside Korea predicated upon civil liabilities of the Issuer or such directors and officers under laws other than Korean law, including any judgment predicated upon United States federal securities laws. The Issuer has been advised by Lee & Ko, its Korean counsel, that there is doubt as to the enforceability in Korea in original actions or in actions for enforcement of judgments of United States courts of civil liabilities predicated solely upon the federal securities laws of the United States.

PRESENTATION OF FINANCIAL AND OTHER INFORMATION

The Issuer's financial statements as of and for the years ended December 31, 2016 and 2017 and the Issuer's interim condensed consolidated financial statements as of June 30, 2018 and for the six months ended June 30, 2017 and 2018, included in this Offering Memorandum, have been prepared in accordance with the International Financial Reporting Standards as adopted by the Government Accounting Standards for Public Corporations and Quasi-governmental Institutions in the Republic of Korea, which may differ in certain respects from International Financial Reporting Standards ("IFRS") applied in other countries. In making an investment decision, investors must rely upon their own independent examination of the Issuer, the terms of the offering, including the risks involved, and the most recent financial information of the Issuer. Potential investors should consult their own professional advisers for an understanding of the differences between the Government Accounting Standards for Public Corporations and Quasi-governmental Institutions in the Republic of Korea, and IFRS applied in other countries, and how these differences affect the financial information contained in this Offering Memorandum. This Offering Memorandum should not be considered as a recommendation by any of the Dealers that any recipient of this Offering Memorandum should purchase the Notes.

Unless otherwise stated herein, all financial information presented in this offering memorandum relating to the Issuer are presented on a consolidated basis.

CERTAIN DEFINED TERMS AND CONVENTIONS

All references to "we," "our," "us," "ourselves," "our company," "KEC," the "Company" or the "Issuer" herein are references to Korea Expressway Corporation and, as the context may require, its subsidiaries. All references in this document to "Korea" or the "Republic" refer to the Republic of Korea, those to the "Government" refer to the Government of Korea, those to the "MOLIT" refer to the Ministry of Land, Infrastructure and Transport of Korea, and those to the "MOEF" refer to the Ministry of Economy and Finance of Korea.

All references in this document to "Korean Won," "won," "Won" and "₩" refer to the lawful currency of Korea, those to "U.S. Dollars," "U.S. dollars," "US$," "$" and "U.S. cents" refer to the lawful currency of the United States of America, those to "Sterling" and "£" refer to the lawful currency of the United Kingdom, those to "Singapore Dollars," "Singapore dollars" and "S$" refer to the lawful currency of Singapore, those to "Japanese Yen," "Yen" and "¥" refer to the lawful currency of Japan, those to "Hong Kong Dollars" and "HK$" refer to the lawful currency of Hong Kong and those to "€," "Euro" and "euro" refer to the lawful currency of the European Union.

For convenience only, certain Won amounts in this Offering Memorandum have been translated into U.S. dollars. Unless otherwise specified, all such conversions were made at the base rate under the market average exchange system announced by Seoul Money Brokerage Services, Ltd. in Seoul between Won and U.S. dollars (the "Market Average Exchange Rate") in effect on June 30, 2018 which was 1,121.7 to US$1.00. Other Won amounts in this Offering Memorandum where translated into U.S. dollars have been converted at the rate as specified therein. No representation is made that the Won or U.S. dollar amounts referred to herein could have been or could be converted into U.S. dollars or Won, as the case may be, at any particular rate or at all. On October 10, 2018, the Market Average Exchange Rate was 1,131.7 to US$1.00. Any discrepancies in any table between totals and the sums of the amounts listed are due to rounding. References to billions are to thousands of millions.

FORWARD LOOKING STATEMENTS

Certain statements in this Offering Memorandum constitute forward-looking statements, including statements regarding the Issuer's expectations and projections for future operating performance and business prospects. The words "believe," "expect," "anticipate," "estimate," "project," "will," "aim," "will likely result," "will continue," "intend," "plan," "contemplate," "seek to," "future," "objective," "goal," "should," "will pursue" and similar expressions or variations of these expressions identify forward-looking statements. In addition, all statements other than statements of historical facts included in this Offering Memorandum, including, without limitation, those regarding the Issuer's financial position and results, business strategy, plans and objectives of management for future operations, including development plans and objectives relating to the Issuer's products and services, are forward-looking statements. Such forward-looking statements and any other projections contained in this Offering Memorandum (whether made by the Issuer or any third party) involve known and unknown risks, uncertainties and other factors which may cause the actual results, performance or achievements to be materially different from the future results, performance or achievements expressed or implied by forward-looking statements. Such forward-looking statements are based on current beliefs, assumptions, expectations, estimates and projections regarding the Issuer's present and future business strategies and the environment in which the Issuer will operate in the future. Among the important factors that could cause some or all of those assumptions not to occur or cause the Issuer's actual results, performance or achievements to differ materially from those in the forward-looking statements, include, among other things, public policy considerations of the Government relating to the nation's transportation network, continued financial support from the

Government and the condition of and changes in the Korean, Asian or global economies. Additional factors that could cause the Issuer's actual results, performance or achievements to differ materially include, but are not limited to, those discussed under "Risk Factors." Any forward-looking statements contained in this Offering Memorandum speak only as of the date of this Offering Memorandum. Each of the Issuer and the Dealers expressly disclaims any obligation or undertaking to release, publicly or otherwise, any updates or revisions to any forward-looking statement contained herein to reflect any change in the Issuer's expectations with regard thereto or any change in events, conditions, assumptions or circumstances on which any such statement was based.

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In connection with the issue of any Tranche of Notes, the Dealer or Dealers (if any) named as the Stabilizing Manager(s) (or persons acting on behalf of any Stabilizing Manager(s)) in the applicable Pricing Supplement may over-allot Notes or effect transactions with a view to supporting the market price of the Notes at a level higher than that which might otherwise prevail. However, there is no assurance that the Stabilizing Manager(s) (or persons acting on behalf of a Stabilizing Manager) will undertake stabilization action. Any stabilization action may begin on or after the date on which adequate public disclosure of the terms of the offer of the relevant Tranche of Notes is made and, if begun, may be ended at any time, but it must end no later than the earlier of 30 days after the issue date of the relevant Tranche of Notes and 60 days after the date of the allotment of the relevant Tranche of Notes. Any stabilization action or over-allotment must be conducted by the relevant Stabilizing Manager(s) (or person(s) acting on behalf of any Stabilizing Manager(s)) in accordance with all applicable laws and rules.

DOCUMENTS INCORPORATED BY REFERENCE

THE FOLLOWING DOCUMENTS PUBLISHED OR ISSUED FROM TIME TO TIME AFTER THE DATE HEREOF SHALL BE DEEMED TO BE INCORPORATED IN, AND TO FORM PART OF, THIS OFFERING MEMORANDUM:

(a) the most recently published audited consolidated annual financial statements and the most recently published unaudited interim consolidated financial statements (if any) of the Issuer from time to time (see "General Information" for a description of the financial statements currently published by the Issuer); and

(b) all supplements or amendments to this Offering Memorandum circulated by the Issuer from time to time,

save that any statement contained herein or in a document which is deemed to be incorporated by reference herein shall be deemed to be modified or superseded for the purpose of this Offering Memorandum to the extent that a statement contained in any such subsequent document which is deemed to be incorporated by reference herein modifies or supersedes such earlier statement (whether expressly, by implication or otherwise). Any statement so modified or superseded shall not be deemed, except as so modified or superseded, to constitute a part of this Offering Memorandum.

The Issuer will provide, without charge, to each person to whom a copy of this Offering Memorandum has been delivered, upon the request of such person, a copy of any or all of the documents deemed to be incorporated herein by reference unless such documents have been modified or superseded as specified above. Requests for such documents should be directed to the Issuer at its registered offices set out at the end of this Offering Memorandum. In addition, such documents will be available from the principal office in London of Citibank, N.A., London Branch (the "Principal Paying Agent") for Notes listed on the Singapore Stock Exchange.

The Issuer will, in connection with the listing of the Notes on the Singapore Stock Exchange (so long as the rules of the Singapore Stock Exchange so require), in the event of any material change in the condition of the Issuer which is not reflected in this Offering Memorandum, prepare a supplement to this Offering Memorandum or publish a new Offering Memorandum for use in connection with any subsequent issue of the Notes to be listed on the Singapore Stock Exchange.

If the terms of the Program are modified or amended in a manner which would make this Offering Memorandum, as so modified or amended, inaccurate or misleading, a new Offering Memorandum will be prepared.

GENERAL DESCRIPTION OF THE PROGRAM

Under the Program, the Issuer may from time to time issue Notes denominated in any currency, subject as set out herein. A summary of the terms and conditions of the Program and the Notes appears below. The applicable terms of any Notes will be agreed between the Issuer and the relevant Dealer prior to the issue of the Notes and will be set out in the Terms and Conditions of the Notes endorsed on, or incorporated by reference into, the Notes, as modified and supplemented by the applicable Pricing Supplement attached to, or endorsed on, such Notes, as more fully described under "Form of the Notes."

This Offering Memorandum and any supplement will only be valid for offering the Notes in an aggregate nominal amount which, when added to the aggregate nominal amount then outstanding of all Notes previously or simultaneously issued under the Program, does not exceed US$3,500,000,000 or its equivalent in other currencies. For the purpose of calculating the U.S. dollar equivalent of the aggregate nominal amount of Notes issued under the Program from time to time:

(a) the U.S. dollar equivalent of Notes denominated in another Specified Currency (as specified in the applicable Pricing Supplement in relation to the Notes, described under "Form of the Notes") shall be determined, at the discretion of the Issuer, either as of the date on which agreement is reached for the issue of Notes or on the preceding day on which commercial banks and foreign exchange markets are open for business in London, in each case on the basis of the spot rate for the sale of the U.S. dollar against the purchase of such Specified Currency in the London foreign exchange market quoted by any leading international bank selected by the Issuer on the relevant day of calculation;

(b) the U.S. dollar equivalent of Dual Currency Notes, Index Linked Notes and Partly Paid Notes (each as specified in the applicable Pricing Supplement in relation to the Notes, described under "Form of the Notes") shall be calculated in the manner specified above by reference to the original nominal amount on issue of such Notes (in the case of Partly Paid Notes regardless of the subscription price paid); and

(c) the U.S. dollar equivalent of Zero Coupon Notes (as specified in the applicable Pricing Supplement in relation to the Notes, described under "Form of the Notes") and other Notes issued at a discount or premium shall be calculated in the manner specified above by reference to the net proceeds received by the Issuer for the relevant issue.

SUMMARY OF THE ISSUER

The Issuer is a Government-owned corporation established by the Korea Expressway Corporation Act (the "KEC Act") to develop, manage and operate the nation's expressway network. Under the KEC Act, the Issuer is also mandated to develop areas adjacent to expressways and to conduct research and development relating to expressways. The Issuer has the exclusive right to operate and collect tolls on 4,151 kilometers of expressways in Korea, which represented approximately 87.1% of the total kilometers of expressways in Korea as of June 30, 2018. The network under the Issuer's supervision comprises of 30 routes throughout Korea and includes Korea's major road arteries that connect Korea's most populated metropolitan areas, including Seoul, Busan, Incheon, Daegu, Daejon, Gwangju and Ulsan. As of June 30, 2018, the Issuer operated 354 toll plazas.

The principal source of income for the Issuer is tolls collected from motorists for the use of the expressways managed by the Issuer. The Issuer also receives lease payments from operators of service areas and gas stations located at various points along the expressways. In addition, the Issuer provides, at cost, road construction services (including supervision of Government construction projects along various locations adjacent to expressways) and supporting services (including the purchase and sale on behalf of the Government of land related to expressways) to the Government. The Issuer's revenue from its toll business was ₩4,052 billion, ₩4,060 billion and ₩1,936 billion in 2016, 2017 and the first half of 2018, respectively, which represented 49.7%, 50.4% and 58.0% of the Issuer's revenues, or 88.9%, 88.0% and 87.8% of the Issuer's revenues other than from the construction and supporting businesses (which yield no gross profit as the Issuer operates these businesses at cost), in 2016, 2017 and the first half of 2018, respectively. Toll revenues are largely dependent on the total traffic volume on the expressways managed by the Issuer, which was 1,540 million, 1,587 million and 780 million vehicles in 2016, 2017 and the first half of 2018, respectively, while the total registered vehicles in Korea were 22 million, 23 million and 23 million as of December 31, 2016 and 2017 and June 30, 2018, respectively, according to the Korea National Statistical Office. See "Business — Traffic."

The Government's mandate for the Issuer includes implementation of the Government's National Arterial Expressway Network Plan, adopted in 1991, which sets forth a plan for the construction of Korea's national expressway network. A key component of this plan is the National 7x9+6R Plan, which contemplates construction of 7,331 kilometers of expressways throughout Korea in the form of a grid comprised of seven south-to-north expressways, nine east-to-west expressways and six ring-shaped beltways encircling major cities. 67.1% of the National 7x9+6R Plan, in terms of route kilometers, was completed as of June 30, 2018. As of June 30, 2018, the Issuer had 11 new expressway routes under construction for an aggregate length of 514.4 kilometers and 3 expressway routes under expansion for an aggregate length of 68.8 kilometers.

In light of its mandate to the Issuer, the Government provides substantial financial support to the Issuer for all of its expressway-related projects by way of periodic capital contributions, which is used to defray a substantial portion of the Issuer's costs incurred in the construction of the expressways contemplated in the National 7x9+6R Plan, as well as all of the Issuer's costs incurred in the acquisition of related land. Proceeds from subscription by the Government of new shares in the Issuer amounted to ₩1,374 billion and ₩1,361 billion in 2016 and 2017, respectively. With respect to 2018, the Government has budgeted ₩1,155 billion for capital contribution to the Issuer. The Government's capital contribution is generally set at a level to cover approximately 40% of the Issuer's budgeted construction costs and, since 2003, 100% of the Issuer's budgeted costs of acquiring related land. However, at times, the Government's capital contribution may fall below such level due to budgetary constraints or other public policy considerations. For example, the

Government's actual subsidy ratio (defined as the ratio of the Government's capital contributions to the Issuer's actual costs for construction of new expressways and expansions) fell below the 40% level in 2006, 2007, 2008 and 2010. The actual subsidy ratio was 52% and 54% in 2016 and 2017, respectively. In respect of 2018, the Issuer budgeted construction costs of ₩2,571 billion and the Government budgeted capital contributions to the Issuer in the amount of ₩1,155 billion. During the first six months of 2018, the actual capital contributions from the Government amounted to ₩901 billion. See "Relationship with the Government—Financial Support from the Government."

As of June 30, 2018, 99.98% of the share capital of the Issuer was owned by the Government, with 86.15% held directly and 13.83% held indirectly through The Export-Import Bank of Korea, The Korea Development Bank and Korea Housing Financing Corporation, all of which were wholly-owned (directly or indirectly) by the Government, and the Industrial Bank of Korea, of which the Government is the majority shareholder.

The Issuer seeks to improve its overall financial position and capital structure. The Issuer's current funding strategy is to match the cash flow generated from borrowings more closely with anticipated capital expenditures, diversify funding sources and reduce financing costs. In addition, the Issuer has sought, and will continue to seek, increases in toll rates and increases in funding from the Government.

As of June 30, 2018, the Issuer had 5,793 full-time employees, of whom 62.9% were engineers, 34.2% were operations staff and 2.9% were administrative staff.

The Issuer was established in 1969. In 2007, the Issuer changed its English name from "Korea Highway Corporation" to "Korea Expressway Corporation." The Issuer's registered office is 77, Hyeoksin 8-ro, Gimcheon-si, Gyeongsangbuk-do, Korea.

SUMMARY OF THE PROGRAM

The following summary does not purport to be complete and is taken from, and is qualified in its entirety by, the remainder of this Offering Memorandum and, in relation to the terms and conditions of any particular Tranche of Notes, the applicable Pricing Supplement. Words and expressions defined in "Form of the Notes" and "Terms and Conditions of the Notes" below shall have the same meanings in this summary.

Issuer	Korea Expressway Corporation (formerly Korea Highway Corporation)
Description	Global Medium Term Note Program
Arranger	Citigroup Global Markets Inc.
Dealers	Citigroup Global Markets Inc., The Hongkong and Shanghai Banking Corporation Limited, J.P. Morgan Securities plc, The Korea Development Bank, Merrill Lynch International, Morgan Stanley & Co. International plc, Nomura International plc, Société Générale, UBS AG, Hong Kong Branch and any other Dealers appointed in accordance with the Program Agreement
Certain Restrictions	Each issue of Notes denominated in a currency in respect of which particular laws, guidelines, regulations, restrictions or reporting requirements apply will only be issued in circumstances which comply with such laws, guidelines, regulations, restrictions or reporting requirements from time to time (see "Subscription and Sale and Transfer and Selling Restrictions"), including the following restriction applicable at the date of this Offering Memorandum. Notes having a maturity of less than one year will, if the proceeds of the issue are accepted in the United Kingdom, constitute deposits for the purposes of the prohibition on accepting deposits contained in Section 19 of FSMA unless they are issued to a limited class of professional investors and have a denomination of at least £100,000 or its equivalent.
Principal Paying Agent, Transfer Agent and Exchange Agent	Citibank, N.A., London Branch
Registrar...........................	Citigroup Global Markets Europe AG
Program Size	Up to US$3,500,000,000 (or its equivalent in other currencies calculated as described under "General Description of the Program") in aggregate nominal amount of Notes outstanding at any time. The Issuer may increase the amount of the Program in accordance with the terms of the Program Agreement.
Distribution	Subject to applicable selling restrictions, Notes may be distributed by way of private or public placement and in each case on a syndicated or non-syndicated basis.

Currencies	Subject to any applicable legal or regulatory restrictions, any currency as may be agreed between the Issuer and the relevant Dealer.
Maturities	Such maturities as may be agreed between the Issuer and the relevant Dealer and as indicated in the applicable Pricing Supplement, subject to such minimum or maximum maturities as may be allowed or required from time to time by the relevant central bank (or equivalent body) or any laws or regulations applicable to the Issuer or the relevant Specified Currency.
Issue Price	Notes may be issued on a fully-paid or a partly-paid basis and at an issue price which is at par or at a discount to, or premium over, par.
Form of Notes	Notes will be issued in bearer or registered form, as described in "Form of the Notes." Registered Notes will not be exchangeable for Bearer Notes and vice versa.
Fixed Rate Notes	Fixed Rate Notes will bear interest payable on such date or dates as may be agreed between the Issuer and the relevant Dealer and on redemption, and will be calculated on the basis of such Day Count Fraction as may be agreed between the Issuer and the relevant Dealer.
Floating Rate Notes	Floating Rate Notes will bear interest at a rate determined either: (i) on the same basis as the floating rate under a notional interest-rate swap transaction in the relevant Specified Currency governed by an agreement incorporating the 2006 ISDA Definitions (as published by the International Swaps and Derivatives Association, Inc., and as amended and updated as at the Issue Date of the first Tranche of the Notes of the relevant Series); or (ii) on the basis of a reference rate appearing on the agreed screen page of a commercial quotation service; or (iii) on such other basis as may be agreed between the Issuer and the relevant Dealer. The margin (if any) relating to such floating rate will be agreed between the Issuer and the relevant Dealer for each series of Floating Rate Notes.
Index Linked Notes	Payments of principal in respect of Index Linked Redemption Notes or of interest in respect of Index Linked Interest Notes will be calculated by reference to such index and/or formula or to changes in the prices of securities or commodities or to such other factors as the Issuer and the relevant Dealer may agree.
Other provisions in relation to Floating Rate Notes and Index Linked Interest Notes	Floating Rate Notes and Index Linked Interest Notes may also have a maximum interest rate, a minimum interest rate or both.

	Interest on Floating Rate Notes and Index Linked Interest Notes in respect of each Interest Period, as agreed prior to issue by the Issuer and the relevant Dealer, will be payable on such Interest Payment Dates and will be calculated on the basis of such Day Count Fraction as may be agreed between the Issuer and the relevant Dealer.
Dual Currency Notes	Payments (whether in respect of principal or interest and whether at maturity or otherwise) in respect of Dual Currency Notes will be made in such currencies, and based on such rates of exchange, as the Issuer and the relevant Dealer may agree.
Zero Coupon Notes...............	Zero Coupon Notes will be offered and sold at a discount to their nominal amount and will not bear interest.
Redemption	The applicable Pricing Supplement will indicate either that the relevant Notes cannot be redeemed prior to their stated maturity (other than in specified installments, if applicable, or for taxation reasons or following an occurrence of a Change of Control (as defined herein) or following an Event of Default) or that such Notes will be redeemable at the option of the Issuer and/or the Noteholders upon giving notice to the Noteholders or the Issuer, as the case may be, on a date or dates specified prior to such stated maturity and at a price or prices and on such other terms as may be set forth in the applicable Pricing Supplement. The applicable Pricing Supplement may provide that Notes may be redeemable in two or more installments of such amounts and on such dates as are indicated in the applicable Pricing Supplement.
Change of Control Redemption......................	The Notes will be redeemable at the option of the Noteholders, in all or in part, upon the occurrence of a Change of Control at 100% of their nominal amount, together with accrued and unpaid interest, if any, to but excluding the Change of Control Put Date (as defined herein). See "Terms and Conditions of the Notes — Change of Control Redemption."
Denomination of Notes	Notes will be issued in such denominations as may be agreed between the Issuer and the relevant Dealer save that the minimum denomination of each Note will be such as may be allowed or required from time to time by the relevant central bank (or equivalent body) or any laws or regulations applicable to the relevant Specified Currency.

	Unless otherwise stated in the applicable Pricing Supplement, the minimum denomination of each Definitive IAI Registered Note will be US$500,000 or its approximate equivalent in other Specified Currencies.
	Notes having a maturity of less than one year may be subject to restrictions on their denomination and distribution (see " — Certain Restrictions"). The minimum denomination of each Note admitted to trading on a regulated market within the European Economic Area or offered to the public in a Member State of the European Economic Area in circumstances which require the publication of a prospectus under the Prospectus Directive will be €50,000 (or, if the Notes are denominated in a currency other than Euro, the equivalent amount in such currency).
Taxation	All payments in respect of the Notes will be made without deduction for or on account of withholding taxes imposed by or on behalf of Korea or any political subdivision or any authority thereof or therein having power to tax, subject as provided in Condition 8 (*Taxation*). In the event that any such deduction is made, the Issuer will, save in certain limited circumstances provided in Condition 8 (*Taxation*), be required to pay additional amounts to cover the amounts so deducted. See "Terms and Conditions of the Notes."
	In making an investment decision, each prospective investor is strongly recommended to consult its own professional advisors in respect of the tax implications of holding the Notes. See "Taxation."
Covenants..........................	The terms of the Notes will contain a limitation on liens provision and a limitation upon sale and leaseback provision as further described in Conditions 4.1 (*Covenants—Limitation on Liens*) and 4.2 (*Covenants—Limitation upon Sale and Leaseback Transactions*), respectively.
Cross Acceleration	The terms of the Notes will contain a cross-acceleration provision as further described in Condition 10 (*Events of Default*).
Status of the Notes...............	The Notes will constitute direct, unconditional, and (subject to Condition 4.1 (*Covenants—Limitation on Liens*)) unsecured obligations of the Issuer which will rank pari passu among themselves and will rank at least pari passu with all other present and future unsecured (subject to Condition 4.1 (*Covenants—Limitation on Liens*)) and unsubordinated obligations of the Issuer, save for such as may be preferred by generally applicable mandatory provisions of applicable law.

Listing	Approval in-principle has been received from the Singapore Stock Exchange in connection with the Program and application will be made for the listing and quotation of Notes that may be issued pursuant to the Program and which are agreed at or prior to the time of issue thereof to be so listed on the Singapore Stock Exchange. The Notes may also be listed on such other or further stock exchange(s) as may be agreed between the Issuer and the relevant Dealer in relation to each Series or Tranche. For so long as any Notes are listed on the Singapore Stock Exchange and the rules of the Singapore Stock Exchange so require, such Notes, if traded on the Singapore Stock Exchange, will be traded in a minimum board lot size of S$200,000 (or its equivalent in foreign currencies). Unlisted Notes may also be issued. The applicable Pricing Supplement will state whether or not the relevant Notes are to be listed and, if so, on which stock exchange(s).
Governing Law	The Notes will be governed by, and construed in accordance with, the laws of the State of New York.
Selling Restrictions	There are restrictions on the offer, sale and transfer of the Notes in the United States, the European Economic Area (including the United Kingdom and Italy), Japan, Korea, Singapore, Hong Kong and such other restrictions as may be required in connection with the offering and sale of a particular Tranche of Notes (see "Subscription and Sale and Transfer and Selling Restrictions").

FORM OF THE NOTES

Certain capitalized terms used herein are defined in the "*Terms and Conditions of the Notes*." Any reference herein to Euroclear and/or Clearstream and/or DTC shall, whenever the context so permits, be deemed to include a reference to any additional or alternative clearing system in the applicable Pricing Supplement.

The Notes of each Series will be in either bearer form, with or without interest coupons attached ("Bearer Notes"), or registered form, without interest coupons attached ("Registered Notes"). Bearer Notes will be issued outside the United States in reliance on Regulation S under the Securities Act ("Regulation S") and Registered Notes will be issued both outside the United States in reliance on the exemption from registration provided by Regulation S and within the United States in reliance on Rule 144A or another exemption from the registration requirements of the Securities Act. Bearer Notes will also be subject to U.S. tax restrictions described below.

Bearer Notes

Each Tranche of Bearer Notes will be initially issued in the form of either a temporary bearer global note (a "Temporary Bearer Global Note") or a permanent bearer global note (a "Permanent Bearer Global Note" and, together with Temporary Bearer Global Note, the "Bearer Global Notes") as indicated in the applicable Pricing Supplement, which, in either case, will be delivered on or prior to the original issue date of the Tranche to a common depositary (the "Common Depositary") for Euroclear Bank S.A./N.V. ("Euroclear") and Clearstream Banking, S.A. ("Clearstream"). Bearer Notes issued under the TEFRA D rules will be initially issued in the form of Temporary Bearer Global Note. While any Bearer Note is represented by a Temporary Bearer Global Note, payments of principal, interest (if any) and any other amount payable in respect of the Notes due prior to the Exchange Date (as defined below) will be made against presentation of the Temporary Bearer Global Note only to the extent that certification (in a form annexed to the Agency Agreement) to the effect that the beneficial owners of interests in such Bearer Note are not U.S. persons or persons who have purchased for resale to any U.S. person, as required by U.S. Treasury regulations, has been received by Euroclear and/or Clearstream, as applicable, and Euroclear and/or Clearstream, as applicable, has given a like certification (based on the certifications it has received) to the Principal Paying Agent. Payments of interest in respect of a Temporary Bearer Global Note will be made at the specified office of any Paying Agent outside the United States (which expression, as used herein, means the United States of America, including the States and the District of Columbia, its territories, its possessions and other areas subject to its jurisdiction).

On and after the date (the "Exchange Date") which is 40 days after a Temporary Bearer Global Note is issued, interests in such Temporary Bearer Global Note will be exchangeable (free of charge) upon a request as described therein either for (i) interests in a Permanent Bearer Global Note of the same Series or (ii) for Bearer Notes in definitive form ("Definitive Bearer Notes") of the same Series with, where applicable, receipts, interest coupons and talons attached (as indicated in the applicable Pricing Supplement and subject, in the case of Definitive Bearer Notes, to such notice period as is specified in the applicable Pricing Supplement), in each case against certification of beneficial ownership as described above unless such certification has already been given, provided that purchasers in the United States and certain U.S. persons will not be able to receive Definitive Bearer Notes. The holder of an interest in a Temporary Bearer Global Note will not be entitled to collect any payment of interest, principal or other amount due on or after the Exchange Date unless, upon due certification, exchange of such interest in the Temporary Bearer Global Note for an interest in a Permanent Bearer Global Note or for an interest in Definitive Bearer Notes is improperly withheld or refused.

Payments of principal, interest (if any) or any other amounts on a Permanent Bearer Global Note will be made through Euroclear and/or Clearstream against presentation or surrender (as the case may be) of the Permanent Bearer Global Note without any requirement for certification. Payments of interest in respect of a Permanent Bearer Global Note will be made at the specified office of any Paying Agent outside the United States (which expression, as used herein, means the United States of America, including the States and the District of Columbia, its territories, its possessions and other areas subject to its jurisdiction).

The applicable Pricing Supplement will specify that a Permanent Bearer Global Note will be exchangeable (free of charge), in whole but not in part, for Definitive Bearer Notes with, where applicable, receipts, interest coupons and talons attached upon either (i) not less than 60 days' written notice from Euroclear and/or Clearstream (acting on the instructions of any holder of an interest in such Permanent Bearer Global Note) to the Principal Paying Agent as described therein or (ii) only upon the occurrence of an Exchange Event. For these purposes, "Exchange Event" means that (i) an Event of Default (as defined in Condition 10 (*Events of Default*)) has occurred and is continuing, (ii) the Issuer has been notified that both Euroclear and Clearstream have been closed for business for a continuous period of 14 days (other than by reason of holiday, statutory or otherwise) or have announced an intention permanently to cease business or have in fact done so and no successor clearing system is available or (iii) the Issuer has or will become subject to adverse tax consequences which would not be suffered were the Notes represented by the Permanent Bearer Global Note in definitive form. The Issuer will promptly give notice to Noteholders in accordance with Condition 14 (*Notices*) if an Exchange Event occurs. In the event of the occurrence of an Exchange Event, Euroclear and/or Clearstream (acting on the instructions of any holder of an interest in such Permanent Bearer Global Note) may give notice to the Principal Paying Agent requesting exchange and, in the event of the occurrence of an Exchange Event as described in (iii) above, the Issuer may also give notice to the Principal Paying Agent requesting exchange. Any such exchange shall occur not later than 45 days after the date of receipt of the first relevant notice by the Principal Paying Agent.

The following legend will appear on all Bearer Notes which have an original maturity of more than 365 days and on all talons, receipts and interest coupons relating to such Notes:

"ANY UNITED STATES PERSON WHO HOLDS THIS OBLIGATION WILL BE SUBJECT TO LIMITATIONS UNDER THE UNITED STATES INCOME TAX LAWS, INCLUDING THE LIMITATIONS PROVIDED IN SECTIONS 165(j) AND 1287(a) OF THE INTERNAL REVENUE CODE OF 1986, AS AMENDED."

The sections referred to provide that United States holders, with certain exceptions, will not be entitled to deduct any loss on Bearer Notes, receipts or interest coupons and will not be entitled to capital gains treatment of any gain on any sale, disposition, redemption or payment of principal in respect of such Notes, receipts or interest coupons.

Notes which are represented by a Bearer Global Note will only be transferable in accordance with the rules and procedures for the time being of Euroclear or Clearstream, as the case may be.

Registered Notes

The Registered Notes of each Tranche offered and sold in reliance on Regulation S, which will be sold to non-U.S. persons outside the United States, will initially be represented by a global note in registered form (a "Regulation S Global Note") which will be either (i) deposited with a custodian for, and registered in the name of a nominee of, Depository Trust Company ("DTC") for the accounts of Euroclear and Clearstream or (ii) deposited with a common depositary for, and registered in the name of a common nominee of, Euroclear and Clearstream as specified in the applicable Pricing Supplement. Prior to expiry of the Distribution Compliance Period (as defined in Regulation S) applicable to each Tranche of Notes, beneficial interests in a Regulation S Global Note may not be offered or sold to, or for the account or benefit of, a U.S. person save as otherwise provided in Condition 2 (*Transfers of Registered Notes*) and may not be held otherwise than through Euroclear or Clearstream and such Regulation S Global Note will bear a legend regarding such restrictions on transfer.

The Registered Notes of each Tranche may only be offered and sold in the United States or to U.S. persons in private transactions (i) to "qualified institutional buyers" within the meaning of Rule 144A under the Securities Act ("QIBs") or (ii) to "accredited investors" as defined in Rule 501(a)(1), (2), (3) or (7) under the Securities Act that are institutions ("Institutional Accredited Investors") who agree to purchase the Notes for their own account and not with a view to the distribution thereof. The Registered Notes of each Tranche sold to QIBs will be represented by a global note in registered form (a "Rule 144A Global Note" and, together with a Regulation S Global Note, the "Registered Global Notes") which will be deposited with a custodian for, and registered in the name of a nominee of, DTC.

Persons holding beneficial interests in Registered Global Notes will be entitled or required, as the case may be, under the circumstances described below, to receive physical delivery of definitive Notes in fully registered form. Unless otherwise stated in the applicable Pricing Supplement, the minimum denomination of each Global Note shall be €100,000 or its approximate equivalent in other Specified Currencies.

The Registered Notes of each Tranche sold to Institutional Accredited Investors will be in definitive form, registered in the name of the holder thereof ("Definitive IAI Registered Notes"). Unless otherwise set forth in the applicable Pricing Supplement, Definitive IAI Registered Notes will be issued only in minimum denominations of US$500,000 and integral multiples of US$1,000 in excess thereof (or the approximate equivalents in the applicable Specified Currency). Definitive IAI Registered Notes will be subject to the restrictions on transfer set forth therein and will bear the restrictive legend described under "Subscription and Sale and Transfer and Selling Restrictions." Institutional Accredited Investors that hold Definitive IAI Registered Notes may elect to hold such Notes through DTC, but transferees acquiring the Notes in transactions exempt from Securities Act registration pursuant to Regulation S or Rule 144 under the Securities Act (if available) may do so upon satisfaction of the requirements applicable to such transfer as described under "Subscription and Sale and Transfer and Selling Restrictions." The Rule 144A Global Note and the Definitive IAI Registered Notes will be subject to certain restrictions on transfer set forth therein and will bear a legend regarding such restrictions.

Payments of principal, interest and any other amount in respect of the Registered Global Notes will, in the absence of provision to the contrary, be made to the person shown on the Register (as defined in Condition 6.4 (*Payments—Payments in respect of Registered Notes*) as the registered holder of the Registered Global Notes. None of the Issuer, any Paying Agent or the Registrar will have any responsibility or liability for any aspect of the records relating to or payments or deliveries made on account of beneficial ownership interests in the Registered Global Notes or for maintaining, supervising or reviewing any records relating to such beneficial ownership interests.

Payments of principal, interest or any other amount in respect of the Registered Notes in definitive form will, in the absence of provision to the contrary, be made to the persons shown on the Register on the relevant Record Date (as defined in Condition 6.4 (*Payments—Payments in respect of Registered Notes*)) immediately preceding the due date for payment in the manner provided in that Condition.

Interests in a Registered Global Note will be exchangeable (free of charge), in whole but not in part, for definitive Registered Notes without receipts, interest coupons or talons attached only upon the occurrence of an Exchange Event. For these purposes, "Exchange Event" means that (i) an Event of Default has occurred and is continuing, (ii) in the case of Notes registered in the name of a nominee for DTC, DTC has notified the Issuer that it is unwilling or unable to continue to act as depository for the Notes and no successor or alternative clearing system is available or DTC has ceased to constitute a clearing agency registered under the Exchange Act, (iii) in the case of Notes registered in the name of a nominee for a common depositary for Euroclear and Clearstream, the Issuer has been notified that both Euroclear and Clearstream have been closed for business for a continuous period of 14 days (other than by reason of holiday, statutory or otherwise) or have announced an intention permanently to cease business or have in fact done so and, in any such case, no successor clearing system is available or (iv) the Issuer has or will become subject to adverse tax consequences which would not be suffered were the Notes represented by the Registered Global Note in definitive form. In addition, in the event that the Registered Global Note is exchanged for definitive Registered Notes, an announcement of such exchange will be made by or on behalf of the Issuer through the Singapore Stock Exchange and such announcement will include all material information with respect to the delivery of the definitive Registered Notes, including details of the Paying Agent in Singapore. The Issuer will promptly give notice to Noteholders in accordance with Condition 14 (*Notices*) if an Exchange Event occurs. In the event of the occurrence of an Exchange Event, DTC, Euroclear and/or Clearstream (acting on the instructions of any holder of an interest in such Registered Global Note) may give notice to the Registrar requesting exchange and, in the event of the occurrence of an Exchange Event as described in (iv) above, the Issuer may also give notice to the Registrar requesting exchange. Any such exchange shall occur not later than 10 days after the date of receipt of the first relevant notice by the Registrar.

Transfer of Interests

Interests in a Registered Global Note may, subject to compliance with all applicable restrictions, be transferred to a person who wishes to hold such interest in another form of Registered Global Note or in the form of a Definitive IAI Registered Note and Definitive IAI Registered Notes may, subject to compliance with all applicable restrictions, be transferred to a person who wishes to hold such Notes in the form of an interest in a Registered Global Note. No beneficial owner of an interest in a Registered Global Note will be able to transfer such interest, except in accordance with the applicable procedures of DTC, Euroclear and Clearstream, in each case to the extent applicable. Registered Notes are also subject to the restrictions on transfer set forth therein and will bear a legend regarding such restrictions. See "Subscription and Sale and Transfer and Selling Restrictions."

General

Pursuant to the Agency Agreement (as defined under "Terms and Conditions of the Notes"), the Principal Paying Agent or the Registrar, as the case may be, shall arrange that, where a further Tranche of Notes is issued which is intended to form a single Series with an existing Tranche of Notes, the Notes of such further Tranche shall be assigned a common code and ISIN and, where applicable, a CUSIP and CINS number which are different from the common code, ISIN, CUSIP and CINS assigned to Notes of any other Tranche of the same Series until at least the expiry of the distribution compliance period applicable to the Notes of such Tranche and, for Bearer Notes subject to the certification requirements under U.S. Treasury regulations, until at least the Notes represented by interests in a temporary Global Note are exchanged for Notes represented by an interest in a permanent Global Note or for Definitive Bearer Notes.

For so long as any of the Notes is represented by a Global Note held on behalf of Euroclear and/or Clearstream each person (other than Euroclear or Clearstream) who is for the time being shown in the records of Euroclear or of Clearstream as the holder of a particular nominal amount of such Notes (in which regard any certificate or other document issued by Euroclear or Clearstream as to the nominal amount of such Notes standing to the account of any person shall be conclusive and binding for all purposes save in the case of manifest error) shall be treated by the Issuer and its agents as the holder of such nominal amount of such Notes for all purposes other than with respect to the payment of principal or interest on such nominal amount of such Notes, for which purpose the bearer of the relevant Bearer Global Note or the registered holder of the relevant Registered Global Note shall be treated by the Issuer and its agents as the holder of such nominal amount of such Notes in accordance with and subject to the terms of the relevant Global Note and the expressions "Noteholder" and "holder of Notes" and related expressions shall be construed accordingly.

So long as DTC or its nominee is the registered owner or holder of a Registered Global Note, DTC or such nominee, as the case may be, will be considered the sole owner or holder of the Notes represented by such Registered Global Note for all purposes under the Agency Agreement and such Notes except to the extent that in accordance with DTC's published rules and procedures any ownership rights may be exercised by its participants or beneficial owners through participants.

Any reference herein to Euroclear and/or Clearstream and/or DTC shall, whenever the context so permits, be deemed to include a reference to any additional or alternative clearing system specified in the applicable Pricing Supplement.

A Note may be accelerated by the holder thereof in certain circumstances described in Condition 10 (*Events of Default*). In such circumstances, where any Note is still represented by a Global Note and the Global Note (or any part thereof) has become due and repayable in accordance with the Terms and Conditions of such Notes and payment in full of the amount due has not been made in accordance with the provisions of the Global Note then holders of interest in such Global Note credited to their accounts with Euroclear and/or Clearstream and/or DTC, as the case may be, will become entitled to proceed directly against the Issuer on the basis of statements of account provided by Euroclear, Clearstream and/or DTC, as the case may be. In addition, holders of interests in such Global Note credited to their accounts with DTC may require DTC to deliver Definitive Notes in registered form in exchange for their interest in such Global Note in accordance with DTC's standard operating procedures.

For so long as the Notes are listed on the Singapore Stock Exchange and the rules of the Singapore Stock Exchange so require, in the event that the Global Note is exchanged for Definitive Notes, the Issuer will appoint and maintain a Paying Agent in Singapore, where such Definitive Notes may be presented or surrendered for payment or redemption. In addition, in the event that the Global Note is exchanged for Definitive Notes, an announcement of such exchange will be made by or on behalf of the Issuer through the Singapore Stock Exchange and such announcement will include all material information with respect to the delivery of the Definitive Notes, including details of the Paying Agent in Singapore.

Form of Applicable Pricing Supplement

Set out below is the form of Pricing Supplement which will be completed for each Tranche of Notes issued under the Program.

[MIFID II PRODUCT GOVERNANCE — Solely for the purposes of [the/each] manufacturer's product approval process, the target market assessment in respect of the Notes has led to the conclusion that: (i) the target market for the Notes is eligible counterparties and professional clients only, each as defined in Directive 2014/65/EU (as amended, "MiFID II"); and (ii) all channels for distribution of the Notes to eligible counterparties and professional clients are appropriate. Any person subsequently offering, selling or recommending the Notes (a "distributor") should take into consideration the manufacturer['s/s'] target market assessment; however, a distributor subject to MiFID II is responsible for undertaking its own target market assessment in respect of the Notes (by either adopting or refining the manufacturer['s/s'] target market assessment) and determining the appropriate distribution channels.]

[PROHIBITION OF SALES TO EEA RETAIL INVESTORS — The Notes are not intended to be offered, sold or otherwise made available to and should not be offered, sold or otherwise made available to any retail investor in the European Economic Area ("EEA"). For these purposes, a retail investor means a person who is one (or more) of: (i) a retail client as defined in point (11) of Article 4(1) of MiFID II; (ii) a customer within the meaning of Directive 2002/92/EC ("IMD"), where that customer would not qualify as a professional client as defined in point (10) of Article 4(1) of MiFID II; or (iii) not a qualified investor as defined in the Prospectus Directive. Consequently no key information document required by Regulation (EU) No 1286/2014 (the "PRIIPs Regulation") for offering or selling the Notes or otherwise making them available to retail investors in the EEA has been prepared and therefore offering or selling the Notes or otherwise making them available to any retail investor in the EEA may be unlawful under the PRIIPs Regulation.][1]

[**NOTIFICATION UNDER SECTION 309B(1)(C) OF THE SECURITIES AND FUTURES ACT, CHAPTER 289 OF SINGAPORE (THE "SFA")** — the Issuer has determined, and hereby notifies all relevant persons (as defined in Section 309A(1) of the SFA) that the Notes are [prescribed capital markets products [OR] capital markets products other than prescribed capital markets products] (as defined in the Securities and Futures (Capital Markets Products) Regulations 2018 of Singapore) and [Excluded Investment Products [OR] Specified Investment Products] (as defined in MAS Notice SFA 04-N12: Notice on the Sale of Investment Products and MAS Notice FAA-N16: Notice on Recommendations on Investment Products).]

[Date]

KOREA EXPRESSWAY CORPORATION

Issue of [Aggregate Nominal Amount of Tranche] [Title of Notes] under the US$3,500,000,000 Global Medium Term Note Program

[1] Legend to be included on front of the pricing supplement if the Notes potentially constitute "packaged" products or the issuer wishes to prohibit offers to EEA retail investors for any other reason, in which case the selling restriction should be specified to be "Applicable".

This document constitutes the Pricing Supplement relating to the issue of Notes described herein. Terms used herein shall be deemed to be defined as such for the purposes of the terms and conditions (the "Conditions") set forth in the Offering Memorandum dated [●], [2018] (the "Offering Memorandum"). This Pricing Supplement is supplemental to and must be read in conjunction with such Offering Memorandum.

[The following alternative language applies if the first tranche of an issue which is being increased was issued under an Offering Memorandum with an earlier date.

Terms used herein shall be deemed to be defined as such for the purposes of the terms and conditions (the "Conditions") set forth in the Offering Memorandum dated [original date]. The Pricing Supplement contains the final terms of the Notes and must be read in conjunction with the Offering Memorandum dated [current date], save in respect of the Conditions which are extracted from the Offering Memorandum dated [original date] and are attached hereto.]

[Include whichever of the following apply or specify as "Not Applicable" (N/A). Note that the numbering should remain as set out below, even if "Not Applicable" is indicated for individual paragraphs or sub-paragraphs. Italics denote directions for completing the Pricing Supplement.]

[If the Notes have a maturity of less than one year from the date of their issue, the minimum denomination may need to be £100,000 or its equivalent in any other currency.]

1.	Issuer:		Korea Expressway Corporation
2.	(i)	Series Number:	[●]
	(ii)	Tranche Number:	[●] (*If re-opening fungible with an existing Series, details of that Series, including the date on which the Notes become fungible*)
	(iii)	Re-opening:	[Yes/No] *[Specify terms of initial or eventual fungibility]*
3.	Specified Currency or Currencies:		[●]
4.	Aggregate Nominal Amount:		
	(i)	Series:	[●]
	(ii)	Tranche:	[●]
5.	(a)	Issue Price:	[●]% of the Aggregate Nominal Amount [plus accrued interest from [insert date] *(in the case of fungible issues only, if applicable*)]
	(b)	Net proceeds: (*Required only for listed issues*)]	[●]
	(c)	Use of proceeds: (*as described in the offering memorandum/describe*)	[●]

6.	(i)	Specified Denominations:	[●] *(N.B. In the case of Registered Notes, this means the minimum integral amount in which transfers can be made. For Registered Global Notes, consider including language substantially to the following effect (however, appropriate amendments should be made for different currencies) "[€100,000] and integral multiples of [€1,000] in excess thereof")* *(N.B. In the case of Bearer Notes with a Specified Denomination and higher integral multiples above the minimum denomination, consider including language substantially to the following effect (however, appropriate amendments should be made for different currencies):* *"[U.S.$200,000] and integral multiples of [U.S.$1,000] in excess thereof, up to and including [U.S.$499,000] and, for so long as the Notes are represented by a Global Note (as defined below) and Euroclear and Clearstream so permit, the Notes shall be tradable only in the minimum authorized denomination of [U.S.$200,000] and higher integral multiples of [U.S.$1,000], notwithstanding that no definitive notes will be issued with a denomination above [U.S.$499,000].")*
	(ii)	Calculation Amount:	[●] *(If there is only one Specified Denomination, insert the Specified Denomination. If there are more than one Specified Denomination, insert the highest common factor. Note: There must be a common factor in the case of two or more Specified Denominations.)*
7.	(i)	Issue Date:	[●]
	(ii)	Interest Commencement Date:	[*specify*/Issue Date/Not Applicable] *(N.B. An Interest Commencement Date will not be relevant for certain Notes, for example Zero Coupon Notes.)*
8.	Maturity Date:		[*Fixed rate — specify date/Floating rate —* Interest Payment Date falling in or nearest to[specify month and year]] [2]
9.	Interest Basis:		[[●]% Fixed Rate] [[LIBOR/EURIBOR/HIBOR]

2 Note that for Hong Kong dollar denominated Fixed Rate Notes where the Interest Payment Dates are subject to modification it will be necessary to use the Floating Rate wording here.

		+/- [●]% Floating Rate] [Zero Coupon] [Index Linked Interest] [Dual Currency Interest] [*specify other*] (further particulars specified below)
10.	Redemption/Payment Basis:	[Redemption at par] [Index Linked Redemption] [Dual Currency Redemption] [Partly Paid] [Installment] [*specify other*]
11.	Change of Interest Basis or Redemption/Payment Basis:	[*Specify details of any provision for change of Notes into another Interest Basis or Redemption/Payment Basis*]
12.	Put/Call Options:	[Investor Put] [Issuer Call] [(further particulars specified below)]
13.	Listing:	[Singapore Exchange Securities Trading Limited/*specify other*/None]
14.	Method of distribution:	[Syndicated/Non-syndicated]

PROVISIONS RELATING TO INTEREST (IF ANY) PAYABLE

15.	Fixed Rate Note Provisions	[Applicable/Not Applicable] (*If not applicable, delete the remainder of this paragraph*)
	(i) Rate(s) of Interest:	[●]% per annum [payable annually/semi-annually/quarterly/other (*specify*) in arrear] (*If payable other than annually, consider amending Condition 5 (Interest)*)
	(ii) Interest Payment Date(s):	[[●] in each year up to and including the Maturity Date]/[*specify other*] [3] (*NB: This will need to be amended in the case of long or short coupons*)

[3] Note that for certain Hong Kong dollar denominated Fixed Rate Notes, the Interest Payment Dates are subject to modification and the following words should be added: "provided that if any Interest Payment Date falls on a day which is not a Business Day, the Interest Payment Date will be the next succeeding Business Day unless it would thereby fall in the next calendar month in which event the Interest Payment Date shall be brought forward to the immediately preceding Business Day. For these purposes, "Business Day" means a day on which commercial banks and foreign exchange markets settle payments and are open for general business (including dealing in foreign exchange and currency deposits) in Hong Kong and [●]."

	(iii)	Fixed Coupon Amount(s): (*Applicable to Notes in definitive form*)	[●] per Calculation Amount[4]
	(iv)	Broken Amount(s): (*Applicable to Notes in definitive form*)	[●] per Calculation Amount, payable on the Interest Payment Date falling [in/on] [●]*[Insert particulars of any initial or final broken interest amounts which do not correspond with the Fixed Coupon Amount]*
	(v)	Day Count Fraction:	[Actual/Actual (ICMA) or 30/360 or *specify other*]
	(vi)	Determination Date[s]:	[●] in each year [*Insert regular interest payment dates, ignoring issue date or maturity date in the case of a long or short first or last coupon* *(NB: This will need to be amended in the case of regular interest payment dates which are not of equal duration*.) *(NB: Only relevant where Day Count Fraction is Actual/Actual (ICMA*))
	(vii)	Other terms relating to the method of calculating interest for Fixed Rate Notes:	[None/*Give details*]
16.	Floating Rate Note Provisions		[Applicable/Not Applicable] (*If not applicable, delete the remainder of this paragraph*)
	(i)	Specified Period(s)/Specified Interest Payment Dates:	[●]
	(ii)	Business Day Convention:	[Floating Rate Convention/Following Business Day Convention/Modified Following Business Day Convention/Preceding Business Day Convention/ [*specify other*]]
	(iii)	Additional Business Center(s):	[●] *(Insert the City of New York for U.S. dollar denominated Notes to be held through DTC and for non-U.S. dollar denominated Notes where exchange into U.S. dollars is contemplated for DTC participants holding through Euroclear and Clearstream)*
	(iv)	Manner in which the Rate of Interest and Interest Amount are to be determined:	[Screen Rate Determination/ISDA Determination/ *specify other*]

4 For Hong Kong dollar denominated Fixed Rate Notes where the Interest Payment Dates are subject to modification the following wording is appropriate: "Each Fixed Coupon Amount shall be calculated by applying the Rate of Interest to each Specified Denomination, multiplying such sum by the actual number of days in the Accrual Period (as defined in Condition 5.1(a)) divided by 365 and rounding the resultant figure to the nearest HK$0.01, HK$0.005 being rounded upwards."

(v)	Party responsible for calculating the Rate of Interest and Interest Amount (if not the Agent):	[●]
(vi)	Screen Rate Determination:	
	— Reference Rate:	[●] (*Either LIBOR, EURIBOR, HIBOR or other, although additional information is required if other — including fallback provisions in the Agency Agreement*)
	— Interest Determination Date(s):	[●] (*Second London business day prior to the start of each Interest Period if LIBOR (other than Sterling, Hong Kong dollar or Euro Libor), first day of each Interest Period if Sterling or Hong Kong dollar LIBOR or HIBOR and the second day on which the TARGET2 System is open prior to the start of each Interest Period if EURIBOR or Euro Libor*)
	— Relevant Screen Page:	[●] *(In the case of EURIBOR, if not Reuters Page EURIBOR01 ensure it is a page which shows a composite rate or amend the fallback provisions appropriately)*
(vii)	ISDA Determination:	
	— Floating Rate Option:	[●] *(if not on the same basis as the floating rate under a notional interest rate swap transaction in the relevant Specified Currency governed by an agreement incorporating the 2006 ISDA Definitions, the Issuer shall describe the basis here)*
	— Designated Maturity:	[●]
	— Reset Date:	[●]
(viii)	Margin(s):	[+/-][●]% per annum
(ix)	Minimum Rate of Interest:	[●]% per annum
(x)	Maximum Rate of Interest:	[●]% per annum
(xi)	Day Count Fraction:	[Actual/Actual (ISDA) Actual/365 (Fixed) Actual/365 (Sterling) Actual/360 30/360, 360/360 or Bond Basis 30E/360 or Eurobond Basis 30E/360 (ISDA) *Other*] (*See Condition 5 (Interest) for alternatives*)

	(xii)	Fall back provisions, rounding provisions and any other terms relating to the method of calculating interest on Floating Rate Notes, if different from those set out in the Conditions:	[●]
17.	Zero Coupon Note Provisions		[Applicable/Not Applicable] (*If not applicable, delete the remainder of this paragraph*)
	(i)	Accrual Yield:	[●]% per annum
	(ii)	Reference Price:	[●]
	(iii)	Any other formula/basis of determining amount payable:	[●]
	(iv)	Day Count Fraction in relation to Early Redemption Amounts and late payment:	[Conditions 7.7(c) (*Redemption and Purchase—Early Redemption Amounts*) and 7.12 (*Redemption and Purchase—Late payment on Zero Coupon Notes*) apply/*specify other*] (*Consider applicable day count fraction if not U.S. dollar denominated*)
18.	Index Linked Interest Note Provisions		[Applicable/Not Applicable] (*If not applicable, delete the remainder of this paragraph*)
	(i)	Index/Formula:	[*give or annex details*]
	(ii)	Calculation Agent:	[*give name*]
	(iii)	Party responsible for calculating the Rate of Interest (if not the Calculation Agent) and Interest Amount (if not the Principal Paying Agent):	[●]
	(iv)	Provisions for determining Coupon where calculation by reference to Index and/or Formula is impossible or impracticable:	[*need to include a description of market disruption or settlement disruption events and adjustment provisions*]
	(v)	Specified Period(s)/Specified Interest Payment Dates:	[●]
	(vi)	Business Day Convention:	[Floating Rate Convention/Following Business Day Convention/Modified Following Business Day Convention/ Preceding Business Day Convention/ *specify other*]

(vii)	Additional Business Center(s):	[●]
(viii)	Minimum Rate of Interest:	[●]% per annum
(ix)	Maximum Rate of Interest:	[●]% per annum
(x)	Day Count Fraction:	[Actual/Actual (ISDA) Actual/365 (Fixed) Actual/365 (Sterling) Actual/360 30/360, 360/360 or Bond Basis 30E/360 or Eurobond Basis 30E/360 (ISDA) *Other*] (*See Condition 5 (Interest) for alternatives*)

19.	Dual Currency Note Provisions	[Applicable/Not Applicable] (*If not applicable, delete the remainder of this paragraph*)
(i)	Rate of Exchange/method of calculating Rate of Exchange:	[*give or annex details*]
(ii)	Party, if any, responsible for calculating the principal and/or interest due (if not the Principal Paying Agent):	[●]
(iii)	Provisions applicable where calculation by reference to Rate of Exchange impossible or impracticable:	[*need to include a description of market disruption or settlement disruption events and adjustment provisions*]
(iv)	Person at whose option Specified Currency(ies) is/are payable:	[●]

PROVISIONS RELATING TO REDEMPTION

20.	Issuer Call	[Applicable/Not Applicable] (*If not applicable, delete the remainder of this paragraph*)
(i)	Optional Redemption Date(s):	[●]
(ii)	Optional Redemption Amount and method, if any, of calculation of such amount(s):	[[●] per Calculation Amount/*specify other*/see Appendix]

	(iii)	If redeemable in part:		
		(a)	Minimum Redemption Amount:	[●]
		(b)	Maximum Redemption Amount:	[●]
	(iv)	Notice period (if other than as set out in the Conditions):		[●] (*N.B. If setting notice periods which are different to those provided in the Conditions, the Issuer is advised to consider the practicalities of distribution of information through intermediaries, for example, clearing systems and custodians, as well as any other notice requirements which may apply, for example, as between the Issuer and the Principal Paying Agent*)
21.	Investor Put			[Applicable/Not Applicable] (*If not applicable, delete the remainder of this paragraph*)
	(i)	Optional Redemption Date(s):		[●]
	(ii)	Optional Redemption Amount of each Note and method, if any, of calculation of such amount(s):		[[●] per Calculation Amount/*specify other*/see Appendix]
	(iii)	Notice period (if other than as set out in the Conditions):		[●] (*N.B. If setting notice periods which are different to those provided in the Conditions, the Issuer is advised to consider the practicalities of distribution of information through intermediaries, for example, clearing systems and custodians, as well as any other notice requirements which may apply, for example, as between the Issuer and the Principal Paying Agent*)
22.	Final Redemption Amount of each Note:			[[●] per Calculation Amount/*specify other*/see Appendix]
23.	Early Redemption Amount of each Note payable on redemption for taxation reasons or on event of default and/or the method of calculating the same (if required or if different from that set out in Condition 7.7 (*Redemption and Purchase—Early Redemption Amounts*):			[[●] per Calculation Amount/*specify other*/see Appendix]

GENERAL PROVISIONS APPLICABLE TO THE NOTES

24.	Form of Notes:	[Bearer Notes: [Temporary Bearer Global Note exchangeable for a Permanent Bearer Global Note which is exchangeable for Definitive Notes [on 60 days' notice given at any time/only upon an Exchange Event[5]]] [Temporary Bearer Global Note exchangeable for Definitive Notes on and after the Exchange Date] [Permanent Bearer Global Note exchangeable for Definitive Notes [on 60 days' notice given at any time/only upon an Exchange Event[4]]][6]] [Registered Notes: [Regulation S Global Note (US$[●] nominal amount) registered in the name of a nominee for [DTC/a common depositary for Euroclear and Clearstream]] [Rule 144A Global Note (US$[●] nominal amount) registered in the name of a nominee for [DTC/a common depositary for Euroclear and Clearstream]] [Definitive IAI Registered Notes (*specify nominal amounts*)]]
25.	Additional Financial Center(s) or other special provisions relating to Payment Days:	[Not Applicable/give details] (*Note that this item relates to the place of payment and not Interest Period end dates to which items 16(iii) and 18(vii) relate; insert the City of New York for U.S. dollar denominated Notes to be held through DTC*)
26.	Talons for future Coupons or Receipts to be attached to Definitive Bearer Notes (and dates on which such Talons mature):	[Not Applicable/*give details*]

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5 Care should be taken to ensure that circumstances in which a Temporary Bearer Global Note or Permanent Bearer Global Note is exchangeable for Definitive Notes are in compliance with requirements of the relevant clearing system.
Ensure that this is consistent with the wording in the "Form of the Notes" section in the Offering Memorandum and the Notes themselves. N.B. The exchange upon notice/at any time options should not be expressed to be applicable if the Specified Denomination of the Notes in paragraph 6 includes language substantially to the following effect: "[US$200,000] and integral multiples of [US$1,000] in excess thereof up to and including [US$499,000]." Furthermore, such Specified Denomination construction is not permitted in relation to any issue of Notes which is to be represented on issue by a Temporary Global Note exchangeable for Definitive Notes.

6 May not be used if TEFRA D rules apply.

27.	Details relating to Partly Paid Notes: amount of each payment comprising the Issue Price and date on which each payment is to be made and consequences of failure to pay, including any right of the Issuer to forfeit the Notes and interest due on late payment:	[Not Applicable/*give details*.] (*NB: new forms of Temporary Global Note and/or Permanent Global Note may be required for Partly Paid issues*)
28.	Details relating to Installment Notes:	
	(i) Installment Amount(s):	[Not Applicable/*give details*]
	(ii) Installment Date(s):	[Not Applicable/*give details*]
29.	Redenomination applicable:	Redenomination [not] applicable [(*If Redenomination is applicable, specify the applicable Day Count Fraction and any provisions necessary to deal with floating rate interest calculation (including alternative reference rates*))]
30.	(i) The rate of interest to be applied for purposes of determining the Attributable Debt as defined in Condition 4.3 (*Covenants—Interpretation*):	[●]
	(ii) Other terms or special conditions:	[Not Applicable/*give details*]

DISTRIBUTION

31.	(i) If syndicated, names of Managers:	[Not Applicable/*give names*]
	(ii) Stabilizing Manager(s)(if any):	[Not Applicable/*give name(s)*]
32.	If non-syndicated, name of relevant Dealer:	[Not Applicable/*give name*]
33.	Whether TEFRA D or TEFRA C rules applicable or TEFRA rules not applicable:	[TEFRA D/TEFRA C/TEFRA not applicable (for Bearer Notes with a maturity of one year or less (including unilateral rollovers and extensions) or Registered Notes)][7]
34.	Prohibition of Sales to EEA Retail Investors:	[Applicable/Not Applicable]
35.	Additional selling restrictions:	[Not Applicable/*give details*]

[7] Where TEFRA D rules are applicable, a Note must be issued in the form of a Temporary Bearer Global Note exchangeable upon U.S. tax certification for a Permanent Bearer Global Note or for Definitive Notes.

OPERATIONAL INFORMATION

36.	Any clearing system(s) other than Euroclear and Clearstream and the relevant identification number(s):	[Not Applicable/*give name(s) and number(s)*]
37.	Delivery:	Delivery [against/free of] payment
[38.	In the case of Registered Notes, specify the location of the office of the Registrar if other than Frankfurt:]	[Not Applicable/*specify*]
39.	Additional Paying Agent(s) (if any):	[●]

ISIN:	[●]
Common Code:	[●]
CUSIP:	[●]

(insert here any other relevant codes such as a CMU instrument number or CINS code)

LISTING APPLICATION

This Pricing Supplement comprises the details required to list the issue of Notes described herein pursuant to the US$3,500,000,000 Global Medium Term Note Program of Korea Expressway Corporation.

[The Singapore Exchange Securities Trading Limited (the "Singapore Stock Exchange") assumes no responsibility for the correctness of any of the statements made, opinions expressed or reports contained herein. Approval in-principle from, admission to the Official List of, and listing and quotation of the Notes on, the Singapore Stock Exchange are not to be taken as an indication of the merits of the Issuer, the Program or the Notes.]

RESPONSIBILITY

The Issuer accepts responsibility for the information contained in this Pricing Supplement. Signed on behalf of the Issuer:

By: ______________________________

Duly authorized signatory

If the applicable Pricing Supplement specifies any modification to the Terms and Conditions of the Notes as described herein, it is envisaged that, to the extent that such modification relates only to Conditions 1 (*Form, Denomination and Title*), 5 (*Interest*), 6 (*Payments*), 7 (*Redemption and Purchase*) (except Condition 7.2 (*Redemption and Purchase—Redemption for Tax Reasons*)), 11 (*Replacement of Notes, Receipts, Coupons and Talons*), 12 (*Principal Paying Agent, Registrar, Exchange Agent, Paying and Transfer Agents*), 13 (*Exchange of Talons*), 14 (*Notices*) (insofar as Notes are not listed or admitted to trading on any stock exchange) or 16 (*Further Issues*), they will not necessitate the preparation of a supplement to this Offering Memorandum. If the Terms and Conditions of the Notes of any Series are to be modified in any other respect, a supplement to this Offering Memorandum will be prepared, if appropriate.

TERMS AND CONDITIONS OF THE NOTES

The following are the Terms and Conditions of the Notes which will be incorporated by reference into each Global Note (as defined below) and each definitive Note, in the latter case only if permitted by the rules of the relevant stock exchange (if any) and agreed by the Issuer and the relevant Dealer at the time of issue but, if not so permitted and agreed, such definitive Note will have endorsed thereon or attached thereto such Terms and Conditions. The applicable Pricing Supplement in relation to any Tranche of Notes may specify other terms and conditions which shall, to the extent so specified or to the extent inconsistent with the following Terms and Conditions, replace or modify the following Terms and Conditions for the purpose of such Notes. The applicable Pricing Supplement (or the relevant provisions thereof) will be endorsed upon, or attached to, each Global Note and definitive Note. Reference should be made to "Form of the Notes" above for a description of the content of Pricing Supplements which will include the definitions of certain terms used in the following Conditions or specify which of such terms are to apply in relation to the relevant Notes. Reference herein to "Condition" shall be to the Terms and Conditions set forth below.

This Note is one of a Series (as defined below) of Notes issued by Korea Expressway Corporation (formerly Korea Highway Corporation, the "Issuer") pursuant to the Agency Agreement (as defined below).

References herein to the "Notes" shall be references to the Notes of this Series and shall mean:

(a) in relation to any Notes represented by a global Note (a "Global Note"), units of the lowest Specified Denomination in the Specified Currency;

(b) any definitive Notes in bearer form ("Bearer Notes") issued in exchange for a Global Note in bearer form;

(c) any Global Note; and

(d) any definitive Notes in registered form ("Registered Notes") (whether or not issued in exchange for a Global Note in registered form).

The Notes, the Receipts (as defined below) and the Coupons (as defined below) have the benefit of the Amended and Restated Agency Agreement (such Agreement as modified and/or supplemented and/or restated from time to time, the "Agency Agreement") dated October 12, 2012 and made between the Issuer, Citibank, N.A., London Branch, as principal paying agent (the "Principal Paying Agent," which expression shall include any successor principal paying agent, and, together with any additional paying agents appointed in accordance with the Agency Agreement, the "Paying Agents," which expression shall, unless the context otherwise requires, include any successor paying agents), as transfer agent (the "Transfer Agent," which expression shall include any successor to any of Citibank, N.A., London Branch in its capacity as such and any substitute or any additional transfer agents appointed in accordance with the Agency Agreement), and as exchange agent (the "Exchange Agent," which expression shall include any successor to Citibank, N.A., London Branch in its capacity as such and any substitute or any additional exchange agent appointed in accordance with the Agency Agreement), and Citigroup Global Markets Europe AG as registrar (the "Registrar," which expression shall include any successor registrar).

Interest bearing Bearer Notes in definitive form ("Definitive Bearer Notes") have interest coupons ("Coupons") and, if indicated in the applicable Pricing Supplement, talons for further Coupons ("Talons") attached on issue. Any reference herein to Coupons or coupons shall, unless the context otherwise requires, be deemed to include a reference to Talons or talons. Definitive Bearer Notes repayable in installments have receipts ("Receipts") for the payment of the installments of principal (other than the final installment) attached on issue. Registered Notes and Global Notes do not have Receipts, Coupons or Talons attached on issue.

The Pricing Supplement for this Note (or the relevant provisions thereof) is attached to or endorsed on this Note and supplements these Conditions and may specify other terms and conditions which shall, to the extent so specified or to the extent inconsistent with these Conditions, replace or modify these Conditions for the purposes of this Note. References to the "applicable Pricing Supplement" are to the Pricing Supplement (or the relevant provisions thereof) attached to or endorsed on this Note.

Any reference to "Noteholders" or "holders" in relation to any Notes shall mean (in the case of Bearer Notes) the holders of the Notes and (in the case of Registered Notes) the persons in whose name the Notes are registered and shall, in relation to any Notes represented by a Global Note, be construed as provided below. Any reference herein to "Receiptholders" shall mean the holders of the Receipts and any reference herein to "Couponholders" shall mean the holders of the Coupons, and shall, unless the context otherwise requires, include the holders of the Talons.

As used herein, "Tranche" means Notes which are identical in all respects (including as to listing and admission to trading) and "Series" means a Tranche of Notes together with any further Tranche or Tranches of Notes which are (i) expressed to be consolidated and form a single series and (ii) identical in all respects (including as to listing and admission to trading) except for their respective Issue Dates, Interest Commencement Dates (if applicable) and/or Issue Prices (if applicable).

Copies of the Agency Agreement and the Pricing Supplement applicable to this Note are available for inspection and collection, free of charge, during normal business hours at the specified office of each of the Paying Agents, the Registrar and the Transfer Agents (such Agents and the Registrar being together referred to as the "Agents") save that, if this Note is an unlisted Note of any Series, the applicable Pricing Supplement will only be available for inspection by a Noteholder holding one or more unlisted Notes of that Series and such Noteholder must produce evidence satisfactory to the relevant Agent as to its holding of such Notes and identity. The Noteholders, the Receiptholders and the Couponholders are deemed to have notice of, and are entitled to the benefit of and are bound by, all the provisions of the Agency Agreement and the applicable Pricing Supplement which are applicable to them. The statements in these Conditions include summaries of, and are subject to, the detailed provisions of the Agency Agreement.

Words and expressions defined in the Agency Agreement or used in the applicable Pricing Supplement shall have the same meanings where used in these Conditions unless the context otherwise requires or unless otherwise stated and provided that, in the event of inconsistency between the Agency Agreement and the applicable Pricing Supplement, the applicable Pricing Supplement will prevail.

1. Form, Denomination and Title

The Notes may be in bearer form or in registered form as specified in the applicable Pricing Supplement and, in the case of definitive Notes, will be serially numbered, in the Specified Currency and the Specified Denomination(s). Except as provided in Condition 2 (*Transfers of Registered Notes*), Notes of one Specified Denomination may not be exchanged for Notes of another Specified Denomination and Bearer Notes may not be exchanged for Registered Notes and vice versa.

This Note may be a Fixed Rate Note, a Floating Rate Note, a Zero Coupon Note, an Index Linked Interest Note, a Dual Currency Interest Note or a combination of any of the foregoing, depending upon the Interest Basis shown in the applicable Pricing Supplement.

This Note may be an Index Linked Redemption Note, an Installment Note, a Dual Currency Redemption Note, a Partly Paid Note or a combination of any of the foregoing, depending upon the Redemption/Payment Basis shown in the applicable Pricing Supplement.

Definitive Bearer Notes are issued with Coupons and (if applicable) Receipts and Talons attached, unless they are Zero Coupon Notes in which case references to Coupons and Couponholders in these Conditions are not applicable.

Subject as set out below, title to the Bearer Notes, Receipts and Coupons will pass by delivery and title to the Registered Notes will pass upon registration of transfers in accordance with the provisions of the Agency Agreement. The Issuer and any Agent will (except as otherwise required by law) deem and treat the bearer of any Bearer Note, Receipt or Coupon and the registered holder of any Registered Note as the absolute owner thereof (whether or not overdue and notwithstanding any notice of ownership or writing thereon or notice of any previous loss or theft thereof) for all purposes but, in the case of any Global Note, without prejudice to the provisions set out in the next succeeding paragraph.

For so long as any of the Notes is represented by a Global Note held on behalf of Euroclear Bank S.A./N.V. ("Euroclear") and/or Clearstream Banking, S.A. ("Clearstream"), each person (other than Euroclear or Clearstream) who is for the time being shown in the records of Euroclear or of Clearstream as the holder of a particular nominal amount of such Notes (in which regard any certificate or other document issued by Euroclear or Clearstream as to the nominal amount of such Notes standing to the account of any person shall be conclusive and binding for all purposes save in the case of manifest error) shall be treated by the Issuer and the Agents as the holder of such nominal amount of such Notes for all purposes other than with respect to the payment of principal or interest on such nominal amount of such Notes, for which purpose the bearer of the relevant Bearer Global Note or the registered holder of the relevant Registered Global Note shall be treated by the Issuer and any Agent as the holder of such nominal amount of such Notes in accordance with and subject to the terms of the relevant Global Note (and the expressions "Noteholder" and "holder of Notes" and related expressions shall be construed accordingly). For so long as The Depository Trust Company ("DTC") or its nominee is the registered owner or holder of a Registered Global Note, DTC or such nominee, as the case may be, will be considered the sole owner or holder of the Notes represented by such Registered Global Note for all purposes under the Agency Agreement and the Notes except to the extent that in accordance with DTC's published rules and procedures any ownership rights may be exercised by its participants or beneficial owners through participants.

Notes which are represented by a Global Note will be transferable only in accordance with the rules and procedures for the time being of Euroclear, Clearstream and DTC, as the case may be. References to Euroclear, Clearstream and/or DTC shall, whenever the context so permits, be deemed to include a reference to any additional or alternative clearing system approved by the Issuer and the Principal Paying Agent and specified in the applicable Pricing Supplement.

2. Transfers of Registered Notes

2.1 Transfers of interests in Registered Global Notes

Transfers of beneficial interests in Registered Global Notes will be effected by DTC, Euroclear or Clearstream, as the case may be, and, in turn, by other participants and, if appropriate, indirect participants in such clearing systems acting on behalf of beneficial transferors and transferees of such interests. A beneficial interest in a Registered Global Note will, subject to compliance with all applicable legal and regulatory restrictions, be transferable for Notes in definitive form or for a beneficial interest in another Registered Global Note only in the authorized denominations set out in the applicable Pricing Supplement and only in accordance with the rules and operating procedures for the time being of DTC, Euroclear or Clearstream, as the case may be, and in accordance with the terms and conditions specified in the Agency Agreement. Transfers of a Registered Global Note registered in the name of a nominee for DTC shall be limited to transfers of such Registered Global Note, in whole but not in part, to another nominee of DTC or to a successor of DTC or such successor's nominee.

2.2 Transfers of Registered Notes in definitive form

Subject as provided in Conditions 2.5 (*Transfers of Registered Notes—Transfers of interest in Regulation S Global Notes*), 2.6 (*Transfers of Registered Notes—Transfers of interest in Legended Notes*) and 2.7 (*Transfers of Registered Notes—Exchanges and transfers of Registered Notes generally*) below, upon the terms and subject to the conditions set forth in the Agency Agreement, a Registered Note in definitive form may be transferred in whole or in part (in the authorized denominations set out in the applicable Pricing Supplement). In order to effect any such transfer (a) the holder or holders must (i) surrender the Registered Note for registration of the transfer of the Registered Note (or the relevant part of the Registered Note) at the specified office of the Registrar or any Transfer Agent, with the form of transfer thereon duly executed by the holder or holders thereof or his or their attorney or attorneys duly authorized in writing and (ii) complete and deposit such other certifications as may be required by the Registrar or, as the case may be, the relevant Transfer Agent and (b) the Registrar or, as the case may be, the relevant Transfer Agent must, after due and careful enquiry, be satisfied with the documents of title and the identity of the person making the request. Any such transfer will be subject to such reasonable regulations as the Issuer and the Registrar may from time to time prescribe (the initial such regulations being set out in Schedule 8 to the Agency Agreement). Subject as provided above, the Registrar or, as the case may be, the relevant Transfer Agent will, within three business days (being for this purpose a day on which banks are open for business in the city where the specified office of the Registrar or, as the case may be, the relevant Transfer Agent is located) of the request (or such longer period as may be required to comply with any applicable fiscal or other laws or regulations), authenticate, deliver, or procure the authentication and delivery of, at its specified office to the transferee or (at the risk of the transferee) send by uninsured mail, to such address as the transferee may request, a new Registered Note in definitive form of a like aggregate nominal amount to the Registered Note (or the relevant part of the Registered Note) transferred. In the case of the transfer of part only of a Registered Note in definitive form, a new Registered Note in definitive form in respect of the balance of the Registered Note not transferred will be so authenticated and delivered or (at the risk of the transferor) sent to the transferor.

2.3 Registration of transfer upon partial redemption

In the event of a partial redemption of Notes under Condition 7 (*Redemption and Purchase*), the Issuer shall not be required to register the transfer of any Registered Note, or part of a Registered Note, called for partial redemption.

2.4 Costs of registration

Noteholders will not be required to bear the costs and expenses of effecting any registration of transfer as provided above, except for any costs or expenses of delivery other than by regular uninsured mail and except that the Issuer may require the payment of a sum sufficient to cover any stamp duty, tax or other governmental charge that may be imposed in relation to the registration.

2.5 Transfers of interests in Regulation S Global Notes

Prior to expiry of the applicable Distribution Compliance Period, transfers by the holder of, or of a beneficial interest in, a Regulation S Global Note to a transferee in the United States or who is a U.S. person will only be made:

(a) upon receipt by the Transfer Agent of a written certification substantially in the form set out in the Agency Agreement, amended as appropriate (a "Transfer Certificate"), copies of which are available from the specified office of the Registrar or any Transfer Agent, from the transferor of the Note or beneficial interest therein to the effect that such transfer is being made:

    (i) to a person whom the transferor reasonably believes is a QIB in a transaction meeting the requirements of Rule 144A; or

    (ii) to a person who is an Institutional Accredited Investor, in which case the Transfer Certificate must be accompanied by a duly executed investment letter from the relevant transferee substantially in the form set out in the Agency Agreement (an "IAI Investment Letter"); or

(b) otherwise pursuant to the Securities Act or an exemption therefrom, subject to receipt by the Issuer of such satisfactory evidence as the Issuer may reasonably require, which may include an opinion of U.S. counsel, that such transfer is in compliance with any applicable federal securities laws of the United States or any applicable securities laws of any state of the United States,

and, in each case, in accordance with any applicable securities laws of any state of the United States or any other jurisdiction.

In the case of (i) above, such transferee may take delivery through a Legended Note in global or definitive form and, in the case of (ii) above, such transferee may take delivery only through a Legended Note in definitive form. After expiry of the applicable Distribution Compliance Period (a) beneficial interests in Regulation S Global Notes registered in the name of a nominee for DTC may be held through DTC directly, by a participant in DTC, or indirectly through a participant in DTC and (b) such certification requirements will no longer apply to such transfers.

2.6 Transfers of interests in Legended Notes

Transfers of Legended Notes or beneficial interests therein may be made:

(a) to a transferee who takes delivery of such interest through a Regulation S Global Note, upon receipt by the Transfer Agent of a duly completed Transfer Certificate from the transferor to the effect that such transfer is being made in accordance with Regulation S and that, in the case of a Regulation S Global Note registered in the name of a nominee for DTC, if such transfer is being made prior to expiry of the applicable Distribution Compliance Period, the interests in the Notes being transferred will be held immediately thereafter through Euroclear and/or Clearstream; or

(b) to a transferee who takes delivery of such interest through a Legended Note:

(i) where the transferee is a person whom the transferor reasonably believes is a QIB in a transaction meeting the requirements of Rule 144A, without certification; or

(ii) where the transferee is an Institutional Accredited Investor, subject to delivery to the Registrar of a Transfer Certificate from the transferor to the effect that such transfer is being made to an Institutional Accredited Investor, together with a duly executed IAI Investment Letter from the relevant transferee; or

(c) otherwise pursuant to the Securities Act or an exemption therefrom, subject to receipt by the Issuer of such satisfactory evidence as the Issuer may reasonably require, which may include an opinion of U.S. counsel, that such transfer is in compliance with any applicable federal securities laws of the United States or any applicable securities laws of any state of the United States;

and in each case, in accordance with any applicable securities laws of any state of the United States or any other jurisdiction.

Notes transferred by Institutional Accredited Investors to QIBs pursuant to Rule 144A or outside the United States pursuant to Regulation S will be eligible to be held by such QIBs or non-U.S. investors through DTC, Euroclear or Clearstream, as appropriate, and the Registrar will arrange for any Notes which are the subject of such a transfer to be represented by the appropriate Registered Global Note, where applicable.

Upon the transfer, exchange or replacement of Legended Notes, or upon specific request for removal of the Legend, the Registrar shall deliver only Legended Notes or refuse to remove the Legend, as the case may be, unless there is delivered to the Issuer such satisfactory evidence as may reasonably be required by the Issuer, which may include an opinion of U.S. counsel, that neither the Legend nor the restrictions on transfer set forth therein are required to ensure compliance with the provisions of the Securities Act.

2.7 Exchanges and transfers of Registered Notes generally

Holders of Registered Notes in definitive form, other than Institutional Accredited Investors, may exchange such Notes for interests in a Registered Global Note of the same type at any time.

2.8 Closed Periods

No Noteholder may require the transfer of a Registered Note to be registered during the period of 15 days ending on the due date for any payment of principal or interest or payment on that Note.

2.9 Costs of exchange or registration

Registration of transfers will be effected without charge by or on behalf of the Issuer, the Registrar or the relevant Transfer Agent, but upon payment (or the giving of such indemnity as the Registrar or the relevant Transfer Agent may reasonably require) in respect of any tax or other governmental charges which may be imposed in relation to it provided that the Issuer shall not be responsible for any documentary stamp tax payable on the transfer of Notes effected in the Republic of Korea ("Korea") unless the Issuer is the counterparty directly liable for that documentary stamp tax.

2.10 Definitions

In this Condition, the following expressions shall have the following meanings:

"Distribution Compliance Period" means the period that ends 40 days after the completion of the distribution of each Tranche of Notes, as certified by the relevant Dealer (in the case of a non-syndicated issue) or the relevant Lead Manager(s) (in the case of a syndicated issue);

"Exchange Act" means the U.S. Securities Exchange Act of 1934, as amended;

"Institutional Accredited Investor" means "accredited investors" (as defined in Rule 501(a)(1), (2), (3) or (7) under the Securities Act that are institutions;

"Legended Note" means Registered Notes in definitive form that are issued to Institutional Accredited Investors and Registered Notes (whether in definitive form or represented by a Registered Global Note) sold in private transactions to QIBs in accordance with the requirements of Rule 144A which bear a legend specifying certain restrictions on transfer;

"QIB" means a "qualified institutional buyer" within the meaning of Rule 144A;

"Regulation S" means Regulation S under the Securities Act;

"Regulation S Global Note" means a Registered Global Note representing Notes sold outside the United States in reliance on Regulation S;

"Rule 144A" means Rule 144A under the Securities Act;

"Rule 144A Global Note" means a Registered Global Note representing Notes sold in the United States or to QIBs; and

"Securities Act" means the United States Securities Act of 1933, as amended.

3. Status of the Notes

The Notes and any related Receipts and Coupons are direct, unconditional and (subject to Condition 4.1 (*Covenants—Limitation on Liens*)) unsecured obligations of the

Issuer which rank pari passu among themselves and at least pari passu with all other present and future unsecured (subject to Condition 4.1 (*Covenants—Limitation on Liens*) and unsubordinated obligations of the Issuer, save for such as may be preferred by generally applicable mandatory provisions of applicable law.

4. Covenants

4.1 Limitation on Liens

So long as any of the Notes of this Series remains outstanding, the Issuer will not, and the Issuer will not permit any Subsidiary to, create, incur, issue or assume or guarantee any External Indebtedness secured by any Security Interest on any Principal Property owned by the Issuer or any Restricted Subsidiary without in any such case effectively providing that the Notes shall be secured equally and ratably with or prior to such secured External Indebtedness unless, after giving effect thereto, the aggregate principal amount of all such secured External Indebtedness would not exceed 10% of Net Assets as of the date of such creation, incurrence, issuance or assumption or guarantee of such External Indebtedness; provided that nothing contained in this Condition 4.1 shall prevent, restrict or apply to, and there shall be excluded from secured External Indebtedness in any computation under this Condition 4.1, External Indebtedness secured by:

(a) Security Interests on any property, shares of stock or indebtedness of any corporation existing at the time such corporation becomes a Subsidiary or arising thereafter pursuant to contractual commitments entered into prior to and not in contemplation of such corporation becoming a Subsidiary;

(b) Security Interests on any property, shares of stock or indebtedness existing at the time of acquisition thereof (including acquisition through merger or consolidation) or arising thereafter pursuant to contractual commitments entered into prior to and not in contemplation of the acquisition of such property, shares of stock or indebtedness;

(c) Security Interests on any Principal Property securing the payment of all or any part of the purchase price or cost of construction or improvement of any Principal Property or securing any indebtedness incurred prior to, at the time of or within 12 months after the acquisition of such Principal Property or the completion of any such construction or improvement, whichever is later, for the purpose of financing all or any part of the purchase price or cost of construction or improvement thereof (provided such Security Interests are limited to such Principal Property, improvements on such Principal Property and any other property or assets not constituting a Principal Property prior to such construction or improvement);

(d) Security Interests which secure indebtedness owing to the Issuer;

(e) any extension, renewal, alteration or replacement (or successive extensions, renewals, alterations or replacements) in whole or in part, of any Security Interest referred to in Conditions 4.1(a) to (d) above, or any refinancing of External Indebtedness, or a portion thereof, secured by a Security Interest referred to in Conditions 4.1(a) to (d) above; provided that the principal amount of External Indebtedness secured thereby shall not exceed the principal amount of External Indebtedness so secured at the time of such extension, renewal, alteration or replacement or the principal amount of External Indebtedness being refinanced, and that such extension, renewal, alteration, replacement or refinancing shall be limited to all or a part of the property (plus improvements on such property) which secured the Security Interest so extended, renewed, altered or replaced or relating to the External Indebtedness so refinanced; and

(f) Security Interests arising by operation of law.

For the purposes of this Condition 4.1, the giving of a guarantee which is secured by a Security Interest on a Principal Property, and the creation of a Security Interest on a Principal Property to secure External Indebtedness which existed prior to the creation of such Security Interest, shall be deemed to involve the creation of indebtedness in an amount equal to the principal amount guaranteed or secured by such Security Interest; but the amount of indebtedness secured by Security Interests on Principal Properties shall be computed without cumulating the underlying indebtedness with any guarantee thereof or Security Interest securing the same.

4.2 Limitation upon Sale and Leaseback Transactions

So long as any of the Notes of this Series remains outstanding, the Issuer will not, and the Issuer will not permit any Restricted Subsidiary to, enter into any arrangement after the date of the applicable Pricing Supplement with any Person (other than the Issuer) providing for the leasing by the Issuer or any Restricted Subsidiary of any Principal Property (except a lease for a temporary period not to exceed three years by the end of which it is intended that the use of such Principal Property by the lessee will be discontinued), which was or is owned by the Issuer and which has been or is to be sold or transferred to such Person or to any other Person to whom funds are advanced by such Person or to any other Person to whom funds have been or are to be advanced by such Person on the security of such Principal Property (herein referred to as a "sale and leaseback transaction") unless either:

(a) the Attributable Debt of the Issuer and its Restricted Subsidiaries in respect of such sale and leaseback transaction and all other, sale and leaseback transactions entered into after the date of the applicable Pricing Supplement (other than such sale and leaseback transactions as are permitted by Condition 4.2(b) below), plus the aggregate principal amount of External Indebtedness secured by Security Interests on Principal Properties then outstanding (excluding any such External Indebtedness secured by Security Interests described in paragraphs (a) through (f) of Condition 4.1) without equally and ratably securing the Notes, would not exceed 10% of Net Assets as of the date of such sale and leaseback transaction; or

(b) the Issuer, within 12 months after the sale or transfer, applies or causes a Restricted Subsidiary to apply an amount equal to the greater of (i) the net proceeds of such sale or transfer or (ii) the fair market value of the property so sold and leased back at the time of entering into such sale and leaseback transaction (in each case as determined in good faith by the Issuer) to the retirement of External Indebtedness of the Issuer or a Restricted Subsidiary which is not subordinate to the Notes.

4.3 Interpretation

In these Conditions, the following expressions shall have the following meanings:

"Attributable Debt" means, as to any lease, at the date of determination, the total net amount of rent required to be paid under such lease during the remaining term thereof including renewal terms at the option of the lessor (excluding amounts on account of maintenance and repairs, insurance, taxes, assessments, water rates and similar charges and contingent rents), discounted from their respective due dates at the rate of interest specified in the applicable Pricing Supplement;

Notwithstanding the foregoing, where the Issuer or any Subsidiary is the lessee in any sale and leaseback transaction, Attributable Debt shall not include any External Indebtedness resulting from the guarantee by the Issuer or any other Subsidiary of the lessee's obligation thereunder.

"External Indebtedness" means any obligation for the payment or repayment of money borrowed (including any guarantees thereof) which is denominated in a currency other than the currency of Korea and which has a final maturity of one year or more from its date of incurrence or issuance;

"Long-term Debt" means any note, bond, debenture or other indebtedness for money borrowed having a maturity of more than one year from the date such indebtedness was incurred or having a maturity of less than one year but by its terms being renewable or extendible, at the option of the borrower, beyond one year from the date such evidence of indebtedness was incurred;

"Net Assets" means the total amount of the assets of the Issuer and its consolidated Subsidiaries, including investments in unconsolidated Subsidiaries, after deducting therefrom (i) all current liabilities (excluding any current liabilities constituting Long-term Debt by reason of their being renewable or extendible at the option of the Issuer or its Subsidiary) and (ii) all goodwill, trade names, trademarks, patents, unamortized debt discount and expense and other like intangible assets (other than expressway operating rights), all as set forth on the most recent statement of financial position of the Issuer and its consolidated Subsidiaries and computed in accordance with the Government Accounting Standards for Public Corporations and Quasi-governmental Institutions in the Republic of Korea;

"Person" means any individual, corporation, partnership, joint venture, association, joint-stock company, trust, unincorporated organization or government or any agency or political subdivision thereof;

"Principal Property" means any asset or property located in Korea, whether at the date of the applicable Pricing Supplement owned or thereafter acquired (including any expressway operating rights), other than any such asset or property, or portion thereof, reasonably determined by the board of directors of the Issuer not to be of material importance to the total business conducted by the Issuer and its Subsidiaries as a whole;

"Restricted Subsidiary" means any Subsidiary that owns a Principal Property.

"Security Interest" means any mortgage, pledge, lien, fixed or floating charge or other encumbrance; and

"Subsidiary" means any corporation or other entity of which securities or other ownership interests having ordinary voting power to elect a majority of the board of directors or other Persons performing similar functions are at the time directly or indirectly owned by the Issuer.

5. Interest

5.1 Interest on Fixed Rate Notes

Each Fixed Rate Note bears interest on its outstanding nominal amount (or, if it is a Partly Paid Note, the amount paid up) from (and including) the Interest Commencement Date at the rate(s) per annum equal to the Rate(s) of Interest. Interest will be payable in arrears on the Interest Payment Date(s) in each year up to (and including) the Maturity Date.

If the Fixed Rate Notes are in definitive form, except as provided in the applicable Pricing Supplement, the amount of interest payable on each Interest Payment Date in respect of the Fixed Interest Period ending on (but excluding) such date will amount to the Fixed Coupon Amount. Payments of interest on any Interest Payment Date will, if so specified in the applicable Pricing Supplement, amount to the Broken Amount so specified.

As used in these Conditions, "Fixed Interest Period" means the period from (and including) an Interest Payment Date (or the Interest Commencement Date) to (but excluding) the next (or first) Interest Payment Date.

If interest is required to be calculated for a period other than a Fixed Interest Period, such interest shall be calculated in respect of any period by applying the Rate of Interest to:

(a) in the case of Fixed Rate Notes which are represented by a Global Note, the aggregate outstanding nominal amount of the Fixed Rate Notes represented by such Global Note (or, if they are Partly Paid Notes, the aggregate amount paid up); or

(b) in the case of Fixed Rate Notes in definitive form, the Calculation Amount;

and, in each case, multiplying such sum by the applicable Day Count Fraction, and rounding the resultant figure to the nearest sub-unit of the relevant Specified Currency, half of any such sub-unit being rounded upwards or otherwise in accordance with applicable market convention. Where the Specified Denomination of a Fixed Rate Note in definitive form is a multiple of the Calculation Amount, the amount of interest payable in respect of such Fixed Rate Note shall be the product of the amount (determined in the manner provided above) for the Calculation Amount and the amount by which the Calculation Amount is multiplied to reach the Specified Denomination, without any further rounding.

"Day Count Fraction" means, in respect of the calculation of an amount of interest, in accordance with this Condition 5.1:

(a) if Actual/Actual (ICMA) is specified in the applicable Pricing Supplement:

(i) in the case of Notes where the number of days in the relevant period from (and including) the most recent Interest Payment Date (or, if none, the Interest Commencement Date) to (but excluding) the relevant payment date (the "Accrual Period") is equal to or shorter than the Determination Period during which the Accrual Period ends, the number of days in such Accrual Period divided by the product of (I) the number of days in such Determination Period and (II) the number of Determination Dates (as specified in the applicable Pricing Supplement) that would occur in one calendar year; or

(ii) in the case of Notes where the Accrual Period is longer than the Determination Period during which the Accrual Period ends, the sum of:

(A) the number of days in such Accrual Period falling in the Determination Period in which the Accrual Period begins divided by the product of (x) the number of days in such Determination Period and (y) the number of Determination Dates that would occur in one calendar year; and

(B) the number of days in such Accrual Period falling in the next Determination Period divided by the product of (x) the number of days in such Determination Period and (y) the number of Determination Dates that would occur in one calendar year; and

(b) if "30/360" is specified in the applicable Pricing Supplement, the number of days in the period from (and including) the most recent Interest Payment Date (or, if none, the Interest Commencement Date) to (but excluding) the relevant payment date (such number of days being calculated on the basis of a year of 360 days with 12 30-day months) divided by 360.

In these Conditions:

"Determination Period" means each period from (and including) a Determination Date to but excluding the next Determination Date (including, where either the Interest Commencement Date or the final Interest Payment Date is not a Determination Date, the period commencing on the first Determination Date prior to, and ending on the first Determination Date falling after, such date); and

"sub-unit" means, with respect to any currency other than Euro, the lowest amount of such currency that is available as legal tender in the country of such currency and, with respect to Euro, means one cent.

5.2 Interest on Floating Rate Notes and Index Linked Interest Notes

(a) *Interest Payment Dates*

Each Floating Rate Note and Index Linked Interest Note bears interest on its outstanding nominal amount (or, if it is a Partly Paid Note, the amount paid up) from (and including) the Interest Commencement Date and such interest will be payable in arrears on either:

(i) the Specified Interest Payment Date(s) in each year specified in the applicable Pricing Supplement; or

(ii) if no Specified Interest Payment Date(s) is/are specified in the applicable Pricing Supplement, each date (each such date, together with each Specified Interest Payment Date, an "Interest Payment Date") which falls the number of months or other period specified as the Specified Period in the applicable Pricing Supplement after the preceding Interest Payment Date or, in the case of the first Interest Payment Date, after the Interest Commencement Date.

Such interest will be payable in respect of each Interest Period (which expression shall, in these Conditions, mean the period from (and including) an Interest Payment Date (or the Interest Commencement Date) to (but excluding) the next (or first) Interest Payment Date).

If a Business Day Convention is specified in the applicable Pricing Supplement and (x) if there is no numerically corresponding day in the calendar month in which an Interest Payment Date should occur or (y) if any Interest Payment Date would otherwise fall on a day which is not a Business Day, then, if the Business Day Convention specified is:

(A) in any case where Specified Periods are specified in accordance with Condition 5.2(a)(ii) above, the Floating Rate Convention, such Interest Payment Date (a) in the case of (x) above, shall be the last day that is a Business Day in the relevant month and the provisions of (ii) below of this subparagraph (A) shall apply mutatis mutandis or 5.2(b) in the case of (y) above, shall be postponed to the next day which is a Business Day unless it would thereby fall into the next calendar month, in which event (A) such Interest Payment Date shall be brought forward to the immediately preceding Business Day and (ii) each subsequent Interest Payment Date shall be the last Business Day in the month which falls the Specified Period after the preceding applicable Interest Payment Date occurred; or

(B) the Following Business Day Convention, such Interest Payment Date shall be postponed to the next day which is a Business Day; or

(C) the Modified Following Business Day Convention, such Interest Payment Date shall be postponed to the next day which is a Business Day unless it would thereby fall into the next calendar month, in which event such Interest Payment Date shall be brought forward to the immediately preceding Business Day; or

(D) the Preceding Business Day Convention, such Interest Payment Date shall be brought forward to the immediately preceding Business Day.

In these Conditions, "Business Day" means a day which is both:

(a) a day on which commercial banks and foreign exchange markets settle payments and are open for general business (including dealing in foreign exchange and foreign currency deposits) in any Additional Business Center specified in the applicable Pricing Supplement; and

(b) either (i) in relation to any sum payable in a Specified Currency other than Euro, a day on which commercial banks and foreign exchange markets settle payments and are open for general business (including dealing in foreign exchange and foreign currency deposits) in the principal financial center of the country of the relevant Specified Currency (if other than London, the City of New York and any Additional Business Center and which if the Specified Currency is Australian dollars or New Zealand dollars shall be Melbourne or Wellington, respectively) or (ii) in relation to any sum payable in Euro, a day on which the Trans-European Automated Real Time Gross Settlement Express Transfer (TARGET2) System (the "TARGET2 System") is open.

(b) *Rate of Interest*

The Rate of Interest payable from time to time in respect of Floating Rate Notes and Index Linked Interest Notes will be determined in the manner specified in the applicable Pricing Supplement.

(i) *ISDA Determination for Floating Rate Notes*

Where ISDA Determination is specified in the applicable Pricing Supplement as the manner in which the Rate of Interest is to be determined, the Rate of Interest for each Interest Period will be the relevant ISDA Rate plus or minus (as indicated in the applicable Pricing Supplement) the Margin (if any). For the purposes of this sub-paragraph (i), "ISDA Rate" for an Interest Period means a rate equal to the Floating Rate that would be determined by the Principal Paying Agent under an interest rate swap transaction if the Principal Paying Agent were acting as Calculation Agent for that swap transaction under the terms of an agreement incorporating the 2006 ISDA Definitions, as published by the International Swaps and Derivatives Association, Inc. and as amended and updated as at the Issue Date of the first Tranche of the Notes (the "ISDA Definitions"), and under which:

(A) the Floating Rate Option is as specified in the applicable Pricing Supplement;

(B) the Designated Maturity is a period specified in the applicable Pricing Supplement; and

(C) the relevant Reset Date is either (a) if the applicable Floating Rate Option is based on the London inter-bank offered rate ("LIBOR") or on the Euro-zone inter-bank offered rate ("EURIBOR"), the first day of that Interest Period or (b) in any other case, as specified in the applicable Pricing Supplement.

For the purposes of this sub-paragraph (i), "Floating Rate," "Calculation Agent," "Floating Rate Option," "Designated Maturity" and "Reset Date" shall have the meanings given to those terms in the ISDA Definitions.

(ii) *Screen Rate Determination for Floating Rate Notes*

(A) Where Screen Rate Determination is specified in the applicable Pricing Supplement as the manner in which the Rate of Interest is to be determined, the Rate of Interest for each Interest Period will, subject as provided below, be either:

(I) the offered quotation; or

(II) the arithmetic mean (rounded if necessary to the fifth decimal place, with 0.000005 being rounded upwards) of the offered quotations,

(expressed as a percentage rate per annum) for the Reference Rate which appears or appear, as the case may be, on the Relevant Screen Page as at 11:00 a.m. (London time, in the case of a determination of LIBOR, or Brussels time, in the case of a determination of EURIBOR) (the "Specified Time") on the Interest Determination Date in question plus or minus (as indicated in the applicable Pricing Supplement) the Margin (if any), all as determined by the Principal Paying Agent. If five or more of such offered quotations are available on the Relevant Screen Page, the highest (or, if there is more than one highest quotation, one only of those quotations) and the lowest (or, if there is more than one lowest quotation, one only of those quotations) shall be disregarded by the Principal Paying Agent for the purpose of determining the arithmetic mean (rounded as provided above) of such offered quotations.

(B) If the Relevant Screen Page is not available or, if in the case of Condition 5.2(b)(ii)(A)I above, no such offered quotation appears or, in the case of Condition 5.2(b)(ii)(A)II above, fewer than three such offered quotations appear, in each case as at the Specified Time, the Principal Paying Agent shall request each of the Reference Banks (as defined below) to provide the Principal Paying Agent with its offered quotation (expressed as a percentage rate per annum) for the Reference Rate at approximately the Specified Time on the Interest Determination Date in question. If two or more of the Reference Banks provide the Principal Paying Agent with such offered quotations, the Rate of Interest for the Interest Period shall be the arithmetic mean (rounded if necessary to the fifth decimal place with 0.000005 being rounded upwards) of the offered quotations plus or minus (as appropriate) the Margin (if any), all as determined by the Principal Paying Agent.

(C) If on any Interest Determination Date one only or none of the Reference Banks provides the Principal Paying Agent with an offered quotation as provided in the preceding paragraph, the Rate of Interest for the relevant Interest Period shall be the rate per annum which the Principal Paying Agent determines as being the arithmetic mean (rounded if necessary to the fifth decimal place, with 0.000005 being rounded upwards) of the rates, as communicated to (and at the request of) the Principal Paying Agent by the Reference Banks or any two or more of them, at which such banks were offered, at approximately the Specified Time on the relevant Interest Determination Date, deposits in the Specified Currency for a period equal to that which would have been used for the Reference Rate by leading banks in the London inter-bank market (if the Reference Rate is LIBOR) or the Euro-zone inter-bank market (if the Reference Rate is EURIBOR) plus or minus (as appropriate) the Margin (if any) or, if fewer than two of the Reference Banks provide the Principal Paying Agent with offered rates, the offered rate for deposits in the Specified Currency for a period equal to that which would have been used for the Reference Rate, or the arithmetic mean (rounded as provided above) of the offered rates for deposits in the Specified Currency for a period equal to that which would have been used for the Reference Rate, at which, at approximately the Specified Time on the relevant Interest Determination Date, any one or more banks (which bank or banks is or are in the opinion of the Issuer suitable for the purpose) informs the Principal Paying Agent it is quoting to leading banks in the London inter-bank market (if the Reference Rate is LIBOR) or the Euro-zone inter-bank market (if the Reference Rate is EURIBOR) plus or minus (as appropriate) the Margin (if any), provided that, if the Rate of Interest cannot be determined in accordance with the foregoing provisions of this paragraph, the Rate of Interest shall be determined as at the last preceding Interest Determination Date (though substituting, where a different Margin is to be applied to the relevant Interest Period from that which applied to the last preceding Interest Period, the Margin relating to the relevant Interest Period, in place of the Margin relating to that last preceding Interest Period).

(D) "Reference Banks" means, in the case of a determination of LIBOR, the principal London office of four major banks in the London inter-bank market and, in the case of a determination of EURIBOR, the principal Euro-zone office of four major banks in the Euro-zone inter-bank market, in each case selected by the Principal Paying Agent or as specified in the applicable Pricing Supplement.

(E) If the Reference Rate from time to time in respect of Floating Rate Notes is specified in the applicable Pricing Supplement as being other than LIBOR or EURIBOR, the Rate of Interest in respect of such Notes will be determined as provided in the applicable Pricing Supplement.

(c) *Minimum Rate of Interest and/or Maximum Rate of Interest*

If the applicable Pricing Supplement specifies a Minimum Rate of Interest for any Interest Period, then, in the event that the Rate of Interest in respect of such Interest Period determined in accordance with the provisions of Condition 5.2(b) above is less than such Minimum Rate of Interest, the Rate of Interest for such Interest Period shall be such Minimum Rate of Interest. If the applicable Pricing Supplement specifies a Maximum Rate of Interest for any Interest Period, then, in the event that the Rate of Interest in respect of such Interest Period determined in accordance with the provisions of Condition 5.2(b) above is greater than such Maximum Rate of Interest, the Rate of Interest for such Interest Period shall be such Maximum Rate of Interest.

(d) *Determination of Rate of Interest and Calculation of Interest Amounts*

The Principal Paying Agent, in the case of Floating Rate Notes, and the Calculation Agent, in the case of Index Linked Interest Notes, will at or as soon as practicable after each time at which the Rate of Interest is to be determined, determine the Rate of Interest for the relevant Interest Period. In the case of Index Linked Interest Notes, the Calculation Agent will notify the Principal Paying Agent of the Rate of Interest for the relevant Interest Period as soon as practicable after calculating the same.

The Principal Paying Agent will calculate the amount of interest (the "Interest Amount") payable on the Floating Rate Notes or Index Linked Interest Notes for the relevant Interest Period by applying the Rate of Interest to:

(i) in the case of Floating Rate Notes or Index Linked Interest Notes which are represented by a Global Note, the aggregate outstanding nominal amount of the Notes represented by such Global Note (or, if they are Partly Paid Notes, the aggregate amount paid up); or

(ii) in the case of Floating Rate Notes or Index Linked Interest Notes in definitive form, the Calculation Amount;

and, in each case, multiplying such sum by the applicable Day Count Fraction, and rounding the resultant figure to the nearest sub-unit of the relevant Specified Currency, half of any such sub-unit being rounded upwards or otherwise in accordance with applicable market convention. Where the Specified Denomination of a Floating Rate Note or an Index Linked Interest Note in definitive form is a multiple of the Calculation Amount, the Interest Amount payable in respect of such Note shall be the product of the amount (determined in the manner provided above) for the Calculation Amount and the amount by which the Calculation Amount is multiplied to reach the Specified Denomination, without any further rounding.

"Day Count Fraction" means, in respect of the calculation of an amount of interest in accordance with this Condition 5.2:

(i) if "Actual/Actual (ISDA)" or "Actual/Actual" is specified in the applicable Pricing Supplement, the actual number of days in the Interest Period divided by 365 (or, if any portion of that Interest Period falls in a leap year, the sum of (I) the actual number of days in that portion of the Interest Period falling in a leap year divided by 366 and (II) the actual number of days in that portion of the Interest Period falling in a non-leap year divided by 365);

(ii) if "Actual/365 (Fixed)" is specified in the applicable Pricing Supplement, the actual number of days in the Interest Period divided by 365;

(iii) if "Actual/365 (Sterling)" is specified in the applicable Pricing Supplement, the actual number of days in the Interest Period divided by 365, or in the case of an Interest Payment Date falling in a leap year, 366;

(iv) if "Actual/360" is specified in the applicable Pricing Supplement, the actual number of days in the Interest Period divided by 360;

(v) if "30/360," "360/360" or "Bond Basis" is specified in the applicable Pricing Supplement, the number of days in the Interest Period divided by 360, calculated on a formula basis as follows:

$$\text{Day Count Fraction} = \frac{[360 \times (Y_2 - Y_1)] + [30 \times (M_2 - M_1)] + (D_2 - D_1)}{360}$$

where:

"Y_1" is the year, expressed as a number, in which the first day of the Interest Period falls;

"Y_2" is the year, expressed as a number, in which the day immediately following the last day of the Interest Period falls;

"M_1" is the calendar month, expressed as a number, in which the first day of the Interest Period falls;

"M_2" is the calendar month, expressed as a number, in which the day immediately following the last day of the Interest Period falls;

"D_1" is the first calendar day, expressed as a number, of the Interest Period, unless such number is 31, in which case D1 will be 30; and

"D_2" is the calendar day, expressed as a number, immediately following the last day included in the Interest Period, unless such number would be 31 and D1 is greater than 29, in which case D2 will be 30;

(vi) if "30E/360" or "Eurobond Basis" is specified in the applicable Pricing Supplement, the number of days in the Interest Period divided by 360, calculated on a formula basis as follows:

$$\text{Day Count Fraction} = \frac{[360 \times (Y_2 - Y_1)] + [30 \times (M_2 - M_1)] + (D_2 - D_1)}{360}$$

where:

"Y_1" is the year, expressed as a number, in which the first day of the Interest Period falls;

"Y_2" is the year, expressed as a number, in which the day immediately following the last day of the Interest Period falls;

"M_1" is the calendar month, expressed as a number, in which the first day of the Interest Period falls;

"M_2" is the calendar month, expressed as a number, in which the day immediately following the last day of the Interest Period falls;

"D_1" is the first calendar day, expressed as a number, of the Interest Period, unless such number would be 31, in which case D1 will be 30; and

"D_2" is the calendar day, expressed as a number, immediately following the last day included in the Interest Period, unless such number would be 31, in which case D2 will be 30; and

(vii) if "30E/360 (ISDA)" is specified in the applicable Pricing Supplement, the number of days in the Interest Period divided by 360, calculated on a formula basis as follows:

$$\text{Day Count Fraction} = \frac{[360 \times (Y_2 - Y_1)] + [30 \times (M_2 - M_1)] + (D_2 - D_1)}{360}$$

where:

"Y_1" is the year, expressed as a number, in which the first day of the Interest Period falls;

"Y_2" is the year, expressed as a number, in which the day immediately following the last day of the Interest Period falls;

"M_1" is the calendar month, expressed as a number, in which the first day of the Interest Period falls;

"M_2" is the calendar month, expressed as a number, in which the day immediately following the last day of the Interest Period falls;

"D_1" is the first calendar day, expressed as a number, of the Interest Period, unless (i) that day is the last day of February or (ii) such number would be 31, in which case D1 will be 30; and

"D_2" is the calendar day, expressed as a number, immediately following the last day included in the Interest Period, unless (i) that day is the last day of February but not the Maturity Date or (ii) such number would be 31, in which case D2 will be 30.

(e) *Notification of Rate of Interest and Interest Amounts*

The Principal Paying Agent will cause the Rate of Interest and each Interest Amount for each Interest Period and the relevant Interest Payment Date to be notified to the Issuer and any stock exchange on which the relevant Floating Rate Notes or Index Linked Interest Notes are for the time being listed and notice thereof to be published in accordance with Condition 14 (*Notices*) as soon as possible after their determination but in no event later than the fourth London Business Day thereafter. Each Interest Amount and Interest Payment Date so notified may subsequently be amended (or appropriate alternative arrangements made by way of adjustment) without prior notice in the event of an extension or shortening of the Interest Period. Any such amendment will be promptly notified to the Issuer and each stock exchange on which the relevant Floating Rate Notes or Index Linked

Interest Notes are for the time being listed and to the Noteholders in accordance with Condition 14 (*Notices*). For the purposes of this paragraph, the expression "London Business Day" means a day (other than a Saturday or a Sunday) on which banks and foreign exchange markets are open for general business in London.

(f) *Certificates to be Final*

All certificates, communications, opinions, determinations, calculations, quotations and decisions given, expressed, made or obtained for the purposes of the provisions of this Condition 5.2 (*Interest — Interest on Floating Rate Notes and Index Linked Interest Notes*), whether by the Principal Paying Agent or, if applicable, the Calculation Agent, shall (in the absence of willful default, bad faith or manifest error) be binding on the Issuer, the Principal Paying Agent, the Registrar, the Calculation Agent (if applicable), the other Paying Agents and all Noteholders, Receiptholders and Couponholders and (in the absence as aforesaid) no liability to the Issuer, the Noteholders, the Receiptholders or the Couponholders shall attach to the Principal Paying Agent or the Calculation Agent (if applicable) in connection with the exercise or non-exercise by it of its powers, duties and discretions pursuant to such provisions.

5.3 Interest on Dual Currency Notes

In the case of Dual Currency Notes, if the rate or amount of interest falls to be determined by reference to an exchange rate, the rate or amount of interest payable shall be determined in the manner specified in the applicable Pricing Supplement.

5.4 Interest on Partly Paid Notes

In the case of Partly Paid Notes (other than Partly Paid Notes which are Zero Coupon Notes), interest will accrue as aforesaid on the paid-up nominal amount of such Notes and otherwise as specified in the applicable Pricing Supplement.

5.5 Accrual of Interest

Each Note (or in the case of the redemption of part only of a Note, that part only of such Note) will cease to bear interest (if any) from the date for its redemption unless, upon due presentation thereof, payment of principal is improperly withheld or refused. In such event, interest will continue to accrue until whichever is the earlier of:

(a) the date on which all amounts due in respect of such Note have been paid; and

(b) the date on which the full amount of the moneys payable has been received by the Principal Paying Agent or the Registrar, as the case may be, and notice to that effect has been given in accordance with Condition 14 (*Notices*).

6. Payments

6.1 Method of Payment

Subject as provided below:

(a) payments in a Specified Currency other than Euro will be made by credit or transfer to an account in the relevant Specified Currency maintained by the payee with, or, at the option of the payee, by a check in such Specified Currency drawn on, a bank in the principal financial center of the country of such Specified Currency (which, if the Specified Currency is Australian dollars or New Zealand dollars, shall be Melbourne or Wellington, respectively); and

(b) payments in Euro will be made by credit or transfer to a Euro account (or any other account to which Euro may be credited or transferred) specified by the payee or, at the option of the payee, by a Euro check.

Payments will be subject in all cases to any fiscal or other laws and regulations applicable thereto in the place of payment, but without prejudice to the provisions of Condition 8 (*Taxation*). References to "Specified Currency" will include any successor currency under applicable law.

6.2 Presentation of Definitive Bearer Notes, Receipts and Coupons

Payments of principal in respect of Definitive Bearer Notes will (subject as provided below) be made in the manner provided in Condition 6.1 above only against presentation and surrender (or, in the case of part payment of any sum due, endorsement) of definitive Bearer Notes, and payments of interest in respect of definitive Bearer Notes will (subject as provided below) be made as aforesaid only against presentation and surrender (or, in the case of part payment of any sum due, endorsement) of Coupons, in each case at the specified office of any Paying Agent outside the United States (which expression, as used herein, means the United States of America (including the States and the District of Columbia, its territories, its possessions and other areas subject to its jurisdiction)).

In respect of Definitive Bearer Notes, payments of installments of principal (if any), other than the final installment, will (subject as provided below) be made in the manner provided in Condition 6.1 above against presentation and surrender (or, in the case of part payment of any sum due, endorsement) of the relevant Receipt in accordance with the preceding paragraph. Payment of the final installment will be made in the manner provided in Condition 6.1 above only against presentation and surrender (or, in the case of part payment of any sum due, endorsement) of the relevant Bearer Note in accordance with the preceding paragraph. Each Receipt must be presented for payment of the relevant installment together with the definitive Bearer Note to which it appertains. Receipts presented without the definitive Bearer Note to which they appertain do not constitute valid obligations of the Issuer. Upon the date on which any Definitive Bearer Note becomes due and repayable, unmatured Receipts (if any) relating thereto (whether or not attached) shall become void and no payment shall be made in respect thereof.

Fixed Rate Notes in definitive bearer form (other than Dual Currency Notes, Index Linked Notes or Long Maturity Notes (as defined below) should be presented for payment together with all unmatured Coupons appertaining thereto (which expression shall for this purpose include Coupons falling to be issued on exchange of matured Talons), failing which the amount of any missing unmatured Coupon (or, in the case of payment not being made in full, the same proportion of the amount of such missing unmatured Coupon as the sum so paid bears to the sum due) will be deducted from the sum due for payment. Each amount of principal so deducted will be paid in the manner mentioned above against surrender of the relative missing Coupon at any time before the expiry of 10 years after the Relevant Date (as defined in Condition 8 (*Taxation*)) in respect of such principal (whether or not such Coupon would otherwise have become void under Condition 9 (*Prescription*)) or, if later, five years from the date on which such Coupon would otherwise have become due, but in no event thereafter.

Upon any Fixed Rate Note in definitive bearer form becoming due and repayable prior to its Maturity Date, all unmatured Talons (if any) appertaining thereto will become void and no further Coupons will be issued in respect thereof.

Upon the date on which any Floating Rate Note, Dual Currency Note or Index Linked Note or Long Maturity Note in definitive bearer form becomes due and repayable, unmatured Coupons and Talons (if any) relating thereto (whether or not attached) shall become void and no payment or, as the case may be, exchange for further Coupons shall be made in respect thereof. A "Long Maturity Note" is a Fixed Rate Note (other than a Fixed Rate Note which on issue had a Talon attached) whose nominal amount on issue is less than the aggregate interest payable thereon provided that such Note shall cease to be a Long Maturity Note on the Interest Payment Date on which the aggregate amount of interest remaining to be paid after that date is less than the nominal amount of such Note.

If the due date for redemption of any definitive Bearer Note is not an Interest Payment Date, interest (if any) accrued in respect of such Note from (and including) the preceding Interest Payment Date or, as the case may be, the Interest Commencement Date shall be payable only against surrender of the relevant definitive Bearer Note.

6.3 Payments in respect of Bearer Global Notes

Payments of principal and interest (if any) in respect of Notes represented by any Global Note in bearer form will (subject as provided below) be made in the manner provided in Condition 6.1 above and otherwise in the manner specified in the relevant Global Note against presentation or surrender, as the case may be, of such Global Note at the specified office of any Paying Agent outside the United States. A record of each payment made against presentation or surrender of any Global Note in bearer form, distinguishing between any payment of principal and any payment of interest, will be made on such Global Note by the Paying Agent to which it was presented and such record shall be prima facie evidence that the payment in question has been made.

6.4 Payments in respect of Registered Notes

Payments of principal (other than installments of principal (if any) prior to the final installment) in respect of each Registered Note (whether in definitive or global form) will be made against presentation and surrender (or, in the case of part payment of any sum due, endorsement) of the Registered Note at the specified office of the Registrar or any of the Paying Agents. Such payments will be made by transfer to the Designated Account (as defined below) of the holder (or the first named of joint holders) of the Registered Note appearing in the register of holders of the Registered Notes maintained by the Registrar (the "Register") at the close of business on the business day (being for this purpose a day on which banks are open for business in the city where the specified office of the Registrar is located) immediately prior to the relevant payment date. Notwithstanding the previous sentence, if (a) a holder does not have a Designated Account or (b) the principal amount of the Notes held by a holder is less than US$250,000 (or its approximate equivalent in any other Specified Currency), payment will instead be made by a check in the Specified Currency drawn on a Designated Bank (as defined below). For these purposes, "Designated Account" means the account maintained by a holder with a Designated Bank and identified as such in the Register and "Designated Bank" means (in the case of payment in a Specified Currency other than Euro) a bank in the principal financial center of the country of such Specified Currency (which, if the Specified Currency is Australian dollars or New Zealand dollars, shall be Melbourne or Wellington, respectively) and (in the case of a payment in Euro) any bank which processes payments in Euro.

Payments of interest due on a Registered Note (whether in definitive or global form) and payments of installments of principal (if any) due on a Registered Note (other than the final installment) will be made by a check in the Specified Currency drawn on a Designated Bank and mailed by uninsured mail on the business day in the city where the specified office of the Registrar is located immediately preceding the relevant due date to the holder (or the first named of joint holders) of the Registered Note appearing in the Register at the close of business on the day on which DTC, Euroclear and/or Clearstream, as applicable to the extent such Registered Note is cleared and settled through such facility, is open for business, immediately preceding the relevant due date (the "Record Date") at his address shown in the Register on the Record Date and at his risk. Upon application of the holder to the specified office of the Registrar not less than three business days in the city where the specified office of the Registrar is located before the due date for any payment of interest in respect of a Registered Note, the payment may be made by transfer on the due date in the manner provided in the preceding paragraph. Any such application for transfer shall be deemed to relate to all future payments of interest (other than interest due on redemption) and installments of principal (other than the final installment) in respect of the Registered Notes which become payable to the holder who has made the initial application until such time as the Registrar is notified in writing to the contrary by such holder. Payment of the interest due in respect of each Registered Note on redemption and the final installment of principal will be made in the same manner as payment of the principal amount of such Registered Note.

Holders of Registered Notes will not be entitled to any interest or other payment for any delay in receiving any amount due in respect of any Registered Note as a result of a check posted in accordance with this Condition arriving after the due date for payment or being lost in the post. No commissions or expenses shall be charged to such holders by the Registrar in respect of any payments of principal or interest in respect of the Registered Notes.

All amounts payable to DTC or its nominee as registered holder of a Registered Global Note in respect of Notes denominated in a Specified Currency other than U.S. dollars shall be paid by transfer by the Registrar to an account in the relevant Specified Currency of the Exchange Agent on behalf of DTC or its nominee for payment in such Specified Currency or conversion into and payment in U.S. dollars in accordance with the provisions of the Agency Agreement.

None of the Issuer or the Agents will have any responsibility or liability for any aspect of the records relating to, or payments made on account of, beneficial ownership interests in the Registered Global Notes or for maintaining, supervising or reviewing any records relating to such beneficial ownership interests.

6.5 General provisions applicable to payments

The holder of a Global Note shall be the only person entitled to receive payments in respect of Notes represented by such Global Note and the Issuer will be discharged by payment to, or to the order of, the holder of such Global Note in respect of each amount so paid. Each of the persons shown in the records of Euroclear, Clearstream or DTC as the beneficial holder of a particular nominal amount of Notes represented by such Global Note must look solely to Euroclear, Clearstream or DTC, as the case may be, for his share of each payment so made by the Issuer to, or to the order of, the holder of such Global Note. No person other than the holder of such Global Note shall have any claim against the Issuer in respect of any payments due on such Global Note.

Notwithstanding the foregoing provisions of this Condition, if any amount of principal and/or interest in respect of any Bearer Notes is payable in U.S. dollars, such U.S. dollar payments of principal and/or interest in respect of such Bearer Notes will be made at the specified office of a Paying Agent in the United States if:

(a) the Issuer has appointed Paying Agents with specified offices outside the United States with the reasonable expectation that such Paying Agents would be able to make payment in U.S. dollars at such specified offices outside the United States of the full amount of principal and interest on the Bearer Notes in the manner provided above when due;

(b) payment of the full amount of such principal and interest at all such specified offices outside the United States is illegal or effectively precluded by exchange controls or other similar restrictions on the full payment or receipt of principal and interest in U.S. dollars; and

(c) such payment is then permitted under United States law without involving, in the opinion of the Issuer, adverse tax consequences to the Issuer.

6.6 Payment Day

If the date for payment of any amount in respect of any Note, Receipt or Coupon is not a Payment Day, the holder thereof shall not be entitled to payment until the next following Payment Day in the relevant place and shall not be entitled to further interest or other payment in respect of such delay. For these purposes, "Payment Day" means any day which (subject to Condition 9 (*Prescription*)) is:

(a) a day on which commercial banks and foreign exchange markets settle payments and are open for general business (including dealing in foreign exchange and foreign currency deposits) in:

(i) in the case of Notes in definitive form only, the relevant place of presentation;

(ii) each Additional Financial Center specified in the applicable Pricing Supplement; and

(b) either (A) in relation to any sum payable in a Specified Currency other than Euro, a day on which commercial banks and foreign exchange markets settle payments and are open for general business (including dealing in foreign exchange and foreign currency deposits) in the principal financial center of the country of the relevant Specified Currency (if other than the place of presentation, London and any Additional Financial Center and which if the Specified Currency is Australian dollars or New Zealand dollars shall be Melbourne or Wellington, respectively) or (B) in relation to any sum payable in Euro, a day on which the TARGET2 System is open; and

(c) in the case of any payment in respect of a Registered Global Note denominated in a Specified Currency other than U.S. dollars and registered in the name of DTC or its nominee and in respect of which an accountholder of DTC (with an interest in such Registered Global Note) has elected to receive any part of such payment in U.S. dollars, a day on which commercial banks are not authorized or required by law or regulation to be closed in the City of New York.

6.7 Interpretation of Principal and Interest

Any reference in these Conditions to principal in respect of the Notes shall be deemed to include, as applicable:

(a) any additional amounts which may be payable with respect to principal under Condition 8 (*Taxation*);

(b) the Final Redemption Amount of the Notes;

(c) the Early Redemption Amount of the Notes;

(d) the Optional Redemption Amount(s) (if any) of the Notes;

(e) in relation to Notes redeemable in installments, the Installment Amounts;

(f) in relation to Zero Coupon Notes, the Amortized Face Amount (as defined in Condition 7.7 (*Redemption and Purchase—Early Redemption Amount*); and

(g) any premium and any other amounts (other than interest) which may be payable by the Issuer under or in respect of the Notes.

Any reference in these Conditions to interest in respect of the Notes shall be deemed to include, as applicable, any additional amounts which may be payable with respect to interest under Condition 8 (*Taxation*).

7. Redemption and Purchase

7.1 Redemption at Maturity

Unless previously redeemed or purchased and canceled as specified below, each Note (including each Index Linked Redemption Note and Dual Currency Redemption Note) will be redeemed by the Issuer at its Final Redemption Amount specified in, or determined in the manner specified in, the applicable Pricing Supplement in the relevant Specified Currency on the Maturity Date.

7.2 Redemption for Tax Reasons

The Notes may be redeemed at the option of the Issuer in whole, but not in part, at any time (if this Note is neither a Floating Rate Note, an Index Linked Interest Note or a Dual Currency Interest Note) or on any Interest Payment Date (if this Note is either a Floating Rate Note, an Index Linked Interest Note or a Dual Currency Interest Note), on giving not less than 30 nor more than 60 days' notice to the Principal Paying Agent and, in accordance with Condition 14 (*Notices*), the Noteholders (which notice shall be irrevocable), if:

(a) on the occasion of the next payment due under the Notes, the Issuer has or will become obliged to pay additional amounts as provided or referred to in Condition 8 (*Taxation*) as a result of any change in, or amendment to, the laws of Korea or any political subdivision or any authority thereof or therein having power to tax, or any regulations or rulings promulgated thereunder, or any change in the application or official interpretation of such laws or regulations or rulings, or any change in the application or official interpretation of, or any execution of or amendment to, any treaty or treaties affecting taxation to which Korea is a party, which (including the cessation of tax exemptions presently applicable) change or amendment becomes effective on or after the date on which agreement is reached to issue the first Tranche of the Notes; and

(b) such obligation cannot be avoided by the Issuer taking reasonable measures available to it,

provided that no such notice of redemption shall be given earlier than 90 days prior to the earliest date on which the Issuer would be obliged to pay such additional amounts were a payment in respect of the Notes then due. Prior to the publication of any notice of redemption pursuant to this Condition, the Issuer shall deliver to the Principal Paying Agent a certificate signed by two duly authorized officers of the Issuer stating that the Issuer is entitled to effect such redemption and setting forth a statement of facts showing that the conditions precedent to the right of the Issuer so to redeem have occurred, and an opinion of independent legal advisers of recognized standing to the effect that the Issuer has or will become obliged to pay such additional amounts as a result of such change or amendment.

Notes redeemed pursuant to this Condition 7.2 will be redeemed at their Early Redemption Amount referred to in Condition 7.7 below together (if appropriate) with interest accrued to (but excluding) the date of redemption.

7.3 Redemption at the Option of the Issuer ("Issuer Call")

If Issuer Call is specified in the applicable Pricing Supplement, the Issuer may, having given:

(a) not less than 15 nor more than 30 days' notice to the Noteholders in accordance with Condition 14 (*Notices*); and

(b) not less than 15 days before the giving of the notice referred to in (a), notice to the Principal Paying Agent and, in the case of a redemption of Registered Notes, the Registrar;

(which notices shall be irrevocable and shall specify the date fixed for redemption), redeem all or some only of the Notes then outstanding on any Optional Redemption Date and at the Optional Redemption Amount(s) specified in, or determined in the manner specified in, the applicable Pricing Supplement together, if appropriate, with interest accrued to (but excluding) the relevant Optional Redemption Date. Any such redemption must be of a nominal amount not less than the Minimum Redemption Amount and not more than the Maximum Redemption Amount in each case as may be specified in the applicable Pricing Supplement. In the case of a partial redemption of Notes, the Notes to be redeemed ("Redeemed Notes") will be selected individually by lot, in the case of Redeemed Notes represented by definitive Notes, and in accordance with the rules of Euroclear and/or Clearstream and/or, as the case may be, DTC, in the case of Redeemed Notes represented by a Global Note, not more than 30 days prior to the date fixed for redemption (such date of selection being hereinafter called the "Selection Date"). In the case of Redeemed Notes represented by definitive Notes, a list of the serial numbers of such Redeemed Notes will be published in accordance with Condition 14 (*Notices*) not less than 15 days prior to the date fixed for redemption. The aggregate nominal amount of Redeemed Notes represented by definitive Notes shall bear the same proportion to the aggregate nominal amount of all Redeemed Notes as the aggregate nominal amount of definitive Notes outstanding bears to the aggregate nominal amount of the Notes outstanding, in each case on the Selection Date, provided that such first mentioned nominal amount shall, if necessary, be rounded downwards to the nearest integral multiple of the Specified Denomination, and the aggregate nominal amount of Redeemed Notes represented by a Global Note shall be equal to the balance of the Redeemed Notes. No exchange of the relevant Global Note will be permitted during the period from (and including) the Selection Date to (and including) the date fixed for redemption pursuant to this Condition 7.3 and notice to that effect shall be given by the Issuer to the Noteholders in accordance with Condition 14 (*Notices*) at least five days prior to the Selection Date.

7.4 Redemption at the Option of the Noteholders ("Investor Put")

If Investor Put is specified in the applicable Pricing Supplement, upon the holder of any Note giving to the Issuer in accordance with Condition 14 (*Notices*) not less than 15 nor more than 30 days' notice or such other period of notice as is specified in the applicable Pricing Supplement the Issuer will, upon the expiry of such notice, redeem, subject to, and in accordance with, the terms specified in the applicable Pricing Supplement, in whole (but not in part), such Note on the Optional Redemption Date and at the Optional Redemption Amount specified in, or determined in the manner specified in, the applicable Pricing Supplement together, if appropriate, with interest accrued to (but excluding) the Optional Redemption Date. Registered Notes may be redeemed under this Condition 7.4 in any multiple of their lowest Specified Denomination.

7.5 Change of Control Redemption

Upon the occurrence of a Change of Control, each Noteholder will have the option (the "Change of Control Put Option") (unless, prior to the giving of the Change of Control Put Event Notice (as defined below), the Issuer shall have given notice under Condition 7.2 or 7.3 in respect of the relevant Notes), exercisable during the Change of Control Put Period, to require the Issuer to redeem all or any part of its Notes at a redemption price (the "Change of Control Redemption Price") equal to 100% of the nominal amount of such Notes, together with accrued and unpaid interest, if any, to but excluding the Change of Control Put Date (as defined below). The Change of Control Put Option shall operate as set out in Condition 7.6. Accrued and unpaid interest in respect of the then current Interest Period (or portion thereof) shall be determined as if the Change of Control Put Date was an Interest Payment Date. Within 30 days following a Change of Control, the Issuer shall give notice (a "Change of Control Put Event Notice") to the Noteholders in accordance with Condition 14 (*Notices*) stating (a) that a Change of Control has occurred and that such holder has the right to require the Issuer to redeem such holder's Notes at the Change of Control Redemption Price, (b) the date (the "Change of Control Put Date") fixed by the Issuer for redemption under this Condition 7.5 (which shall be the fourteenth day after the expiry of the Change of Control Put Period) and (c) the procedures determined by the Issuer that a Noteholder must follow in order to have its Notes redeemed.

In this Condition:

"Change of Control" means Korea ceasing to own and control (directly or indirectly or in combination) at least 51% of the issued and outstanding capital stock of the Issuer.

"Change of Control Put Period" means the period of 60 days after a Change of Control Put Event Notice is given.

7.6 Put Notices

To exercise the right to require redemption of this Note pursuant to Condition 7.4 or 7.5, the holder of this Note must deliver such Note at the specified office of any Paying Agent (in the case of Bearer Notes) or the Registrar (in the case of Registered Notes) at any time during normal business hours of such Paying Agent or, as the case may be, the Registrar falling within the notice period (in the case of Condition 7.4) or the Change of Control Put Period (in the case of Condition 7.5), accompanied by a duly completed and signed notice of exercise in the form (for the time being current) obtainable from any specified office of any Paying Agent or, as the case may be, the Registrar (a "Put Notice") and in which the holder must specify a bank account (or, if payment is by check, an address) to which payment is to be made under this Condition and, in the case of Registered Notes, the nominal amount thereof to be redeemed and, if less than the full nominal amount of the Registered Notes so surrendered is to be redeemed, an address to which a new Registered Note in respect of the balance of such Registered Notes is to be sent subject to and in accordance with the provisions of Condition 2.2 (*Transfers of Registered Notes—Transfers of Registered Notes in definitive form*). If this Note is in definitive form, the Put Notice must be accompanied by this Note or evidence satisfactory to the relevant Paying Agent that this Note will, following delivery of the Put Notice, be held to its order or under its control.

Any Put Notice given by a holder of any Note pursuant to this paragraph shall be irrevocable except where prior to the due date of redemption an Event of Default shall have occurred and be continuing in which event such holder, at its option, may elect by notice to the Issuer to withdraw the notice given pursuant to this paragraph and instead to declare such Note forthwith due and payable pursuant to Condition 10 (*Events of Default*).

Each Note should be presented for redemption together with all unmatured Coupons relating to it, failing which such Note will be redeemed only against provision of such indemnity as the Issuer may require. Upon the date on which any Note falls due for redemption or is purchased for cancelation, all unmatured Coupons appertaining thereto will become void and no payment will thereafter be made in respect thereto.

7.7 Early Redemption Amounts

For the purpose of Condition 7.2 above and Condition 10 (*Events of Default*), the Notes will be redeemed at the Early Redemption Amount calculated as follows:

(a) in the case of a Note with a Final Redemption Amount equal to the Issue Price, at the Final Redemption Amount thereof;

(b) in the case of a Note (other than s Zero Coupon Note but including an Installment Note and a Partly Paid Note) with a Final Redemption Amount which is or may be less or greater than the Issue Price or which is payable in a Specified Currency other than that in which the Note is denominated, at the amount specified in, or determined in the manner specified in, the applicable Pricing Supplement or, if no such amount or manner is so specified in the Pricing Supplement, at its nominal amount; or

(c) in the case of a Zero Coupon Note, at an amount (the "Amortized Face Amount") calculated in accordance with the following formula:

$$\text{Early Redemption Amount} = RP \text{ x } (1 + AY)y$$

where:

"RP" means the Reference Price; and

"AY" means the Accrual Yield expressed as a decimal; and

"y" is a fraction the numerator of which is equal to the number of days (calculated on the basis of a 360-day year consisting of 12 months of 30 days each) from (and including) the Issue Date of the first Tranche of the Notes to (but excluding) the date fixed for redemption or (as the case may be) the date upon which such Note becomes due and repayable and the denominator of which is 360,

or on such other calculation basis as may be specified in the applicable Pricing Supplement.

7.8 Installments

Installment Notes will be redeemed in the Installment Amounts and on the Installment Dates. In the case of early redemption, the Early Redemption Amount will be determined pursuant to Condition 7.7 above.

7.9 Partly Paid Notes

Partly Paid Notes will be redeemed, whether at maturity, early redemption or otherwise, in accordance with the provisions of this Condition and the applicable Pricing Supplement.

7.10 Purchases

The Issuer or any Subsidiary of the Issuer may at any time purchase Notes at any price (provided that, in the case of Bearer Notes in definitive form, these are purchased together with all unmatured Receipts, Coupons and Talons appertaining thereto) in the open market or otherwise. Such Notes may be held, reissued, resold or, at the option of the Issuer, surrendered to any Paying Agent and/or the Registrar for cancelation.

7.11 Cancelation

All Notes which are redeemed will forthwith be canceled (together with all unmatured Receipts, Coupons and Talons attached thereto or surrendered therewith at the time of redemption). All Notes so canceled and the Notes purchased and canceled pursuant to Condition 7.10 above (together with all unmatured Receipts and Coupons and Talons canceled therewith) shall be forwarded to the Principal Paying Agent (which shall notify the Registrar of such canceled Notes in the case of Registered Notes) and cannot be reissued or resold.

7.12 Late payment on Zero Coupon Notes

If the amount payable in respect of any Zero Coupon Note upon redemption of such Zero Coupon Note pursuant to Condition 7.1, 7.2, 7.3, 7.4 or 7.5 above or upon its becoming due and repayable as provided in Condition 10 (*Events of Default*) is improperly withheld or refused, the amount due and repayable in respect of such Zero Coupon Note shall be the amount calculated as provided in Condition 7.7(c) above as though the references therein to the date fixed for the redemption or the date upon which such Zero Coupon Note becomes due and payable were replaced by references to the date which is the earlier of:

(a) the date on which all amounts due in respect of such Zero Coupon Note have been paid; and

(b) the date on which the full amount of the moneys payable has been received by the Principal Paying Agent or, as the case may be, the Registrar and notice to that effect has been given to the Noteholders in accordance with Condition 14 (*Notices*).

7.13 Obligation to redeem

Upon the expiry of any notice as is referred to in Condition 7.2, 7.3, 7.4 or 7.5 above, the Issuer shall be bound to redeem the Notes to which the notice referred at the relevant redemption price applicable at the date of such redemption together with, if appropriate, interest accrued to (but excluding) the relevant redemption date.

8. Taxation

All payments of principal and interest in respect of the Notes, Receipts and Coupons by the Issuer will be made without withholding or deduction for or on account of any present or future taxes or duties of whatever nature imposed or levied by or on behalf of Korea or any political subdivision or any authority thereof or therein having power to tax unless such withholding or deduction is required by law. In such event, the Issuer will pay such additional amounts as shall be necessary in order that the net amounts received by the holders of the Notes, Receipts or Coupons after such withholding or deduction shall equal the respective amounts of principal and interest which would otherwise have been receivable in respect of the Notes, Receipts or Coupons, as the case may be, in the absence of such withholding or deduction ("Additional Amounts"); except that no such Additional Amounts shall be payable with respect to any Note, Receipt or Coupon:

(a) presented for payment (where presentation is required) in Korea (provided the Notes can also be presented at an office of a Paying Agent outside Korea); or

(b) where such withholding or deduction is imposed on a payment to a holder who is liable for such taxes or duties in respect of such Note, Receipt or Coupon by reason of his having some connection with Korea or any political subdivision or any authority thereof or therein other than the mere holding of such Note, Receipt or Coupon; or

(c) presented for payment more than 30 days after the Relevant Date (as defined below) except to the extent that the holder thereof would have been entitled to an Additional Amount on presenting the same for payment on such 30th day; or

(d) where such withholding or deduction is imposed in connection with Sections 1471-1474 of the U.S. Internal Revenue Code and U.S. Treasury regulations thereunder ("FATCA"), any intergovernmental agreement between the United States and any other jurisdiction implementing or relating to FATCA or any non-U.S. law, regulation or guidance enacted or issued with respect thereto; or

(e) presented for payment by or on behalf of a holder who would be able to avoid such withholding or deduction by presenting the relevant Note, Receipt or Coupon to another Paying Agent in a Member State of the European Union; or

(f) where such withholding or deduction is imposed on a payment to a holder who would not be liable or subject to the withholding or deduction by making a declaration of non-residence or other similar claim for exemption to the relevant tax authority; or

(g) any combination of (a), (b), (c), (d), (e) or (f) above.

Nor will Additional Amounts be paid with respect to any payment on a Note, Receipt or Coupon to a holder who is a fiduciary, a partnership, a limited liability company or a holder other than the sole beneficial owner of that payment to the extent that payment would be required by the laws of Korea or any political subdivision or any authority thereof or therein to be included in the income, for tax purposes, of a beneficiary or settlor with respect to the fiduciary, a member of that partnership, an interest holder in a limited liability company or a beneficial owner who would not have been entitled to the Additional Amounts had that beneficiary, settlor, member or beneficial owner been the holder.

The obligation to pay Additional Amounts shall not apply to (a) any estate, inheritance, gift, sales, transfer, personal property or any similar tax, assessment or other governmental charge or (b) any tax, assessment or other governmental charge which is payable otherwise than by deduction or withholding from payments of principal of, or interest or premium on, the Notes, Receipts or Coupons.

Whenever there is mentioned in any context the payment of principal of, and any premium or interest on, any Note, Receipt or Coupon, such mention shall be deemed to include payment of Additional Amounts to the extent that, in such context, Additional Amounts are, were or would be payable in respect thereof.

As used herein, the "Relevant Date" means the date on which such payment first becomes due, except that, if the full amount of the moneys payable has not been duly received by the Principal Paying Agent or, as the case may be, the Registrar on or prior to such due date, it means the date on which notice to the effect that the full amount of such moneys having been so received is duly given to the Noteholders in accordance with Condition 14 (*Notices*).

9. Prescription

The Notes (whether in bearer or registered form), Receipts and Coupons will become void unless presented for payment within a period of 10 years (in the case of principal) and five years (in the case of interest) after the Relevant Date (as defined in Condition 8 (*Taxation*)) therefor.

There shall not be included in any Coupon sheet issued on exchange of a Talon any Coupon the claim for payment in respect of which would be void pursuant to this Condition or Condition 6.2 (*Payments—Presentation of Definitive Bearer Notes, Receipts and Coupons*) or any Talon which would be void pursuant to Condition 6.2 (*Payments—Presentation of Definitive Bearer Notes, Receipts and Coupons*).

10. Events of Default

If any of the following events (each an "Event of Default") occurs and is continuing:

(a) default in the payment of any installment of interest upon any of the Notes when due, and continuance of such default for a period of seven days; or

(b) default in the payment of all or any part of the principal of any of the Notes as and when the same shall become due and payable, whether at maturity, upon redemption or otherwise, and maintenance of such default for a period of seven days; or

(c) failure on the part of the Issuer duly to observe or perform any other of the covenants or agreements on the part of the Issuer under or in respect of the Notes for a period of 60 days after the date on which written notice specifying such failure, stating that such notice is a "Notice of Default" hereunder and demanding that the Issuer remedy the same, shall have been given by registered or certified mail, return receipt requested, to the Issuer by any Noteholder; or

(d) any Indebtedness of the Issuer in the aggregate outstanding nominal amount of US$10,000,000 (or its equivalent in one or more currencies) or more either (i) becoming due and payable by reason of acceleration thereof following default by the Issuer or (ii) not being repaid at, and remaining unpaid after, maturity as extended by the period of grace, if any, applicable thereto, or any guarantee given by the Issuer in respect of Indebtedness of any other Person not being honored (where the amount not honored is equal to US$10,000,000 (or its equivalent in one or more currencies) or more) when, and remaining dishonored after becoming, due and called; provided that, in the case of (i) above, if any such default under any such Indebtedness shall be cured or waived, then the default hereunder by reason thereof shall be deemed to have been cured and waived; or

(e) a court or administrative or other governmental agency or body having jurisdiction in the premises shall enter a decree or order for relief in respect of the Issuer in an involuntary case under any applicable bankruptcy, insolvency, reorganization, compulsory composition or other similar law now or hereafter in effect, or appointing a receiver, liquidator, assignee, custodian, trustee, sequestrator (or similar official) of the Issuer or for any substantial part of its properties or ordering the winding up, dissolution or liquidation of its affairs, or shall otherwise adjudicate or find the Issuer to be bankrupt or insolvent and in each case such decree, order, adjudication or finding shall remain unstayed and in effect for a period of 60 consecutive days; or

(f) the Issuer shall commence a voluntary case under any applicable bankruptcy, insolvency, reorganization, compulsory composition or other similar law now or hereafter in effect, or consent to the entry of an order for relief in an involuntary case under any such law, or consent to the appointment or taking possession by a receiver, liquidator, assignee, custodian, trustee, sequestrator or similar official of the Issuer for any substantial part of its properties, or cease to carry on the whole or substantially the whole of its business or make any general assignment for the benefit of creditors, or enter into any composition with its creditors; or

(g) a secured party takes possession, or a receiver, manager or other similar officer is appointed, of the whole or any part of the undertaking, assets and revenues of the Issuer and such taking of possession or appointment is not stayed, terminated or discharged within 30 days; or

(h) any event occurs which under the laws of Korea has an analogous effect to any of the events referred to in sub-paragraphs (e) through (g) inclusive above;

then the holder of any Note may, by written notice addressed to the Issuer and delivered to the Issuer, declare such Note to be immediately due and payable whereupon it shall become immediately due and payable at its principal amount together with accrued interest without further action or formality unless such Event of Default shall have been remedied prior to receipt of such notice by the Issuer. Any such notice shall specify the serial number of each Note in respect of which it is given.

"Indebtedness" means any obligation whether present or future, or actual or contingent for the payment of repayment of money borrowed (including any guarantees or indemnities thereof) and/or interest thereon which is denominated in a currency other than the currency of the Republic and which has a final maturity of one year or more from its date of incurrence or issuance.

11. Replacement of Notes, Receipts, Coupons and Talons

Should any Note, Receipt, Coupon or Talon be lost, stolen, mutilated, defaced or destroyed, it may be replaced at the specified office of the Principal Paying Agent or the relevant Paying Agent (in the case of Bearer Notes, Receipts, Coupons and Talons) or of the Registrar (in the case of Registered Notes) upon payment by the claimant of such costs and expenses as may be incurred in connection therewith and on such terms as to evidence and indemnity as the Issuer may reasonably require. Mutilated or defaced Notes, Receipts, Coupons or Talons must be surrendered before replacements will be issued.

12. Principal Paying Agent, Registrar, Exchange Agent, Paying and Transfer Agents

The names of the initial Principal Paying Agent, the other initial Paying Agents, the initial Exchange Agent, the initial Registrar and the other initial Transfer Agents and their initial specified offices are set out below.

The Issuer is entitled to vary or terminate the appointment of any Paying Agent, Exchange Agent, Registrar or Transfer Agent and/or appoint additional or other Paying Agents, Registrars, Exchange Agents, or Transfer Agents and/or approve any change in the specified office through which any of the same acts, provided that:

(a) so long as the Notes are listed on any stock exchange, there will at all times be a Paying Agent (in the case of Bearer Notes), and a Registrar and Transfer Agent (in the case of Registered Notes) with a specified office (outside the United States in the case of Bearer Notes) in such place as may be required by the rules and regulations of the relevant stock exchange (or any other relevant authority);

(b) there will at all times be a Paying Agent, a Transfer Agent and a Registrar with a specified office in a city in continental Europe;

(c) so long as any of the Registered Global Notes payable in a Specified Currency other than U.S. dollars are held through DTC or its nominee, there will at all times be an Exchange Agent with a specified office in London;

(d) there will at all times be a Principal Paying Agent; and

(e) so long as the Notes are listed on the Singapore Exchange Securities Trading Limited (the "Singapore Stock Exchange") and the rules of the Singapore Stock Exchange so require, if the Global Note is exchanged for definitive Notes, there will at all times be a Paying Agent in Singapore, where the Notes may be presented or surrendered for payment or redemption.

In addition, the Issuer shall forthwith appoint a Paying Agent having a specified office in the City of New York in the circumstances described in the second paragraph of Condition 6.5 (*Payments—General provisions applicable to payments*). Any variation, termination, appointment or change shall only take effect (other than in the case of insolvency, when it shall be of immediate effect) after not less than 30 nor more than 45 days' prior notice thereof shall have been given to the Noteholders in accordance with Condition 14 (*Notices*).

In acting under the Agency Agreement, the Principal Paying Agent, the Registrar, the Exchange Agent, the Paying Agents and the Transfer Agents act solely as agents of the Issuer and do not assume any obligation or trust for or with any Noteholders, Receiptholders or Couponholders.

13. Exchange of Talons

On and after the Interest Payment Date on which the final Coupon comprised in any Coupon sheet matures, the Talon (if any) forming part of such Coupon sheet may be surrendered at the specified office of the Principal Paying Agent or any other Paying Agent in exchange for a further Coupon sheet including (if such further Coupon sheet does not include Coupons to (and including) the final date for the payment of interest due in respect of the Note to which it appertains) a further Talon, subject to the provisions of Condition 9

(*Prescription*). Each Talon shall, for the purposes of these Conditions, be deemed to mature on the Interest Payment Date on which the final Coupon comprised in the relative Coupon sheet matures.

14. Notices

Notices to holders of Registered Notes will be deemed to be validly given if sent by first class mail or (if posted to an overseas address) by air mail to the holders (or the first named of joint holders) at their respective addresses as recorded in the Register and will be deemed to have been validly given on the fourth day after the date of such mailing and, in addition, for so long as any Registered Notes are listed on a stock exchange and the rules of that stock exchange (or any other relevant authority) so require, such notice will be published in a daily newspaper of general circulation in the place or places required by those rules.

All notices regarding the Bearer Notes shall be deemed to be validly given if published (a) in a leading English language daily newspaper of general circulation in Asia and (b) if and for so long as the Bearer Notes are listed on the Singapore Stock Exchange and the rules of the Singapore Stock Exchange so require, a daily newspaper of general circulation in Singapore. The Issuer shall also ensure that notices are duly published in a manner which complies with the rules and regulations of any other stock exchange (or any other relevant authority) on which the Bearer Notes are for the time being listed. Any such notice will be deemed to have been given on the date of the first publication or, where required to be published in more than one newspaper, on the date of the first publication in all required newspapers.

Until such time as any definitive Notes are issued, there may (provided that, in the case of Notes listed on a stock exchange, the stock exchange agrees), so long as any Global Notes representing the Notes are held in their entirety on behalf of Euroclear and/or Clearstream and/or DTC, be substituted for such publication in such newspaper(s) the delivery of the relevant notice to Euroclear and/or Clearstream and/or DTC for communication by them to the holders of the Notes and, in addition, for so long as any Notes are listed on a stock exchange and the rules of that stock exchange (or any other relevant authority) so require, such notice will be published in a daily newspaper of general circulation in the place or places required by those rules. Any such notice shall be deemed to have been given to the holders of the Notes on the seventh day after the day on which the said notice was given to Euroclear and/or Clearstream and/or DTC.

Notices to be given by any holder of the Notes shall be in writing and given by lodging the same, together (in the case of any Note in definitive form) with the relative Note or Notes, with the Principal Paying Agent (in the case of Bearer Notes) or the Registrar (in the case of Registered Notes). While any of the Notes are represented by a Global Note, such notice may be given by any holder of a Note to the Principal Agent or the Registrar via Euroclear and/or Clearstream and/or DTC, as the case may be, in such manner as the Principal Paying Agent, the Registrar and Euroclear and/or Clearstream and/or DTC, as the case may be, may approve for this purpose.

15. Meetings of Noteholders, Modification and Waiver

The Agency Agreement contains provisions for convening meetings of the Noteholders to consider any matter affecting their interests, including the sanctioning by Extraordinary Resolution of a modification of the Notes, the Receipts, the Coupons or any of the provisions of the Agency Agreement. Such a meeting may be convened by the Issuer or Noteholders holding not less than 5% in nominal amount of the Notes for the time being remaining outstanding. The quorum at any such meeting for passing an Extraordinary Resolution is one or more persons holding or representing not less than 50% in nominal amount of the Notes for the time being outstanding, or at any adjourned meeting one or more persons being or representing Noteholders whatever the nominal amount of the Notes so held or represented, except that at any meeting the business of which includes the modification of certain provisions of the Notes, Receipts or Coupons (including modifying the date of maturity of the Notes or any date for payment of interest thereon, reducing or canceling the amount of principal or the rate of interest payable in respect of the Notes or altering the currency of payment of the Notes, Receipts or Coupons), the quorum shall be one or more persons holding or representing not less than 75% in nominal amount of the Notes for the time being outstanding, or at any adjourned such meeting one or more persons holding or representing not less than 25%, in nominal amount of the Notes for the time being outstanding. An Extraordinary Resolution passed at any meeting of the Noteholders shall be binding on all the Noteholders, whether or not they are present at the meeting, and on all Receiptholders and Couponholders.

The Principal Paying Agent and the Issuer may agree, without the consent of the Noteholders, Receiptholders or Couponholders, to:

(a) any modification (except as mentioned above) of any of the provisions of the Notes, the Receipts, the Coupons, the Conditions or the Agency Agreement which is not prejudicial to the interests of the Noteholders; or

(b) any modification of any of the provisions of the Notes, the Receipts, the Coupons, the Conditions or the Agency Agreement which is of a formal, minor or technical nature or is made to correct a manifest error or to comply with mandatory provisions of the law of the jurisdiction in which the Issuer is incorporated.

Any such modification shall be binding on the Noteholders, the Receiptholders and the Couponholders and any such modification shall be notified to the Noteholders in accordance with Condition 14 (*Notices*) as soon as practicable thereafter.

16. Further Issues

The Issuer may from time to time without the consent of the Noteholders, Receiptholders or Couponholders create and issue further notes having terms and conditions the same as the Notes or the same in all respects save for the amount and date of the first payment of interest thereon and so that the same shall be consolidated and form a single Series with the outstanding Notes; provided that further Notes must be fungible with the outstanding Notes for U.S. federal income tax purposes or be issued under a separate CUSIP or CINS number.

17. Governing Law and Submission to Jurisdiction

17.1 Governing law

The Agency Agreement, the Notes, the Receipts and the Coupons are governed by, and shall be construed in accordance with, the law of the State of New York.

17.2 Submission to jurisdiction

To the fullest extent permitted by applicable law, the Issuer irrevocably submits to the non-exclusive jurisdiction of any federal or state court located in the Borough of Manhattan, The City of New York, United States of America, in any suit, action or proceeding brought by any Noteholder, Receiptholder or Couponholder arising out of or based upon the Notes, the Receipts/or the Coupons, and irrevocably agrees that all claims in respect of any such suit, action or proceeding may be determined in any such court. The Issuer irrevocably waives, to the fullest extent permitted under applicable law, any objection it may have to the laying of venue in any such court and any claim that any such suit, action or proceeding brought in such a court has been brought in an inconvenient forum. The Issuer hereby appoints Law Debenture Corporate Services Inc., 801 2nd Avenue, Suite 403, New York, New York 10017, United States of America, as its authorized agent (the "Authorized Agent," which expression shall include any replacement authorized agent) upon whom process may be served in any such suit or proceeding set forth herein, it being understood that the designation and appointment of the Authorized Agent as such authorized agent shall become effective immediately without any further action on the part of the Issuer; provided that if for any reason the Authorized Agent named above ceases to act as Authorized Agent hereunder for the Issuer, the Issuer will appoint another person acceptable to the Dealers in the Borough of Manhattan, The City of New York and the State of New York, as Authorized Agent. The Issuer agrees to take any and all action as may be necessary, including the filing of any and all documents that may be necessary, to maintain such designation and appointment of the authorized agent in full force and effect. If for any reason the appointment of the Authorized Agent shall cease to be in force, the Issuer shall forthwith appoint a new agent to be the Authorized Agent and shall deliver to the Dealers and the Arranger a copy of the new Authorized Agent's acceptance for that appointment within 30 days. Service of process upon the Authorized Agent shall be deemed, in every respect, effective service of process upon the Issuer. The parties hereto each hereby waive any right to trial by jury in any action, proceeding or counterclaim arising out of or relating to the Notes, the Receipts and/or Coupons.

17.3 Other Documents

The Issuer has in the Agency Agreement submitted to the jurisdiction of the courts of the State of New York and appointed an agent for service of process in terms substantially similar to those set out in this Condition 17.

17.4 Waiver of immunity

The Issuer hereby irrevocably and unconditionally waives with respect to the Notes, the Receipts and the Coupons any right to claim sovereign or other immunity from jurisdiction or execution and any similar defense.

USE OF PROCEEDS

The net proceeds from each issue of Notes will be applied by the Issuer for its general corporate purposes or such other purposes as may be specified in the applicable Pricing Supplement.

EXCHANGE RATES

The table below sets forth, for the periods and dates indicated, information concerning the Market Average Exchange Rate for translations of Won amounts into U.S. dollars, rounded down to the nearest tenth of one Won. On October 10, 2018, the Market Average Exchange Rate was ₩1,131.7 to US$1.00. We do not intend to imply that the Won or U.S. dollar amounts referred to herein could have been or could be converted into U.S. dollars or Won, as the case may be, at any particular rate, or at all.

Year Ended December 31,	At End of Period	Average Rate(1)	High	Low
		(Won per US$1.00)		
2013	1,055.3	1,095.0	1,159.1	1,051.5
2014	1,099.2	1,053.2	1,118.3	1,008.9
2015	1,172.0	1,131.5	1,203.1	1,068.1
2016	1,208.5	1,160.5	1,240.9	1,093.2
2017	1,071.4	1,130.8	1,208.5	1,071.4
2018 (through October 10)	1,131.7	1,091.9	1,135.2	1,057.6
January	1,071.5	1,066.7	1,071.5	1,061.3
February	1,071.0	1,079.6	1,094.3	1,068.0
March	1,066.5	1,071.9	1,081.9	1,064.3
April	1,076.2	1,067.8	1,079.7	1,057.6
May	1,081.3	1,076.4	1,083.8	1,066.6
June	1,121.7	1,092.8	1,121.7	1,067.9
July	1,116.7	1,122.8	1,135.2	1,112.3
August	1,108.8	1,121.2	1,133.7	1,108.8
September	1,112.7	1,120.6	1,128.1	1,112.7
October (through October 10)	1,131.7	1,121.4	1,131	1,110.2

Source: Seoul Money Brokerage Services, Ltd.

(1) The average of the daily Market Average Exchange Rates for the periods indicated.

RISK FACTORS

Prospective investors in the Notes should carefully review all of the information contained elsewhere in this Offering Memorandum and the financial statements and the notes thereto, and should consider, in particular, the following factors before purchasing any Notes.

Risks Relating to the Issuer

The Issuer is subject to the control of the Government, and as a public entity that serves to implement the Government's public policy, certain actions of the Government may have a material adverse effect on the Issuer's financial condition and results of operations.

The Issuer was established under the KEC Act to develop, manage and operate expressways. The Issuer is under the direct supervision of the Road Policy Division, the central agency at the MOLIT which formulates all policies related to roads and reviews and coordinates plans prepared by various agencies. Under the Act on the Management of Public Institutions of 2007, as amended (the "Act on the Management of Public Institutions"), the MOLIT is responsible for overseeing the establishment of the Issuer's operational objectives, monitoring its operational and financial performance, overseeing its budgeting and approving revisions to its operating plans. In addition, the MOEF is responsible for the review of the financial results of the Issuer and also supervises matters concerning the compliance by the Issuer with the management guidelines set by the Government, including determination and approval of any toll rate increase in line with inflation and other economic targets of the Government. The President of Korea appoints the Issuer's president and standing member of the audit committee, and the president of the Issuer selects the standing directors and the MOEF selects the non-standing directors. See "Relationship with the Government — Government Control and Ownership."

On occasion, the Issuer may be requested to take action in furtherance of public policy considerations and the Government's broader objectives relating to the nation's transportation network, which may not necessarily be in the Issuer's best commercial interests. For example, from 1993 to 2006, the Issuer, at the request of the Government, made investments in five expressway construction and operation projects involving private investors. For these projects, the Issuer had not been able to fully recoup its investments and recognized capital reduction and impairment losses on intangibles. See "Management's Discussion and Analysis of Financial Condition and Results of Operations — Capital Reduction and Impairment Related to Investments in Privately Funded Expressway Projects."

The Issuer cannot make any assurances that future policy decisions by the Government will not have a material adverse effect on the Issuer's results of operations and financial condition.

The Government is not an obligor or guarantor of the Notes and is not legally required to provide financial support to the Issuer.

The Issuer is a Government-owned corporation with a mandate from the Government to construct and manage Korea's expressway network in accordance with the Road Act. As such, the Issuer has received and expects to continue to receive financial support from the Government for the costs of constructing expressways and related land acquisition costs as they relate to fulfillment of the Issuer's mandate under the Road Act. However, the Issuer's outstanding indebtedness, including the Notes, is not backed by the full faith and credit of the Government. The Government is not an obligor of the Notes and the Notes do not have any benefit of a guarantee from the Government although the Government has a statutory basis to provide a guarantee for the benefit of the Issuer. Furthermore, there is no statutory or other legal requirement for the Government to provide the Issuer with financial support to meet its outstanding debt obligations, including the Notes. The Government's support of the Issuer is subject to prior authorization by the National Assembly of Korea as part of the national budget approval process. Proceeds from subscription by the Government of new shares in the Issuer amounted to ₩1,374 billion and ₩1,361 billion in 2016 and 2017, respectively. With respect to 2018, the Government has budgeted ₩1,155 billion for capital contribution to the Issuer. Although the Issuer expects that the Government will continue to provide financial support to the Issuer, the Government's inability or unwillingness to provide continued financial support in the future or a decrease in such financial support to the Issuer may have a material adverse effect on the Issuer's ability to meet its payment obligations on its outstanding indebtedness, including the Notes.

The Issuer anticipates that it will receive limited financial support from the Government in respect of, and as a result will need to incur substantial indebtedness for, its capital expenditures.

The Issuer finances the development of expressway projects through a combination of capital contributions from the Government, debt financing and cash flow from operations. The Issuer has historically received capital contributions from the Government, which have generally accounted for approximately 40% of the Issuer's budgeted construction costs and, since 2003, 100% of the Issuer's budgeted costs of acquiring related land. However, at times, the Government's capital contribution fell and in the future may fall below such level due to budgetary constraints or other public policy considerations. For example, the Government's actual subsidy ratio (defined as the ratio of the Government's capital contributions to the Issuer's actual costs for construction of new expressways and expansions) fell below the 40% level in 2006, 2007, 2008 and 2010. The actual subsidy ratio was 52% and 54% in 2016 and 2017, respectively. In respect of 2018, the Issuer budgeted construction costs of ₩2,571 billion and the Government budgeted capital contributions to the Issuer in the amount of ₩1,155 billion. During the first six months of 2018, the actual capital contributions from the Government amounted to ₩901 billion. No assurance can be given that capital contributions from the Government will rise to or above the 40% level in future periods, especially if the Government were to experience similar or more severe budgetary constraints or if such capital contributions were to be assigned a lower priority in the Government's budget allocation process. If the Government's capital contributions decrease significantly, the Issuer will be required to resort to outside financing to fund a larger amount of its capital expenditure and working capital, which would increase the finance costs of the Issuer and adversely affect the Issuer's financial condition and results of operation. In addition, the amount of toll rate discounts and exemptions mandated as public service obligations under the Government's public policy objectives (including compact car discounts, commuter time discounts and loaded vehicle discounts) amounted to ₩295 billion, ₩343 billion and ₩193 billion in 2016, 2017 and the first half of 2018, respectively. If the Government's capital contributions decrease significantly or the Issuer's public service obligations increase significantly, the Issuer will be required to resort to outside financing to fund a larger amount of its capital expenditure and working capital, which would increase the net finance costs of the Issuer and adversely affect the Issuer's financial condition and results of operation.

The amount of the Government's capital contribution is set at the beginning of the fiscal year based on the Issuer's estimated budget for total construction costs for that particular year, but the actual subsidy ratio at the end of the year may be lower than the subsidy ratio based on the budgeted amount due to, among other things, actual costs being higher than the originally budgeted amount. To finance capital expenditures not covered by contributions from the Government or cash flow from operations, the Issuer has incurred, and will be required to continue to incur, substantial amounts of indebtedness. There can be no assurance, however, that the required funds will be available to the Issuer in sufficient amounts or at all or that the costs of such financing will be commercially acceptable to the Issuer.

The Issuer has significant debt and may encounter difficulties in funding its future capital requirements, including debt repayments.

The Issuer's business is capital-intensive, and as a result, the Issuer has historically made, and is expected to continue to make, significant capital expenditures. The Issuer's capital expenditures for 2016, 2017 and the first half of 2018 were ₩3,321 billion, ₩3,252 billion and ₩1,092 billion respectively. These expenditures related primarily to the development and construction of expressways and, to a lesser extent, related improvements. The Issuer has historically relied on its cash flow from operations, government support (in the form of capital contributions to the Issuer) and debt financings to meet its capital requirements. In 2016, 2017 and the first half of 2018, the Issuer raised ₩3,027 billion, ₩3,629 billion and ₩1,579 billion respectively, through Won, Hong Kong dollar, Chinese Renminbi and U.S. dollar, Swedish Krona, Canadian Dollar and Swiss Franc denominated bond issuances and long-term borrowings. As of June 30, 2018, the Issuer's interest bearing debt (comprised of debentures and borrowings before taking into account the effect of hedging transactions) as a percentage of total equity was 74.3%. If the Issuer were to become unable to obtain financing for its capital expenditures or to refinance its existing debt in sufficient amounts, on commercially reasonable terms, or at all, it would have a material adverse effect on the Issuer's business, financial condition and results of operations, as well as the Issuer's ability to pay interest on or principal of the Notes.

In line with the general policy guideline of the Government for public enterprises (including the Issuer) in general to reduce their respective overall debt levels and as part of the Issuer's efforts to strengthen its financial health, the Issuer expects to manage its debt-to-equity ratio, mainly through adjusting the amount and schedule of expressway construction, sale of assets and cost savings from rationalizing maintenance expenses. The Issuer's debt-to-equity ratio was 0.82 as of December 31, 2017. However, there is no assurance that, due to Government policy, prevailing market conditions and macroeconomic factors beyond the Issuer's control, the Issuer will be able to successfully reduce and manage debt burdens to a level contemplated under the comprehensive plan or to a level that would be optimal for the Issuer's capital structure. If the Issuer fails to do so or the measures taken by the Issuer to so reduce and manage the debt burdens have unintended adverse consequences, such developments may have an adverse effect on the Issuer's business, results of operation and financial condition.

The Issuer is subject to various operational risks, any of which could give rise to significant delays or additional costs.

The construction and operation of large infrastructure projects, such as the expressways operated by the Issuer, involve many potential risks, including natural disasters, the need to change the construction design of expressways and opposition by community or special interest groups to the construction and operation of expressways. Any such risks, if realized, could give rise to delays or other adverse developments, such as lawsuits, and result in loss of revenue and cost overruns, which may have a material adverse effect on the Issuer's results of operations.

In particular, the occurrence of natural disasters such as typhoons, heavy snowfalls, floods or earthquakes could interrupt and have an adverse impact on the Issuer's business, leading to decreased revenue and increased maintenance and construction costs. Natural disasters that result in substantial traffic delays or damage to road conditions can also expose the Issuer to complaints and lawsuits from motorists. The Issuer does not have insurance coverage for natural disasters.

In addition, protests and other forms of opposition by environmental interest groups, such as lawsuits or demonstrations, may delay the Issuer's construction projects. While the activities of special interest groups historically have not had a material adverse effect on the Issuer's projects, no assurance can be given that such activities in the future will not cause the Issuer to experience significant delays or additional costs.

The Issuer's expressway construction and operation activities have in the past been, and continue to be, subject of various lawsuits against the Issuer, as a result of, among other things, traffic accidents, environmental concerns and disputes relating to land acquisitions and the placement of expressway routes. In some cases, these lawsuits involve mass tort or other class action type of litigation brought by special interest groups (such as environmental activists) or by communities that are affected by the Issuer's construction or other operational activities (such as noise pollution caused by traffic along the Issuer's expressways). There can be no assurance that currently pending or future lawsuits, if determined adversely to the Issuer, would not have a material adverse effect on the Issuer and its business.

Decreases in traffic volume, including as a result of rising fuel prices, could adversely affect the Issuer's results of operations.

The Issuer's toll revenue, which represents the principal source of operating profit and cash from operations, depends on traffic volume and toll rates. In turn, traffic volume depends on a number of factors, including the quality, convenience and travel time on the expressways operated by the Issuer compared to alternative roads, the economic climate in Korea, legislation designed to curb motor vehicle use (including measures to restrict private motor vehicle use to reduce traffic and air pollution and measures to promote the use of public transportation, such as the "bus-only lane" policy), and the viability and existence of alternative means of transportation. In addition, rising fuel prices are likely to lead to a decrease in motor vehicle use. Due to these and other factors, no assurance can be given that traffic volume and toll rates will not decrease.

In addition, although the Issuer does not believe that other modes of transportation, such as the high-speed railways or the expressways funded by private capital, currently pose a significant threat to the Issuer's business, no assurance can be given that these alternative means of transportation or other new means of transportation will not in the future have a material adverse effect on the Issuer's business, financial condition or results of operation. See "Business — Competition."

Any decrease in toll rates, or the failure of the Issuer to obtain the approval of the Government to increase toll rates, may adversely affect the Issuer's operating results and financial condition.

Increases in toll rates, which are subject to approval by the MOLIT upon consultation with the MOEF, occur on a periodic basis. Before implementing any toll rate increase, the Issuer engages in prior consultation with the MOLIT and the MOEF. Factors considered in determining whether toll rates will be increased and the extent of any such increase include the prevailing inflation level in Korea, perceived and actual affordability of the toll rates to the general public, macroeconomic conditions, the Government's general public policy considerations and the Issuer's need to balance toll revenue with the Issuer's expenses.

No assurance can be given that the Government will approve the Issuer's requests for a toll rate increase in a timely manner, or at all. The Government's refusal to allow a toll rate increase may have a material adverse effect on the Issuer's revenue and ability to repay its obligations on its outstanding indebtedness, including the Notes. In addition, although the Issuer has not been required by the Government to reduce toll rates or reduce the total number of, or materially change the location of, the toll plazas on the expressways operated by the Issuer, no assurance can be given that the Government will not require the Issuer to do so in the future.

Environmental regulations may limit the Issuer's operations.

The Issuer is required to comply with numerous laws and regulations relating to the protection of the environment and land use. See "Business — Environmental Matters." These laws and regulations are constantly changing and the Issuer's operations could expose it to substantial liability relating to environmental or health and safety issues, such as those resulting from noise pollution, discharge of pollutants into the environment, the handling, storage and disposal of solid or hazardous materials or wastes and the investigation and remediation of contaminated sites. The Issuer may be responsible for the investigation and remediation of environmental conditions at currently and formerly operated construction sites. The Issuer may also be subject to associated liabilities, including liabilities for natural resource damage, third party property damage or personal injury resulting from lawsuits brought by the Government or private litigants. In the course of the Issuer's operations, hazardous wastes may be generated at third party-owned or operated sites, and hazardous wastes may be disposed of or treated at third party-owned or operated disposal sites. If those sites become contaminated, the Issuer could also be held responsible for the cost of investigation and remediation of such sites, any associated natural resource damage, and civil or criminal fines or penalties. Any one or more of the foregoing could have a material adverse effect on the Issuer and its business.

While the Issuer believes that it has obtained all material environmental and construction approvals and permits currently required to own and operate its facilities and engage in its construction activities, the Issuer may incur significant additional costs as a result of these requirements. In addition, there can be no assurance that the requirements to obtain such approvals and permits may not be made more stringent in the future and that such approvals and permits would be renewed when they expire, and the failure to so obtain or renew could have a material adverse effect on the Issuer and its business.

Following from the recent decision of the Supreme Court of Korea, the Issuer may be exposed to potential claims made by current or previous employees for unpaid wages for the past three years under the expanded scope of ordinary wages and become subject to additional labor costs arising from the broader interpretation of ordinary wages under such decision.

Under the Labor Standards Act, an employee is legally entitled to "ordinary wages." Under the guidelines previously issued by the Ministry of Employment and Labor, ordinary wages include base salary and certain fixed monthly allowances for work performed overtime during night shifts and holidays. Prior to the Supreme Court decision described below, many companies in Korea had typically interpreted these guidelines as excluding from the scope of ordinary wages fixed bonuses that are paid other than on a monthly basis, namely on a bi-monthly, quarterly or biannually basis, although such interpretation had been a subject of controversy and had been overruled in a few court cases.

In a decision rendered on December 18, 2013, the Supreme Court of Korea ruled that regular bonuses (including those that are paid other than on a monthly basis) shall be deemed to be ordinary wages if these bonuses are paid "regularly" and "uniformly" on a "fixed basis" notwithstanding differential amounts based on seniority. Under this decision, any collective bargaining agreement or labor-management agreement which attempts to exclude such regular bonuses from ordinary wage will be deemed void for violation of the mandatory provisions of Korean law. However, the Supreme Court further ruled that an employee's claim for underpayments under the expanded scope of ordinary wages for the past three years, which is the applicable statute of limitations for such claims, may be denied based on the principles of good faith in certain limited situations.

Although the Issuer believes that the amount of such additional labor costs or any additional costs arising from potential claims made by current or previous employees for unpaid wages within the applicable statute of limitations of three years under the expanded scope of ordinary wages will be limited, there is no assurance that such additional costs will not have an adverse effect on its results of operation and cash flows. For other potentially material litigation, see "Business — Litigation."

Risks Relating to Korea

Unfavorable financial and economic conditions in Korea and globally may have a material adverse impact on the Issuer's financial condition and results of operations.

The Issuer is incorporated in Korea, where most of its assets are located and most of its income is generated. As a result, the Issuer is subject to political, economic, legal and regulatory risks specific to Korea, and its business, results of operations and financial condition are largely dependent on developments relating to the Korean economy. The economic indicators in Korea in recent years have shown mixed signs of growth and uncertainty, and future growth of the Korean economy is subject to many factors beyond our control, including developments in the global economy.

The Korean economy is closely integrated with, and is significantly affected by, developments in the global economy and financial markets. Substantial uncertainties remain for the global and Korean economy in the form of anticipated tightening of the U.S. monetary policy, continued fiscal and financial challenges for the European, U.S. and global economies, fluctuations in oil and commodity prices, signs of cooling of the Chinese economy and a rise of military and political tension in the Middle East, the Eastern Europe and former members of the Soviet Union. Accordingly, the overall prospects for the Korean and global economy in 2017 and beyond remain uncertain. Any future deterioration of the global economy may have an adverse impact on the Korean economy, which in turn could adversely affect the Issuer's business, financial condition and results of operations. As Korea's economy is highly dependent on the health and direction of the global economy, investors' reactions to developments in one country can have adverse effects on the securities price of companies in other countries. Factors that determine economic and business cycles of the Korean or global economy are for the most part beyond the Issuer's control and inherently uncertain. In light of the high level of interdependence of the global economy, any of the foregoing developments could have a material adverse effect on the Korean economy and financial markets, and in turn on the Issuer's business and profitability.

Other factors that could have an adverse impact on Korea's economy include:

- declines in consumer confidence and a slowdown in consumer spending in the Korean or global economy;

- continuing adverse conditions in the economies of countries and regions that are important export markets for Korea, such as China, the United States, Europe and Japan, or in emerging market economies in Asia or elsewhere, as well as increased uncertainty in the wake of a referendum in the United Kingdom in June 2016, in which the majority of voters voted in favor of an exit from the European Union ("Brexit");

- adverse changes or volatility in foreign currency reserve levels, commodity prices (including oil prices), exchange rates (including fluctuation of the U.S. dollar, the Euro or the Japanese Yen exchange rates or revaluation of the Chinese Renminbi and the overall impact of Brexit on the value of the Korean Won), interest rates, inflation rates or stock markets;

- increased sovereign default risk in select countries and the resulting adverse effects on the global financial markets;

- a continuing rise in the level of household debt and increasing delinquencies and credit defaults by retail or small and medium sized enterprise borrowers;

- the continued growth of the Chinese economy, to the extent its benefits (such as increased exports to China) are outweighed by its costs (such as competition in export markets or for foreign investment and the relocation of the manufacturing base from Korea to China), as well as a slowdown in the growth of China's economy, which is Korea's most important export market;

- the economic impact of any pending or future free trade agreements;

- social and labor unrest;

- decreases in the market prices of Korean real estate;

- a decrease in tax revenue and a substantial increase in the Government's expenditures for fiscal stimulus measures, unemployment compensation and other economic and social programs that, together, would lead to an increased government budget deficit;

- financial problems or lack of progress in the restructuring of Korean business groups, other large troubled companies, their suppliers or the financial sector;

- loss of investor confidence arising from corporate accounting irregularities and corporate governance issues concerning certain Korean business groups;

- increases in social expenditures to support an aging population in Korea or decreases in economic productivity due to the declining population size in Korea;

- geo-political uncertainty and risk of further attacks by terrorist groups around the world;

- the occurrence of severe health epidemics in Korea or other parts of the world, such as the Middle East Respiratory Syndrome outbreak in Korea in 2015;

- natural or man-made disasters that have a significant adverse economic or other impact on Korea (such as the sinking of the Sewol ferry in 2014, which significantly dampened consumer sentiment in Korea) or its major trading partners;

- deterioration in economic or diplomatic relations between Korea and its trading partners or allies, including deterioration resulting from territorial or trade disputes or disagreements in foreign policy and the recent diplomatic tension between Korea and China with respect to the deployment of the Terminal High Altitude Area Defense (THAAD) system in Korea;

- political uncertainty or increasing strife among or within political parties in Korea;

- hostilities or political or social tensions involving oil producing countries in the Middle East and North Africa and any material disruption in the global supply of oil or sudden increase in the price of oil;

- political or social tensions involving Russia and any resulting adverse effects on the global supply of oil or the global financial markets; and

- an increase in the level of tensions or an outbreak of hostilities between North Korea and Korea or the United States.

Any future deterioration of the Korean economy could have an adverse effect on the Issuer's business, financial condition and results of operation.

Tensions with North Korea could have an adverse effect on the Issuer and the market value of the Notes.

Relations between Korea and North Korea have been tense throughout Korea's modern history. The level of tension between the two Koreas has fluctuated and may increase abruptly as a result of future events. In particular, since the death of Kim Jong il in December 2011, there has been increased uncertainty with respect to the future of North Korea's political leadership and concern regarding its implications for political and economic stability in the region. Although Kim Jong il's third son, Kim Jong eun, has assumed power as his father's designated successor, the long term outcome of such leadership transition remains uncertain. In February 2017, Kim Jong-eun's half-brother, Kim Jong Nam, was reported to have been assassinated in an international airport in Malaysia.

In addition, there have been heightened security concerns in recent years stemming from North Korea's nuclear weapon and long range missile programs as well as its hostile military actions against Korea. Some of the significant incidents in recent years include the following:

- In February 2017, Kim Jong-nam, the eldest son of the late former leader, Kim Jong-il, and stepbrother of Kim Jong-eun, was allegedly poisoned to death at Kuala Lumpur airport in Malaysia. The incident is currently being investigated to determine the possible involvement of the North Korean government in Kim Jong-nam's death.

- From time to time, North Korea has conducted ballistic missile tests. In February 2016, North Korea launched a long range rocket in violation of its agreement with the United States as well as United Nations sanctions barring it from conducting launches that use ballistic missile technology. Despite international condemnation, North Korea released a statement that it intends to continue its rocket launch program and it conducted additional ballistic missile tests in June 2016, a submarine-launched ballistic missile test in August 2016 and a series of missile tests in the first half of 2017. In response, the United Nations Security Council, in February 2017, issued a unanimous statement condemning North Korea and agreeing to continue to closely monitor the situation and to take further significant measures and in March 2017, unanimously passed a resolution extending existing sanctions that were imposed on North Korea. On April 4, 2017, one day before the first meeting between U.S. President Donald Trump and Chinese President Xi Jinping, North Korea launched a ballistic missile which landed off the east coast of the Korean peninsula. In addition to the United Nations Security Council's condemnation, representatives of the Government and China expressed their plan to impose stronger sanctions on North Korea. On April 15, 2017, North Korea launched another missile which failed when it exploded immediately after liftoff. In response, the Government condemned the launch as a violation of the resolution of the United Nations Security Council and warned that North Korea would have to face punitive consequences if this leads to a future nuclear experiment or launch of an intercontinental ballistic missile. In July 2017, North Korea conducted two intercontinental ballistic missile tests which displayed further development of its long-range ballistic missile capabilities that potentially enable it to target certain areas of the United States as well as other neighboring countries in the Asia-Pacific region. In response, the United Nations Security Council unanimously adopted stronger sanctions against North Korea. In August 2017, North Korea announced its plan to launch four ballistic missiles targeting Guam, resulting in heightened diplomatic tensions between North Korea and the United States. In November 2017, North Korea conducted a test launch of another intercontinental ballistic missile, which, due to its improved size, power and range of distance, may potentially enable North Korea to target the United States mainland.

- North Korea renounced its obligations under the Nuclear Non Proliferation Treaty in January 2003 and conducted three rounds of nuclear tests between October 2006 and February 2013, which increased tensions in the region and elicited strong objections worldwide. In January 2016, North Korea conducted a fourth nuclear test, claiming that the test involved its first hydrogen bomb, which claim has not been independently verified. In response to such test (as well as North Korea's long range rocket launch in February 2016), the United Nations Security Council unanimously passed a resolution in March 2016 condemning North Korea's actions and significantly expanding the scope of the sanctions applicable to North Korea, while the United States and the European Union also imposed additional sanctions on North Korea. In September 2016, North Korea conducted a fifth nuclear test, claiming to have successfully detonated a nuclear warhead that could be mounted on ballistic rockets, which claim has not been independently verified. In September 2017, North Korea detonated a sixth nuclear bomb, the most powerful weapon that North Korea has ever tested. Such detonation further heightened diplomatic tensions between North Korea and other nations. Each of the United Nations, the United States and the European Union adopted additional sanctions against North Korea. Spain, Mexico, Peru and Kuwait expelled from their respective territories the ambassadors of North Korea.

- In August 2015, two Korean soldiers were injured in a landmine explosion near the Korean demilitarized zone. Claiming the landmines were set by North Koreans, the Korean army re initiated its propaganda program toward North Korea utilizing loudspeakers near the demilitarized zone. In retaliation, the North Korean army fired artillery rounds on the loudspeakers, resulting in the highest level of military readiness for both Koreas. High ranking officials from North Korea and Korea subsequently met for discussions and entered into an agreement on August 25, 2015 intending to defuse military tensions.

- In March 2010, a Korean naval vessel was destroyed by an underwater explosion, killing many of the crewmen on board. The Government formally accused North Korea of causing the sinking, while North Korea denied responsibility. Moreover, in November 2010, North Korea fired more than one hundred artillery shells that hit Korea's Yeonpyeong Island near the Northern Limit Line, which acts as the de facto maritime boundary between Korea and North Korea on the west coast of the Korean peninsula, causing casualties and significant property damage. The Government condemned North Korea for the attack and vowed stern retaliation should there be further provocation.

Meanwhile, in April 2018 and May 2018, inter-Korean summits took place between the two heads of state, Moon Jae-in from Korea, and Kim Jong-eun from North Korea, to discuss, among others, issues relating to establishment of peace in the Korean peninsula, improvement of inter-Korean relations and denuclearization of the Korean Peninsula, and in late May 2018, North Korea destroyed at least three nuclear tunnels at its Punggye-ri nuclear test site in a process observed by invited international journalists. In June 2018, Kim Jong-eun attended multiple summit meetings with each of the heads of state of South Korea, the United States and China. Although there has been large media coverage on such recent events with some hopeful views and opinions being expressed on a more peaceful and cooperative relationship between the two Koreas, the situation relating to North Korea depends on numerous and various complicated factors, including the development of a political, diplomatic and military relationship with countries such as the United States and the People's Republic of China, and it is yet uncertain how the North Korean situation will develop.

North Korea's economy also faces severe challenges, including severe inflation and food shortages, which may further aggravate social and political tensions within North Korea. In addition, reunification of Korea and North Korea could occur in the future, which would entail significant economic commitment and expenditure by Korea.

There can be no assurance that the level of tension on the Korean peninsula will not escalate in the future or that the political regime in North Korea may not suddenly collapse. Any further increase in tensions or uncertainty relating to the military, political or economic stability in the Korean peninsula, including a breakdown of diplomatic negotiations over the North Korean nuclear program, occurrence of military hostilities, heightened concerns about the stability of North Korea's political leadership or its actual collapse, a leadership crisis, a breakdown of diplomacy or accelerated reunification, could have a material adverse effect on the Issuer's business, results of operations and financial condition and the market value of the Notes.

There are special risks involved with investing in securities of Korean companies, including the possibility of restrictions being imposed by the Government in emergency circumstances as well as accounting and corporate disclosure standards that differ from those in other jurisdictions.

Under the Korean Foreign Exchange Transactions Act, if the Government deems that certain emergency circumstances (including natural disasters, wars, sudden and severe changes in domestic or foreign economic conditions, extreme difficulty in stabilizing the balance of payments or substantial disturbance in the Korean financial and capital markets) have occurred or are likely to occur, it may impose any necessary restriction such as requiring Korean or foreign investors (i) to obtain prior permission from the MOEF for the acquisition of Korean securities or for other transactions involving foreign exchange or (ii) to deposit a part of the interest or sales proceeds arising from Korean securities or from the disposition of such securities or from other transactions involving foreign exchange with the Bank of Korea, certain other designated financial institutions or the Foreign Exchange Equalization Fund set up by the Government.

The Issuer prepares and presents its financial statements in accordance with the Government Accounting Standards for Public Corporations and Quasi-governmental Institutions in the Republic of Korea, which differ in many material respects from IFRS adopted in other countries. In addition, the Issuer makes public disclosure regarding other aspects of its business in accordance with applicable laws and regulations in Korea and accepted practice in Korea. These disclosure rules and practices differ in many material respects from those applicable to companies in certain other countries, including the United States. In particular, the Issuer is required to prepare consolidated financial statements only on an annual basis and is not required to prepare any interim financial statements. In making an investment decision, investors must rely upon their own examination of the Issuer, the terms of the offering and the financial information contained in this Offering Memorandum.

Risks Relating to the Notes

The Notes are unsecured obligations.

Because the Notes, when issued, will be unsecured obligations, the Issuer's ability to pay interest or principal on the Notes may be adversely affected if the Issuer enters into bankruptcy, liquidation, reorganization or other similar proceedings, the Issuer defaults under its future secured indebtedness or other unsecured indebtedness, or the Issuer's indebtedness becomes accelerated. If any of the foregoing events occurs, the Issuer's assets may not be sufficient to pay all the amounts due upon the occurrence of such event and holders of the Notes will be unsecured creditors of the Issuer.

The Notes are subject to transfer restrictions.

The Notes will not be registered under the Securities Act or any state securities laws and may not be offered or sold within the United States or to, or for the account or benefit of, U.S. persons, except to qualified institutional buyers in reliance on the exemption provided by Rule 144A or other specified exemptions, to certain persons in offshore transactions in reliance on Regulation S, or pursuant to another exemption from, or in another transaction not subject to, the registration requirements of the Securities Act and in accordance with applicable state securities laws.

The Notes are not protected by restrictive covenants.

The Notes and the Agency Agreement do not contain various restrictive financial, operating or other covenants or restrictions, including the payment of dividends, the incurrence of indebtedness or the issuance of securities by the Issuer.

There is no existing trading market for the Notes and, therefore the Notes offer limited liquidity.

The Notes, when issued, will constitute a new issue of securities for which there will be no existing trading market. Application will be made to the Singapore Stock Exchange for the listing and quotation of Notes that may be issued pursuant to the Program and which are agreed at or prior to the time of issue thereof to be so listed on the Singapore Stock Exchange. Although the Dealers have advised the Issuer that they currently intend to make a market in the Notes, they are not obligated to do so, and any market-making activity with respect to the Notes, if commenced, may be discontinued at any time without notice.

No assurance can be given as to the liquidity of, or the development and continuation of an active trading market for, the Notes. If an active trading market for the Notes does not develop or is not maintained, the market price and liquidity of the Notes may be adversely affected. If such a market were to develop, the Notes could trade at prices that may be higher or lower than the price at which the Notes are issued depending on many factors, including:

- prevailing interest rates;
- the Issuer's results of operations and financial condition;
- political and economic developments in and affecting Korea;
- the market conditions for similar securities; and
- the financial condition and stability of the financial sector in Korea and other parts of the world.

CAPITALIZATION OF THE ISSUER

The following table sets forth the capitalization of the Issuer, as derived from the unaudited condensed consolidated financial statements as of and for the six months ended June 30, 2018, which are included elsewhere in this Offering Memorandum.

The table below should be read in conjunction with:

- the Issuer's unaudited condensed consolidated financial statements as of June 30, 2018 and for the six months ended June 30, 2017 and 2018, which are included elsewhere in this Offering Memorandum; and

- "Management's Discussion and Analysis of Financial Condition and Results of Operations."

	As of June 30, 2018[(1)]	
	(in billions of Won and millions of U.S. dollars)[(2)]	
Long-term indebtedness:		
Long-term borrowings, excluding current portion	₩ 800	$ 713
Bonds, net[(3)]	21,828	19,460
Total long-term indebtedness	22,628	20,173
Equity:		
Share capital, par value ₩10,000 per share (Authorized: 3,500,000,000 common shares; Issued and outstanding: 3,318,604,473 common shares, net)[(4)]	33,186	29,585
Share discount	(4)	(4)
Retained earnings	1,343	1,197
Other equity components	(76)	(68)
Equity attributable to owners of the Issuer	34,449	30,711
Non-controlling interests	—	—
Total equity	34,449	30,711
Total capitalization	₩ 57,077	$ 50,884

(1) Except as disclosed herein, there has been no material adverse change in the capitalization of the Issuer since June 30, 2018.

(2) The Issuer maintains its financial statements in Won. The Won financial information for the six months ended June 30, 2018 has been translated into U.S. dollars at the exchange rate of ₩1,121.7 to US$1.00, which was the Market Average Exchange Rate in effect as of June 30, 2018.

(3) Since June 30, 2018, the Issuer has issued Won-denominated bonds in the aggregate amount of ₩300 billion. All of these bonds, after accounting for interest rate swaps, are on a fixed rate basis with interest rates per annum in the range of 2.30% to 2.61%. The Issuer does not have any outstanding convertible or exchangeable debt securities or debt securities with warrants attached.

(4) Since June 30, 2018, additional capital contributions in the aggregate amount of ₩20 billion were made by the MOLIT, resulting in 2,000,000 additional shares being issued to the MOLIT. As a result, the Issuer currently has 3,320,604,473 shares of total issued and outstanding common stock. Such additional capital contributions have not been reflected in the table above.

SELECTED FINANCIAL DATA

The following tables set forth selected consolidated financial data with respect to the Issuer. The selected financial data of the Issuer as of June 30, 2018 and for the six months ended June 30, 2017 and 2018 were derived from the Issuer's unaudited condensed consolidated financial statements as of the same dates and for the same periods, and the selected financial data of the Issuer as of and for the years ended December 31, 2016 and 2017 were derived from the Issuer's audited financial statements as of and for the years ended December 31, 2016 and 2017, respectively. The Issuer's results of operations for the six months ended June 30, 2018 may not be indicative of the Issuer's results of operations for the second half of 2018 or the full year 2018.

The selected financial data below should be read in conjunction with the Issuer's audited financial statements as of and for the years ended December 31, 2016 and 2017 and the Issuer's unaudited condensed consolidated financial statements as of and for the six months ended June 30, 2017 and 2018, and the notes to these consolidated and condensed consolidated financial statements, which are included elsewhere in this Offering Memorandum.

The Issuer's consolidated and condensed consolidated financial statements included elsewhere in this Offering Memorandum have been prepared in accordance with the Government Accounting Standards for Public Corporations and Quasi-governmental Institutions in the Republic of Korea, which may differ in certain respects from IFRS applied in other countries.

	Year ended December 31,		Six months ended June 30,		
	2016	2017	2017	2018(1)	
	(in billions of Won and millions of U.S. dollars)				
Selected Consolidated Statement of Comprehensive Income Data					
Revenue:					
Toll business	₩4,052	₩4,060	₩2,003	₩1,936	$ 1,726
Construction business	3,321	3,252	1,299	1,092	974
Incidental business	508	554	239	268	239
Supporting business	278	194	69	41	36
Total	8,159	8,060	3,610	3,337	2,975
Cost of sales:					
Toll business	3,285	3,039	1,662	1,469	1,310
Construction business	3,321	3,252	1,299	1,092	974
Incidental business	321	362	140	171	152
Supporting business	278	194	69	41	36
Total	7,205	6,847	3,169	2,773	2,472
Gross profit	954	1,213	441	564	503
Selling and administrative expenses	229	241	94	102	91
Operating profit	725	972	347	462	412
Other income	73	113	84	50	45
Other expenses	74	95	21	23	20
Other profit (loss)	299	(11)	8	0.9	0.8
Finance income	136	328	215	123	110
Finance costs	948	1,109	515	521	464
Share of income of investment associates and joint venture	1	(1)	(0.4)	(1.3)	(1.2)
Income before income tax expense	213	197	117	91	81
Income tax expense	78	61	34	27	24
Net income	₩ 135	₩ 136	₩ 83	₩ 64	$ 57

(1) The Issuer maintains its financial statements in Won. The Won financial information for the six months ended June 30, 2018 has been translated into U.S. dollars at the exchange rate of ₩1,121.7 to US$1.00, which was the Market Average Exchange Rate in effect as of June 30, 2018.

	As of December 31,		As of June 30,	
	2016	2017	2018(1)	
	(in billions of Won and millions of U.S. dollars)			
Selected Consolidated Statement of Financial Position Data				
Assets:				
Cash and cash equivalents	₩ 633	₩ 500	₩ 333	$ 297
Other current assets	313	235	833	743
Total current assets	946	735	1,166	1,040
Construction-in-progress	6,355	5,704	5,006	4,463
Expressway operating rights(2)	49,867	52,054	52,971	47,224
Other non-current assets	2,414	2,597	2,553	2,275
Total non-current assets	58,636	60,355	60,530	53,962
Total assets	₩59,583	₩61,090	₩61,696	$ 55,002
Liabilities:				
Current portion of bonds, net	₩ 3,429	₩ 2,801	₩ 2,734	$ 2,437
Other current liabilities	1,225	939	828	739
Current liabilities	4,654	3,740	3,562	3,176
Bonds, net(3)	21,605	22,026	21,828	19,460
Other non-current liabilities	1,254	1,717	1,858	1,655
Non-current liabilities	22,859	23,743	23,686	21,115
Total liabilities	27,512	27,483	27,248	24,291
Equity:				
Share capital	30,925	32,285	33,186	29,585
Other equity(4)	1,145	1,322	1,262	1,126
Total equity	32,070	33,607	34,448	30,711
Total equity and liabilities	₩59,583	₩61,090	₩61,696	$ 55,002

(1) The Issuer maintains its financial statements in Won. The Won financial information as of June 30, 2018 has been translated into U.S. dollars at the exchange rate of ₩1,121.7 to US$1.00, which was the Market Average Exchange Rate in effect as of June 30, 2018.

(2) Net of accumulated amortization of ₩25,188 billion, ₩26,970 billion and ₩27,898 billion as of December 31, 2016 and 2017 and June 30, 2018, respectively.

(3) Less discount on bonds issued of ₩21,610 billion, ₩22,033 billion and ₩21,834 billion as of December 31, 2016 and 2017 and June 30, 2018, respectively.

(4) Represents the sum of share discount, other equity component and retained earnings, minus non-controlling interests.

	As of and for the years ended December 31,		As of and for the six months ended June 30,	
	2016	2017	2018(1)	
	(in billions of Won and millions of U.S. dollars, except percentages and multiples)			
Selected Other Financial Data				
Depreciation and amortization	₩ 2,218	₩ 1,935	₩ 1,012	$ 902
Total debt/Total capitalization(2)	44.4%	43.2%	42.6%	42.6%
Capital expenditures(3)	₩ 3,321	₩ 3,252	₩ 1,092	$ 974

(1) The Issuer maintains its financial statements in Won. The Won financial information as of and for the six months ended June 30, 2018 has been translated into U.S. dollars at the exchange rate of ₩1,121.7 to US$1.00, which was the Market Average Exchange Rate in effect as of June 30, 2018.

(2) Represents total debt divided by total capitalization. Total debt consists of borrowings and bonds. For details on borrowings and bonds, see Note 17 to the Issuer's financial statements as of and for the years ended December 31, 2016 and 2017 and Note 14 of the notes to the Issuer's consolidated financial statements as of and for the six months ended June 30, 2018, which are included elsewhere in this Offering Memorandum. Total capitalization consists of total debt and total equity. The Issuer has included such metric because management believes it provides useful supplemental information as to the Issuer's capital structure.

(3) Represents capital expenditures for the construction of new expressways and expansion and improvement of existing expressways. For further details on these and other capital expenditures, see "Management's Discussion and Analysis of Financial Condition and Results of Operations — Liquidity and Capital Resources — Capital Requirements."

MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

The following discussion and analysis should be read in conjunction with, and is qualified in its entirety by reference to, the Issuer's consolidated and condensed consolidated financial statements and the notes thereto included elsewhere in this Offering Memorandum. Unless specified otherwise, all financial information set forth below is presented on a consolidated basis. The Issuer's consolidated and *condensed consolidated financial statements have been prepared in accordance with the Government Accounting Standards for Public Corporations and Quasi-governmental Institutions in the Republic of Korea, which may differ in certain respects from IFRS applied in other countries. The following discussion contains forward-looking statements and reflects the Issuer's current view with respect to future events and financial performance. Actual results may differ materially from those anticipated in these forward-looking statements as a result of certain factors such as those set forth under "Risk Factors" and elsewhere in this Offering Memorandum.*

Overview

The Issuer is a Government-owned corporation with the exclusive right to collect tolls on the expressways operated by it until it recovers all of its investments made in connection with the construction of such expressways. Formed as a public entity to execute the policies of the Government relating to the national expressways network, the Issuer does not seek to maximize profits but rather to maintain a certain level of cash flow and profitability with a view to strengthening its equity base and supporting its mandate of constructing, managing and operating expressways in Korea.

The Issuer derives its revenues from four business units: (i) toll business, which primarily involves the collection of tolls from motorists for the use of the expressways that the Issuer operates, (ii) construction business, which primarily involves construction of expressways to be operated by the Issuer upon completion, (iii) incidental business, which primarily involves leasing to third-party operators of service areas and gas stations located at various points along the expressways, technical consulting and research and development services with regard to road construction and maintenance and land acquisition services for land unrelated to expressways principally for third parties other than the Government, and (iv) supporting business, which primarily involves providing services to the Government (other than in relation to the construction and operation of expressways), including supervision of Government construction projects along various locations adjacent to the expressways and acquisition of land adjacent to or otherwise related to expressways on behalf of the Government.

The Issuer operates its supporting and construction businesses at cost and does not derive any gross profit from either of these businesses. As for the construction business, the consideration for such services is substantially matched to the costs and expenses incurred by the Issuer for such services on a percentage of completion basis and is recorded as construction-in-progress until completion of construction, which is then converted into expressway operating rights upon completion of construction. The cost of sales in relation to the revenue from the construction business is matched to the revenue from the construction business. See "— Critical Accounting Policies — Expressway Operating Rights; Amortization of Expressway Operating Rights." As for the supporting business, the Issuer states at cost the costs of providing its supporting services to or on behalf of the Government, which services primarily include acquiring land on behalf of the

Government. The costs of such services principally involve the costs of land being acquired, and these costs are recognized as revenues for the supporting business in matching amounts. The cost of sales in relation to the supporting business is matched to the revenue from the supporting business.

Accordingly, the Issuer derives its operating profit principally from the toll business and, to a less extent, the incidental business. The Issuer's toll revenue depends mainly on the traffic volume and toll rates on the expressway network managed by the Issuer. In turn, traffic volume depends on a number of factors, some of which are beyond the Issuer's control. See "Business — Traffic." Increases in toll rates are subject to approval by the MOLIT, after consultation with the MOEF. The Issuer, the MOLIT and the MOEF consider various factors in determining toll rates, including the inflation levels in Korea, perceived and actual affordability of the toll rates to the general public, macroeconomic conditions and public policy considerations, as well as the Issuer's need to balance toll revenue with the Issuer's expenses. See "Relationship with the Government — Toll Rates." The Issuer's revenue from its toll business was ₩4,052 billion, ₩4,060 billion and ₩1,936 billion in 2016, 2017 and the first half of 2018, respectively, which represented 49.7%, 50.4% and 58.0% of the Issuer's revenues, or 88.9%, 88.0% and 87.8% of the Issuer's revenues other than from the construction and supporting businesses (which yield no gross profit as the Issuer operates these businesses at cost), in 2016, 2017 and the first half of 2018, respectively. Non-toll revenues (principally, those from the construction business and the supporting business) can fluctuate significantly from period to period depending on the amount of services required from the Issuer by the Government, over which the Issuer has no control.

The Issuer does not recognize any net income for the period from its toll business since the amount of amortization for expressway operating rights for a given financial year is determined so that the difference between the Issuer's revenues from and total expense for the toll business for such year is zero. Therefore, amortization of intangible assets (principally, the Issuer's exclusive expressway operating rights) for a given financial year serves as an indicator of the rate of the Issuer's recovery in respect of such year on its investments made for the construction of expressways operated by it. Such amortization amount effectively represents net income for the period from the Issuer's toll-related operations had there been no such amortization, and all of the Issuer's net income for the period is derived from the incidental business since, as discussed above, the construction business and the supporting business do not record any gross profit or net income for the period.

Accordingly, the Issuer's gross profit, operating profit and net income for the period and their respective margins are not as useful metrics for evaluating the Issuer's operating performance as would be the case for most companies.

See "— Critical Accounting Policies — Expressway Operating Rights; Amortization of Expressway Operating Rights" below and Note 2(6) to the Issuer's financial statements as of and for the years ended December 31, 2016 and 2017 and Note 2 of the notes to the Issuer's consolidated financial statements as of and for the six months ended June 30, 2018, which are included elsewhere in this Offering Memorandum.

The level of financial support provided by the Government for the construction of expressways is critical to the financial performance of the Issuer since the Issuer is required to make up the shortfall between the actual construction costs and the Government's financial support with operating cash and debt financing from third party sources. The Government's financial support, which principally takes the form of periodic capital contributions by way of subscription of new shares in the Issuer, generally covered approximately 40% of the Issuer's total construction costs for both new expressways and expansions of existing expressways and, since 2003, 100% of the Issuer's budgeted cost of acquiring land on which to construct new expressways and expand existing expressways. However, at times, the Government's capital contribution may fall below such level due to budgetary constraints or other public policy considerations. For example, the Government's actual subsidy ratio (defined as the ratio of the Government's capital contributions to the Issuer's actual costs for construction of new expressways and expansions) fell below the 40% level in 2006, 2007, 2008 and 2010. The actual subsidy ratio was 52% and 54% in 2016 and 2017, respectively. In respect of 2018, the Issuer budgeted construction costs of ₩2,571 billion and the Government budgeted capital contributions to the Issuer in the amount of ₩1,155 billion. During the first six months of 2018, the actual capital contributions from the Government amounted to ₩901 billion. See "Relationship with the Government — Financial Support from the Government."

In addition to the Government's financial support, the Issuer has historically relied on cash from operations and debt financing to fund the development of expressways. See "— Liquidity and Capital Resources — Capital Resources" below.

Capital Reduction and Impairment Related to Investments in Privately Funded Expressway Projects

In addition to expressways constructed and managed by the Issuer, there are a limited number of expressways constructed and managed by private enterprises in Korea. See "Relationship with the Government — Government Road Construction Policy — Expressways funded by private capital." Initially, the Issuer was involved in the design and construction of five private expressway routes, but in the early 1990s, consistent with its overall strategy of stimulating growth in the private sector, the Government began encouraging direct participation by private enterprises in expressway projects. The Government undertook to provide financial support for five of these projects (namely, Incheon Airport Highway, Cheonan-Nonsan Expressway, the New Daegu-Busan Expressway, the Ilsan-Twegyewon Expressway, the Busan-Ulsan Expressway) by way of investments, but because no funds were directly earmarked in the Government budget for such investments, such investments were made indirectly through the Issuer, which funded such investments with capital contribution from the Government to the Issuer as well as funds independently raised by the Issuer from third party sources. For accounting purposes, the Issuer's investments in these projects were treated as assets and were initially reflected on the Issuer's statement of financial position under "construction-in-progress."

While the Issuer recouped the portion of its investments in these projects provided in the form of debt financing, the Issuer has not been able to recoup the remainder of its investments made in the form of equity financing. The unrecouped portion of the Issuer's investments, which were made from 1993 to 2006, amounted to an aggregate of ₩868.7 billion (consisting of ₩606.1 billion sourced from the Government's capital contribution to the Issuer and ₩262.6 billion sourced from the Issuer's funding from third parties), which amount continued to remain on the Issuer's statement of financial position under "construction-in-progress."

During the course of preparing the Issuer's non-consolidated financial statements as of and for the six months ended June 30, 2009, the Issuer requested the MOLIT to provide guidance on the method of recovering the Issuer's investments in private expressway projects in the amount of ₩868.7 billion and the expected timing of any such recovery. After consulting with the MOEF, which has the ultimate authority over financial and accounting issues involving Government corporations, the MOLIT informed the Issuer that, pursuant to a Government letter dated September 1, 2009, the Government intended to ensure the Issuer's recovery of its investment in private expressway projects by setting aside funds in the Government budget for that purpose or, if that proves to be infeasible, by securing ways for the Issuer to recover the investments in the private expressways in which it invested (such as allowing the Issuer to collect tolls).

However, during an audit in February and March 2011, the Board of Audit and Inspection of Korea (the "BAI") determined that the Issuer is unlikely to ever recover the unrecouped investment amount since the private investors (not the Issuer) have the statutory right to exclusively operate these highways for a concession term of 30 years; the Issuer therefore is unable, during the concession period, to recover its investment in these expressway projects by means of toll collection as would be the case for expressways where the Issuer has the exclusive operating right; and the Issuer's ability to recoup its investments after the 30-year concession period is currently uncertain. In tandem with such determination, the BAI requested that the Issuer write off the unrecouped investments from its statement of financial position by recording capital reduction in relation to the portion of unrecouped investments sourced from the Government's capital contribution to the Issuer and by recording impairment losses on intangible assets in relation to the portion of unrecouped investments sourced from the Issuer's debt financing from third parties for the current period. In compliance with such requests, the Issuer recognized capital reduction of ₩606.1 billion and impairments losses on intangible assets of ₩262.6 billion in its audited consolidated financial statements as of and for the year ended December 31, 2011.

Preparation of Financial Statements

Consolidated Financial Statements

The Issuer prepares and submits to the MOEF its consolidated financial statements annually. Although the Issuer currently is not required under Korean laws and regulations to prepare interim financial statements, the Issuer prepares semi-annual condensed consolidated financial statements.

As of December 31, 2016, the Issuer had one subsidiary, Dogong the 5th Securitization Specialty Co. Ltd. ("Dogong"), that was consolidated under the Government Accounting Standards for Public Corporations and Quasi-governmental Institutions in the Republic of Korea. Although the Issuer did not own shares of Dogong, the Issuer was considered to have dominant control over the entity as the Issuer operated Dogong, a special purpose entity, for its own business needs and was the primary beneficiary. As of December 31, 2017, the Issuer did not have any subsidiaries to be consolidated under the Government Accounting Standards for Public Corporations and Quasi-governmental Institutions in the Republic of Korea as Dogong was liquidated on August 18, 2017. As of June 30, 2018, the Issuer had one subsidiary, Korea Expressway Facility Management Corporation ("KEFMC"), that was consolidated under the Government Accounting Standards for Public Corporations and Quasi-governmental Institutions in the Republic of Korea.

Under the Government Accounting Standards for Public Corporations and Quasi-governmental Institutions in the Republic of Korea, the Issuer's investments in affiliates and joint ventures over which the Issuer exercises significant influence are accounted for in its consolidated financial statements using the equity method.

For a more detailed discussion of the Issuer's subsidiaries and affiliates, see "Business — Other Businesses — Subsidiaries, Affiliated Companies and Other Investments."

Critical Accounting Policies

The Issuer believes the accounting policies below are critical to its business operations and the understanding of the Issuer's financial condition and results of operations. The preparation of the Issuer's financial statements requires the Issuer to make difficult, complex and subjective judgments in selecting the appropriate estimates and assumptions that affect the amounts reported in its financial statements. By their nature, these judgments are subject to an inherent degree of uncertainty. These judgments are based on the Issuer's historical experience, terms of existing contracts, the Issuer's observation of trends in the industry and information available from other outside sources, as appropriate. While the Issuer believes its estimates and judgments to be reasonable under the circumstances, there can be no assurance that the Issuer's judgments will prove correct or that actual results reported in future periods will not differ from the Issuer's expectations reflected in its accounting treatment of certain items.

Expressway Operating Rights; Amortization of Expressway Operating Rights

The Issuer accounts for costs associated with construction of an expressway, such as road design, construction, land acquisition, improvements and any related financing costs, as construction-in-progress of an intangible asset until the construction of such expressway is completed. Upon completion of such construction, the ownership of the expressway and related land are transferred to the Government and the corresponding amount of construction-in-progress is transferred to, and recorded as, expressway operating rights, an intangible asset. The expressway operating rights, which involve the rights to collect tolls from users of the expressways managed by the Issuer, represent the Issuer's ability to recover not only the costs associated with construction of the expressways, but also expenditures for operation and maintenance of the expressways.

Upon completion of construction of an expressway, amortization of the expressway begins from the date toll revenue starts to be earned. Expressway operating rights are stated at construction cost (including capitalized interest for related financing cost), net of accumulated amortization. The amount of amortization expense for a particular year is determined so that the difference between the Issuer's total toll-related revenue for such year and the total toll-related expenses, including income tax expense, in the same year is zero. Therefore, such amortization amount effectively represents net income for the period from the Issuer's toll-related business had there been no such amortization, and all of the Issuer's net income for the period is derived from the incidental business since, as discussed above, the construction business and the supporting business do not record any gross profit or net income for the period. For the calculation of amortization expense, see Note 2(6) to the Issuer's financial statements as of and for the years ended December 31, 2016 and 2017 and Note 2 of the notes to the Issuer's consolidated financial statements as of and for the six months ended June 30, 2018. For detailed operating segments revenue data, see Note 4 to the Issuer's financial statements as of and for the years ended December 31, 2016 and 2017 and Note 4 of the notes to the Issuer's consolidated financial statements as of and for the six months ended June 30, 2018.

Results of Operations

The following table presents certain consolidated results of operations information for the periods indicated.

	Year ended December 31,		Six Months ended June 30,	
	2016	2017	2017	2018
	(in billions of Won, except percentages)			
Sales	₩ 8,159	₩ 8,060	₩ 3,610	₩ 3,337
Cost of sales	7,205	6,847	3,169	2,773
Gross profit	954	1,213	441	564
Gross margin	11.7%	15.0%	12.21%	16.90%
Selling and administrative expenses	229	241	94	102
Operating profit	725	972	347	462
Operating margin	8.9%	12.0%	9.61%	13.8%
Other income	73	113	84	50
Other expenses	74	95	21	23
Other profit (loss)	299	(11)	8	1
Finance income	136	328	215	123
Finance costs	948	1,109	515	521
Share of income of investment associates and joint venture	1	(1)	(0.4)	(1.3)
Income before income tax expense	213	197	117	91
Income tax expense (benefit)	78	61	34	27
Net income	₩ 135	₩ 136	₩ 83	₩ 64

Six months ended June 30, 2018 Compared to Six months ended June 30, 2017

The following table presents revenues from the Issuer's four business units, such revenues as a percentage of revenue and their percentage changes from the first half of 2017 to the first half of 2018.

	Six months ended June 30,				
	2017		2018		
	Amount	% of total	Amount	% of total	% Change
	(in billions of Won, except percentages)				
Revenue:					
Toll business	₩2,003	55.5%	₩1,936	58.0%	(3.3)%
Construction business	1,299	36.0	1,092	32.8	(15.9)
Incidental business	239	6.6	268	8.0	12.1
Supporting business	69	1.9	41	1.2	(40.6)
Total	₩3,610	100%	₩3,337	100%	(7.6)%

The Issuer's revenue decreased by 7.6% to ₩3,337 billion in the first half of 2018 from ₩3,610 billion in the first half of 2017 primarily due to a decrease in revenue from the construction business as well as, to a lesser extent, a decrease in revenue from the toll businesses.

Revenue from toll business decreased by 3.3% to ₩1,936 billion in the first half of 2018 from ₩2,003 billion in the first half of 2017, primarily due to toll rate exemptions during the 2018 Lunar New Year holiday period and Pyeongchang Winter Olympics.

Revenue from incidental business increased by 12.1% to ₩268 billion in the first half of 2018 from ₩239 billion in the first half of 2017, primarily due to an increase in sales of gasoline in the gas stations directly operated by the Issuer and an increase in lease payments from service areas that are tied to revenues generated by the operators of such service areas.

The following table shows major components of the Issuer's cost of sales, the percentages of cost of sales represented by such components and their percentage changes from the first half of 2017 to the first half of 2018.

	Six months ended June 30,				
	2017		2018		
	Amount	% of total	Amount	% of total	% Change
	(in billions of Won)				
Cost of Sales:					
Toll business	₩1,661	52.4%	₩1,469	53.0%	(11.6)%
Construction business	1,299	41.0	1,092	39.4	(15.9)
Incidental business	140	4.4	171	6.1	22.1
Supporting business	69	2.2	41	1.5	(40.6)
Total	₩3,169	100%	₩2,773	100%	(12.5)%

The Issuer's cost of sales decreased by 12.5% to ₩2,773 billion in the first half of 2018 from ₩3,169 billion in the first half of 2017, primarily due to decreases in cost of sales relating to the construction and toll businesses, which was partially offset by an increase in cost of sales relating to incidental business. Cost of sales relating to toll business decreased by 11.6% to ₩1,469 billion in the first half of 2018 from ₩1,661 billion in the first half of 2017, primarily due to a 20.2% decrease in amortization expense, which primarily consist of amortization of expressway operating rights, to ₩934 billion in the first half of 2018 from ₩1,170 billion in the first half of 2017. Cost of sales relating to incidental business increased by 22.1% to ₩171 billion in the first half of 2018 from ₩140 billion in the first half of 2017, primarily due to an increase in cost of sales with respect to gas stations and service areas.

As a result of the foregoing factors, the Issuer's gross profit increased by 27.9% to ₩564 billion in the first half of 2018 from ₩441 billion in the first half of 2017, and the Issuer's gross profit margin (defined as gross profit divided by revenue) increased to 16.9% in the first half of 2018 from 12.2% in the first half of 2017 primarily as a result of a decrease in amortization expense with respect to expressway operating rights. As noted above, however, the Issuer's gross profit and gross profit margin are not useful indicators of measuring the Issuer's operating performance in light of the fact that amortization of expressway operating rights for the toll business is determined so that the toll business has profit for the period of zero as a matter of accounting policy and the arrangements with the government under which operating profits for the construction and supporting businesses are set to zero.

Selling, general and administrative expenses increased by 8.8% to ₩102 billion in the first half of 2018 from ₩93.7 billion in the first half of 2017, primarily as a result of an increase in salaries and advertisement expenses.

As a result of the foregoing factors, the Issuer's operating profit increased by 33.1% to ₩462 billion in the first half of 2018 from ₩347 billion in the first half of 2017, and the Issuer's operating profit margin (defined as operating profit divided by revenue) increased to 13.8% in the first half of 2018 from 9.6% in the first half of 2017. Also as noted above, the Issuer's operating profit and operating profit margin are not useful indicators of measuring the Issuer's operating performance in light of the fact that amortization of expressway operating rights for the toll business is determined so that the toll business has profit for the period of zero as a matter of accounting policy and the arrangements with the government under which operating profits for the construction and supporting businesses are set to zero. Operating income from the toll business increased by 46.7% to ₩377 billion in the first half of 2018 from ₩257 billion in the first half of 2017, primarily due to a decrease in amortization expense with respect to expressway operating rights. Operating profit from the incidental business decreased by 5.5% to ₩85 billion in the first half of 2018 from ₩90 billion in the first half of 2017, primarily due to an increase in cost of sales with respect to gas stations and service areas. As for the supporting and construction businesses, as discussed above, the Issuer operates them at cost and does not derive any operating profit from either of these businesses.

Other income, net decreased by 56.3% to ₩27 billion in the first half of 2018 from ₩62 billion in the first half of 2017, primarily as the Issuer recognized gain from the transfer of title of service area restrooms constructed by operators to the Issuer in the first half of 2017 compared to no such gain in the first half of 2018.

Other profit, net decreased by 88.0% to ₩0.9 billion in the first half of 2018 from ₩7 billion in the first half of 2017, primarily due to a decrease in net gain on disposal of intangible assets. Net gain on disposal of intangible assets decreased by 40% to ₩6 billion in the first half of 2018 compared to ₩11 billion in the first half of 2017.

Net finance costs increased by 32.7% to ₩398 billion in the first half of 2018 from ₩300 billion in the first half of 2017 primarily due to an increase in net loss related to foreign exchange rates to ₩83 billion in the first half of 2018 from ₩(84) billion in the first half of 2017. During the construction phase of a project, interest expenses on the costs of construction are capitalized. The capitalized interest expense increases construction-in-progress and is expensed as cost of sales upon commencement of the operations of the project. Net interest expenses in the first half of 2017 and 2018 do not include ₩151 billion and ₩56 billion of interest expense capitalized as part of construction-in-progress in the first half of 2017 and 2018, respectively.

As a result of the foregoing factors, income before income tax expenses decreased by 21.8% to ₩91 billion in the first half of 2018 from ₩117 billion in the first half of 2017.

Income tax expense decreased by 19.5% to ₩27 billion in the first half of 2018 from ₩34 billion in the first half of 2017 primarily due to a decrease in income before income tax expenses. The Issuer's average effective tax rate was 30.1% in the first half of 2018 and 29.2% in the first half of 2017.

As a result of the foregoing factors, the Issuer's net income for the period decreased by 22.8% to ₩64 billion in the first half of 2018 from ₩83 billion in the first half of 2017.

2017 Compared to 2016

The following table presents revenues from the Issuer's four business units, such revenues as a percentage of revenue and their percentage changes from 2016 to 2017.

	Year ended December 31,				
	2016		2017		
	Amount	% of total	Amount	% of total	% Change
	(in billions of Won, except percentages)				
Revenue:					
Toll business	₩4,052	49.7%	₩4,060	50.4%	0.2%
Construction business	3,321	40.7	3,252	40.3	(2.1)
Incidental business	508	6.2	554	6.9	9.0
Supporting business	278	3.4	194	2.4	(30.3)
Total	₩8,159	100.0%	₩8,060	100.0%	(1.2)%

The Issuer's revenue decreased by 1.2% from ₩8,159 billion in 2016 to ₩8,060 billion in 2017, primarily due to decreases in revenues from the construction business.

Revenue from toll business increased slightly by 0.2% from ₩4,052 billion in 2016 to ₩4,060 billion in 2017, primarily due to a 3% increase in traffic volume on expressways operated by the Issuer from 1,540 million vehicles in 2016 to 1,587 million vehicles in 2017, which was partially offset by toll rate exemptions during the extended Chuseok holiday period in 2017.

Revenue from incidental business increased by 9.0% from ₩508 billion in 2016 to ₩554 billion in 2017, primarily due to an increase in sales of gasoline in the gas stations directly operated by the Issuer and an increase in lease payments from service areas that are tied to revenues generated by the operators of such service areas.

The following table shows major components of the Issuer's cost of sales, the percentages of cost of sales represented by such components and their percentage changes from 2016 to 2017.

	Year ended December 31,				
	2016		2017		
	Amount	% of total	Amount	% of total	% Change
	(in billions of Won)				
Cost of Sales:					
Toll business	₩3,285	45.6%	₩3,039	44.4%	(7.5)%
Construction business	3,321	46.1	3,252	47.5	(2.1)
Incidental business	321	4.4	362	5.3	12.8
Supporting business	278	3.9	194	2.8	(30.3)
Total	₩7,205	100.0%	₩6,847	100.0%	(5.0)%

The Issuer's cost of sales decreased by 5.0% from ₩7,205 billion in 2016 to ₩6,847 billion in 2017, primarily due to a decrease in cost of sales relating to toll toll business and, to a lesser extent, a decrease in cost of sales related to construction and supporting businesses. Cost of sales relating to toll business decreased by 7.5% from ₩3,285 billion in 2016 to ₩3,039 billion in 2017, primarily due to a 14.3% decrease in amortization expense, which primarily consist of amortization of expressway operating rights, from ₩2,082 billion in 2016 to ₩1,784 billion in 2017. Cost of sales relating to incidental services increased by 12.8% from ₩321 billion in 2016 to ₩362 billion in 2017, primarily due to an increase in costs relating to operation of gas stations and leasing of service areas.

As a result of the foregoing factors, the Issuer's gross profit increased by 27.1% from ₩954 billion in 2016 to ₩1,213 billion in 2017, and the Issuer's gross profit margin increased from 11.7% in 2016 to 15.0% in 2017. As noted above, the Issuer's gross profit and gross profit margin are not useful indicators of measuring the Issuer's operating performance in light of the fact that amortization of expressway operating rights for the toll business is determined so that the toll business has net income for the period of zero as a matter of accounting policy and the arrangements with the government under which gross profits for the construction and supporting businesses are set to zero.

Selling and administrative expenses increased by 5.3% from ₩229 billion in 2016 to ₩241 billion in 2017, primarily as a result of increases in contribution to the employee welfare fund and amortization expenses, which was partially offset by a decrease in welfare expenses.

As a result of the foregoing factors, the Issuer's operating profit increased by 33.9% from ₩725 billion in 2016 to ₩972 billion in 2017, and the Issuer's operating profit margin increased from 8.9% in 2016 to 12.1% in 2017. Also as noted above, the Issuer's operating profit and operating profit margin are not useful indicators of measuring the Issuer's operating performance in light of the fact that amortization of expressway operating rights for the toll business is determined so that the toll business has net income for the period of zero as a matter of accounting policy and the arrangements with the government under which gross profits for the construction and supporting businesses are set to zero. Operating profit from toll business increased by 43.6% from ₩559 billion in 2016 to ₩803 billion in 2017 primarily due to decrease in amortization expense, which primarily consist of amortization of expressway operating rights. Operating profit from incidental business increased by 1.4% from ₩166 billion in 2016 to ₩168 billion in 2017, primarily due to an increase in traffic volume and lease revenues from gas stations and service areas. As for the supporting and construction businesses, as discussed above, the Issuer operates them at cost and does not derive any operating profit from either of these businesses.

Other income increased by 54% from ₩73 billion in 2016 to ₩113 billion in 2017, primarily due to an increase in gain from assets contributed. Other expenses increased by 28.6% from ₩74 billion in 2016 to ₩95 billion in 2017, primarily due to increase in compensation and reparations expenses and donations.

The Issuer recognized other loss of ₩11 billion in 2017 compared to other gain of ₩299 billion in 2016, primarily due to a decrease in net gain on disposal of property and equipment. Net gain on disposal of property and equipment decreased from ₩293 billion in 2016 to ₩1.6 billion in 2017, mainly as a result of the sale of properties in our previous headquarters.

Net finance costs decreased by 3.7% from ₩811 billion in 2016 to ₩781 billion in 2017, primarily due to a net gain on valuation of financial assets at fair value through profit or loss in 2017 compared to a net loss in 2016. The Issuer recognized net gain on valuation of financial assets at fair value through profit or loss of ₩13 billion in 2017 compared to a net loss of ₩18 billion in 2016, mainly as a result of an increase in valuation on interest rate swaps. The Issuer recognized a net gain on foreign currency translations in 2017 compared to a net loss in 2016 and an increase in net gain on foreign currency transactions. However, in order to eliminate substantially all of its foreign exchange fluctuation risk, the Issuer hedged all its existing foreign currency-denominated debt obligations against the Korean Won using derivative instruments. As such, increases or decreases in net gain or loss on foreign currency translations or transactions did not significantly impact net finance income or costs. See "— Market Risk — Foreign Exchange Risk."

During the construction phase of a project, interest expenses on the costs of construction are capitalized. The capitalized interest expense increases construction-in-progress and will be expensed as cost of sales upon commencement of the operations of the project. Net interest expenses in 2016 and 2017 did not include ₩203 billion and ₩129 billion of interest expense capitalized as part of construction-in-progress in 2016 and 2017, respectively.

The Issuer recognized share of loss of investment associates and joint venture of ₩0.9 billion in 2017 compared share of gain of investment associates and joint venture of ₩0.7 billion in 2016, due to losses recognized by Korea Construction Management Corporation.

As a result of the foregoing factors, income before income tax expenses decreased by 7.9% from ₩213 billion in 2016 to ₩197 billion in 2017.

Income tax expense decreased by 21.9% from ₩78 billion in 2016 to ₩61 billion in 2017, primarily due to a decrease in taxable income. The Issuer's effective tax rate was 36.70% in 2016 and 31.09% in 2017.

As a result of the foregoing factors, the Issuer's net income for the period increased by 0.3% from ₩135.1 billion in 2016 to ₩135.5 billion in 2017.

Liquidity and Capital Resources

Capital Requirements

The Issuer expects its working capital and other capital requirements to continue to increase as a result of its required capital investment in the construction and expansion of expressways pursuant to the National 7x9+6R Plan. Ten to thirteen years generally elapse between the time the Government decides to construct a new expressway or expressway section and the day it actually opens for travel to the general public. The construction of an expressway involves a lengthy process in which the construction phase is relatively short (five to six years) compared with the project-planning phase (four to five years) and the consultation phase (one to two years), which involves detailed and comparative studies, including environmental studies and research and technical analysis, and meetings with environmental, business and local interest groups.

The Issuer anticipates that capital expenditures for the construction of new expressways and the expansion of existing expressways will be the most significant use of its funds for the next several years. The Issuer made capital expenditures of ₩3,321 billion, ₩3,252 billion, and ₩1,092 billion, in 2016, 2017 and the first half of 2018, respectively.

The following table presents the total capital expenditures of the Issuer for the years ended December 31, 2016 and 2017 and the six months ended June 30, 2017 and 2018.

	For the year ended December 31,		For the six months ended June 30,	
	2016	2017	2017	2018
	(in billions of Won)			
Construction of new expressways and expansions(1)	₩2,662	₩2,522	₩1,129	₩ 966
Improvements	659	730	169	126
Total	₩3,321	₩3,252	₩1,298	₩1,092

(1) Excludes capitalized interest of ₩203 billion, ₩129 billion and ₩56 billion in 2016, 2017 and the first half of 2018, respectively. The weighted average rate of capitalized interest on the Issuer's borrowings was 3.89%, 3.57% and3.39% in 2016, 2017 and the first half of 2018, respectively.

In addition to funding requirements relating to the Issuer's capital investment program, payments of principal and interest on indebtedness require substantial capital resources. The Issuer believes that its debt obligation is the most significant contractual obligation of the Issuer considering the nature of its business. The scheduled maturities of the Issuer's outstanding total debt (consisting of the current portion of long-term liabilities, debentures and long-term borrowings), as of June 30, 2018, for the years ending December 31, 2018 through 2022 and thereafter are set forth in the table below.

Total	2018	2019	2020	2021	2022 and thereafter
	(in billions of Won)				
₩ 25,582	₩1,179	₩2,980	₩2,859	₩2,700	₩15,864

The Issuer incurred interest expenses (excluding capitalized interest) of ₩799 billion, ₩798 billion and ₩385 billion in 2016, 2017 and the first half of 2018, respectively. The Issuer anticipates that interest expense will continue to increase significantly in future years mainly because of continued increases in the Issuer's total debt, particularly in the event of a decrease in the Government's capital contributions to the Issuer. See "— Capital Resources."

Total borrowings (consisting of short-term, long-term borrowings and bonds) as of December 31, 2016 and 2017 and June 30, 2018 amounted to ₩25,583 billion, ₩25,543 billion and ₩25,576 billion, respectively. As of June 30, 2018, ₩22,941 billion of the Issuer's total borrowings was denominated in Won, and the equivalent of ₩2,635 billion was denominated in foreign currencies, primarily U.S. dollars and Euro. See "— Market Risk — Foreign Exchange Risk."

Capital Resources

The Issuer has met its working capital and other capital requirements primarily from net cash provided by operating activities, capital contributions from the Government and the issuance of bonds and the incurrence of long-term borrowings. The Issuer intends to continue to rely primarily upon net cash provided by operating activities, capital contributions by the Government and additional borrowings for its working capital and other capital requirements.

The Issuer believes that its earnings from toll collection provide a stable source of cash flow. Net cash provided by operating activities amounted to ₩2,273 billion, ₩1,830 billion and ₩214 billion in 2016, 2017 and the first half of 2018, respectively. The Issuer's operating cash flows are primarily influenced by cash collected from the toll business, which is influenced by traffic volume using the expressways operated by the Issuer. The Issuer's traffic volume was 1,540 million, 1,587 million and 780 million vehicles in 2016, 2017 and the first half of 2018, respectively. The increased number of toll gates and expressway routes has contributed to the increased traffic volume. Toll rate also affects cash generated from the toll business, and changes in toll rate are subject to the Government's approval. In addition, an increase in traffic volume also resulted in more usage of service areas which resulted in higher cash flows from lease revenues of service areas. However, cash flow from operations will not be sufficient to fund the significant capital resources required for the construction of the Issuer's expressway projects and to repay borrowings and accordingly, the Issuer will rely largely on capital contributions by the Government and additional borrowings for such requirements.

The Government's capital contributions generally covered approximately 40% of the Issuer's budgeted construction costs and, since 2003, 100% of the Issuer's budgeted costs of acquiring related land. However, at times, the Government's capital contribution may fall below such level due to budgetary constraints or other public policy considerations. For example, the Government's actual subsidy ratio (defined as the ratio of the Government's capital contributions to the Issuer's actual costs for construction of new expressways and expansions) fell below the 40% level in 2006, 2007, 2008 and 2010. The actual subsidy ratio was 52%, and 54% in 2016 and 2017 respectively. In respect of 2018, the Issuer budgeted construction costs of ₩2,571 billion and the Government budgeted capital contributions to the Issuer in the amount of ₩1,155 billion. During the first six months of 2018, the actual capital contributions from the Government amounted to ₩901 billion. No assurance can be given that capital contributions from the Government will rise to or above the 40% level in future periods, especially if the Government were to experience similar or more severe budgetary constraints or if such capital contributions were to be assigned a lower priority in the Government's budget allocation process. If the Government's capital contributions decrease significantly, the Issuer will be required to resort to outside financing to fund a larger amount of its capital expenditure and working capital, which would increase the finance costs of the Issuer and adversely affect the Issuer's financial condition and results of operation. In addition, the amount of toll rate discounts and exemptions mandated as public service obligations under the Government's public policy objectives (including compact car discounts, commuter time discounts and loaded vehicle discounts) amounted to ₩295 billion, ₩343 billion and ₩193 billion in 2016, 2017 and the first half of 2018, respectively. If the Government's capital contributions decrease significantly or the Issuer's public service obligations increase significantly, the Issuer will be required to resort to outside financing to fund a larger amount of its capital expenditure and working capital, which would increase the net finance costs of the Issuer and adversely affect the Issuer's financial condition and results of operation.

The table below sets forth the total construction costs, Government's capital contributions and the resulting subsidy ratio, for the periods indicated.

	For the year ended December 31,	
	2016	**2017**
	(in billions of Won, except percentages)	
Construction of new expressways and expansions	₩2,662	₩2,522
Government's capital contributions............................	1,374	1,361
Actual subsidy ratio[(1)]	52%	54%

(1) Actual subsidy ratio is determined by dividing "Government's capital contributions" by "Construction of new expressways and expansions."

The Issuer incurred ₩3,027 billion, ₩3,629 billion and ₩1,579 billion of long-term debt in 2016, 2017 and the first half of 2018, respectively. As of June 30, 2018, the Issuer's long-term debt (including the current portion thereof and before taking into account the effect of hedging transactions) as a percentage of equity was 4.6%. The Issuer issued bonds on 39 different occasions between December 31, 2016 and June 30, 2018, in the aggregate amount of ₩4,708 billion, with maturities of 3 to 30 years and with fixed and floating interest rates. The Issuer maintains a credit facility of ₩1,100 billion from domestic financial institutions. The Issuer incurred ₩0 billion, ₩300 billion and ₩0 billion of short-term debt in 2016, 2017 and the six months ended June 30, 2018, respectively.

The Issuer's total equity increased from ₩32,070 billion as of December 31, 2016 to ₩33,607 billion as of December 31, 2017 and ₩34,449 billion as of June 30, 2018.

Liquidity

Substantially all of the Issuer's revenue is denominated in Won. As of June 30, 2018, 10% of the Issuer's long-term debt (including the current portion thereof and before taking into account the effect of hedging transactions) was denominated in currencies other than Won and primarily consisted of notes denominated in U.S. dollars. The Issuer intends to continue to obtain a portion of its required funding through long-term foreign currency borrowings.

The Issuer incurs significant amounts of indebtedness in order to fund its capital expenditures and to pay interest and principal on its existing indebtedness. Considerable capital expenditures are required for most expressway projects during the construction period. Since it generally takes several years for a project to be completed and to start generating revenue, if the Issuer is unable to obtain debt financing timely and on commercially acceptable terms, the Issuer may be subject to significant liquidity risk.

The Issuer's liquidity is also substantially affected by its construction expenditures. Construction-in-progress under intangible assets amounted to ₩6,355 billion, ₩5,704 billion and ₩5,006 billion as of December 31, 2016 and 2017 and June 30, 2018, respectively.

The Issuer's working capital deficit (current liabilities in excess of current assets) was ₩3,707 billion, ₩3,005 billion and ₩2,396 billion as of December 31, 2016 and 2017 and June 30, 2018, respectively. The Issuer has traditionally operated with a working capital deficit, and the Issuer contemplates that it will continue to experience substantial working capital deficits in the future.

To address any potential liquidity risk, the Issuer may refinance its existing debt, decrease its construction expenditures by delaying construction schedules or continue to utilize the existing ₩1,100 billion credit line commitments extended by domestic financial institutions.

Inflation

Historically, toll rates have increased at a rate below inflation. See "Business — Tolls." The effects of inflation in Korea on the Issuer's financial condition and results of operations are reflected primarily in construction costs as well as in labor expenses. Inflation in Korea has not had a significant impact on the Issuer's results of operations in recent years. It is possible that inflation in the future may have a material adverse effect on the Issuer's financial condition or results of operations.

Effects of Interest Rate and Foreign Exchange Movements on the Issuer's Borrowings

As a result of additional borrowings to finance the expressways currently under development and those that are expected to be constructed in the future and other capital requirements, the Issuer's interest and finance charges are expected to increase in the future. An increase in interest rates and, to a lesser extent, higher volatility in currency exchange rates between the Korean Won and other currencies — the Japanese Yen, United States dollars and Euros in particular — may increase the Issuer's borrowing costs and therefore adversely affect the Issuer's results of operations and financial condition. However, the Issuer seeks to limit its exposure to floating interest rate risk by maintaining at least 85% of the total principal amount of its debt obligations at a fixed interest rate for the duration of the debt obligations, regardless of maturity. The Issuer's policy is to use derivative instruments only for hedging purposes and not for speculative purposes.

All of the Issuer's revenue and operating expenses are incurred in Korean Won. In addition, all of the capital expenditures for the Issuer's expressway construction are incurred in Korean Won. If market conditions permit, the Issuer expects to continue to obtain a certain portion of its borrowings in foreign currencies to diversify its funding sources. The Issuer, however, seeks to eliminate its foreign exchange exposure relating to foreign currency debt obligations by entering into currency swap agreements with major domestic and international financial institutions.

Market Risk

The Issuer's primary market risk exposure is fluctuations in interest rates and foreign exchange rates. For a discussion of additional market risks and other risks such as country risk, credit risk and legal risk, see "Risk Factors" and "— Liquidity and Capital Resources — Liquidity."

In order to minimize financial risk and closely monitor financial market movements, the Issuer uses Earnings-at-Risk ("EaR") based risk management system. The EaR system measures the impact on the Issuer's earnings during the portfolio holding period of one to twelve months at a 95% confidence level from the changes in interest rates. The Issuer's risk management system produces the EaRs by monitoring various financial market data and the Issuer's financial status, which are then compared to the Issuer's established limits. The Issuer takes necessary measures based on such analysis.

Interest Rate Risk

The Issuer is exposed to certain interest rate risk due to the outstanding amounts of floating rate debt and refinancing risk of current portion of long-term debt. An increase in interest rates increases the cost of outstanding floating rate borrowings and refinancing cost of current portion of long-term debt. ₩460 billion, or 2% of the Issuer's long-term debt (including borrowings and bonds), are exposed to floating interest risk as of June 30, 2018, which are determined by reference to 91-day certificate of deposit rates and other indexes. In the first half of 2018, the Issuer's weighted average rate of interest was 3.39%.

To minimize interest rate risk, the Issuer has obtained long-term debt with fixed interest rates or swapped floating interest rate debts into fixed rate debts via interest rate derivative instruments, which carry relatively higher yields for lenders. The Issuer's policy is to hold or issue interest rate derivative instruments for hedging purposes and not for speculative purposes. The Issuer's derivative instruments are entered into with major domestic and international financial institutions. The Issuer makes efforts to balance its interest rate exposure versus its financing cost by taking into account the level of its fixed and floating interest rate borrowings. The Issuer's current policy is to maintain fixed rate long-term borrowings with a maturity of over five years in the range of approximately 85% to 95% of its total long-term borrowings.

Foreign Exchange Risk

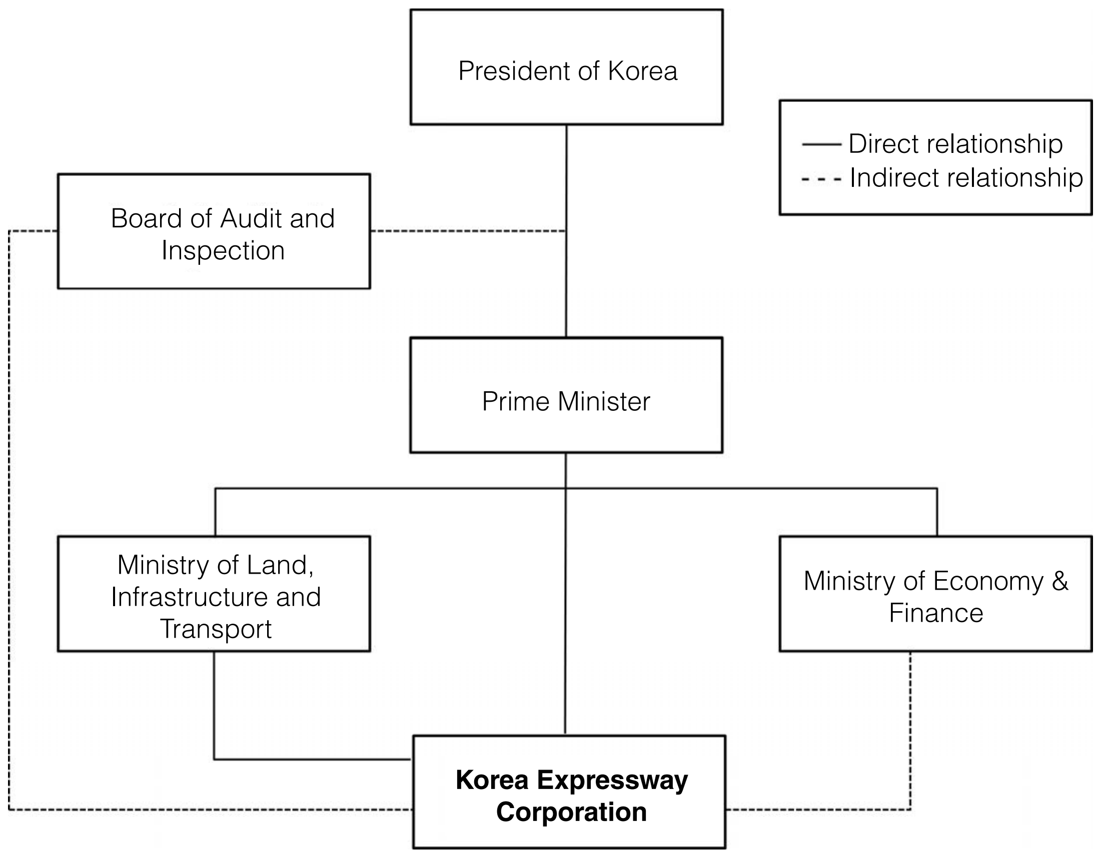
The Issuer is exposed to foreign currency related risk. For details on the Issuer's foreign currency-denominated debt, see Note 38(3) to the Issuer's audited financial statements as of and for the years ended December 31, 2016 and 2017 and Note 27 to the Issuer's consolidated and condensed consolidated financial statements as of and for the six months ended June 30, 2018. In order to eliminate substantially all of its foreign exchange fluctuation risk, the Issuer hedged all its existing foreign currency-denominated debt obligations against the Korean Won using derivative instruments.

RELATIONSHIP WITH THE GOVERNMENT

Government Control and Ownership

The Issuer was established by the Government under the KEC Act. The Government is the primary regulator and owns, directly and indirectly, substantially all of the shares of the Issuer and, as such, exerts significant influence on the Issuer's operations. The President of Korea appoints the Issuer's president and standing member of the audit committee. The president of the Issuer selects the standing directors and the MOEF selects the non-standing directors. See "Management — Compensation of Directors and Executive Officers." In addition, the Issuer works with the Government, in particular with the MOLIT and the MOEF, in implementing policies relating to the nation's expressway transportation network.

The chart below illustrates the supervisory structure of the Issuer.



The Issuer has been empowered by the MOLIT to develop, manage and operate expressways under a series of laws which lay out the foundations of the regulatory regime that governs all road-related matters in the Republic. For example, Article 112 of the Road Act and Article 103 of the Enforcement Decree thereunder allow the Issuer, acting under the MOLIT's guidance and supervision for all expressway-related matters, to execute the construction and management of Korea's expressways as mandated by the MOLIT. See "Regulation." The MOLIT is responsible for the administration, planning, design, construction and maintenance of all of Korea's expressways under Article 23 of the Road Act. The Issuer is under the direct supervision of the MOLIT's Road Policy Division, the central agency at the MOLIT which formulates all policies related to roads and reviews and coordinates plans prepared by various agencies. In addition, based on the Act on the Management of Public Institutions, the MOLIT is responsible for overseeing the establishment of the Issuer's operational objectives, monitoring its operational and financial performance, overseeing its budgeting and approving revisions to its operating plans. Under the KEC Act, the MOLIT also approves the development of areas adjacent to expressways and approves and monitors funding plans, bond issuances and debt management.

The MOEF is responsible for the review of the financial results of the Issuer and also supervises matters concerning the compliance by the Issuer with the management guidelines set by the Government, including determination and approval of any toll rate increase in line with inflation and other economic targets of the Government. See "— Toll Rates" below.

Based on the Act on the Management of Public Institutions, which governs all public institutions in which the Government has an ownership of 50% or more of the outstanding common stock or which are prescribed in Article 4(1) of the Act on the Management of Public Institutions, including the Issuer, the MOEF is responsible for overseeing the revision of operational objectives, actual results of operations, budgeting and operating plans. The Steering Committee of Public Institutions ("Steering Committee") of the MOEF is responsible for evaluating operating results and financial performance of the Issuer and matters related to the management, such as recommending the removal of the Issuer's president or standing directors to the President and the MOLIT, respectively, and the appointment and removal of non-standing directors.

The BAI, an independent government agency that audits all governmental agencies and government-controlled entities such as the Issuer, reviews the Issuer's budget, audits its financial statements and conducts an annual business audit. The BAI reports directly to the President of Korea. Further, the budget of the Issuer is reported to the MOEF, the BAI and the MOLIT. The actual performance of the Issuer is reported to the National Assembly of Korea, the MOEF and the MOLIT.

The BAI also inspects the Issuer's business and affairs. Under the Board of Audit and Inspection Act and the Public Audit and Inspection Criteria issued by the BAI, if the BAI's audit and inspection of the Issuer discloses any matter which the BAI deems to be illegal or improper, the BAI may issue a notice or request for attention or request certain corrective measures to be taken, including compensation, disciplinary punishment, correction or improvement. The Issuer has in the past taken, and intends to take, such measures as it deems appropriate to address any concerns raised, or which may be raised, by the BAI in its periodic reports. If the BAI finds that the Issuer's response to the findings in a BAI report is insufficient or inadequate, the BAI may issue similar or further requests or take other actions. Private third parties may also bring claims against the Issuer if they were damaged by any of the matters pointed out by the BAI, in which case a BAI report could be used as evidence in support of their claims.

The Issuer is also subject to inspection and investigation by the National Assembly according to the Act on Inspection and Investigation of Government Administration of 1988, as amended.

As of June 30, 2018, 99.98% of the share capital of the Issuer was owned by the Government, with 86.15% held directly and 13.83% held indirectly through The Export-Import Bank of Korea, The Korea Development Bank and Korea Housing Financing Corporation, all of which were wholly-owned (directly or indirectly) by the Government, and the Industrial Bank of Korea, of which the Government is the majority shareholder.

The Government is required under Article 4 of the KEC Act to maintain a minimum ownership percentage in the Issuer of not less than 50% of the outstanding common shares. Privatization of the Issuer can occur only after passage of an act amending relevant articles of the KEC Act by the National Assembly. The Issuer believes that privatization of the Issuer is unlikely to occur in the near future and expects the Government will remain the Issuer's largest shareholder for the foreseeable future.

On occasion, the Issuer may be requested to take action in furtherance of public policy considerations and the Government's broader objectives relating to the nation's transportation network, which may not necessarily be in the Issuer's best commercial interests. The Issuer cannot make any assurances that future policy decisions by the Government will not have a material adverse effect on the Issuer's results of operations and financial condition.

Financial Support from the Government

The Issuer finances the development of expressway projects through a combination of capital contributions from the Government, debt financing and cash flow from operations. See "Management's Discussion and Analysis of Financial Condition and Results of Operations — Liquidity and Capital Resources."

Since the Issuer has been mandated by the Government to construct and maintain Korea's expressways, the Government, through the MOLIT, provides substantial financial support to the Issuer for all of its expressway-related projects although there is no specific law or regulation requiring the Government to provide any such support. The Government's financial support generally takes the form of capital contributions (namely, subscriptions of new shares in the Issuer), the proceeds of which are then used to defray the Issuer's costs incurred for the construction of expressways and acquisition of related land.

The Government determines the amounts of its capital contributions to the Issuer at the beginning of the fiscal year based on the Issuer's estimated budget for total construction and land acquisitions for such year. The Government's capital contributions generally covered approximately 40% of the Issuer's budgeted construction costs and, since 2003, 100% of the Issuer's budgeted costs of acquiring related land. However, at times, the Government's capital contribution may fall below such level due to budgetary constraints or other public policy considerations. For example, the Government's actual subsidy ratio (defined as the ratio of the Government's capital contributions to the Issuer's actual costs for construction of new expressways and expansions) fell below the 40% level in 2006, 2007, 2008 and 2010. The actual subsidy ratio was 52% and 54% in 2016 and 2017 respectively. In respect of 2018, the Issuer budgeted construction costs of ₩2,571 billion and the Government budgeted capital contributions to the Issuer in the amount of ₩1,155 billion. During the first six months of 2018, the actual capital contributions from the Government amounted to ₩901 billion.

Since funding the Issuer's initial paid-in capital of ₩22 billion in 1969, the total amount of capital contributions made since then from the Government amounted to ₩33,164 billion as of June 30, 2018. The Issuer's share capital as of June 30, 2018 was ₩33,186 billion. Since the Government determines the amounts of capital contributions to the Issuer as part of the Government's overall national budgeting process, there is no assurance that such capital contributions will not decrease substantially in the future due to the Government's budgetary constraints or other public policy considerations.

According to the KEC Act, the Government may support some of the Issuer's business expenses, provide loans for financing or subscribe for corporate bonds issued by the Issuer within the limits of the national budget. In addition, the Government is required to reimburse the Issuer for any new construction or maintenance expenses for expressways that do not impose toll fees. Moreover, if the Issuer issues corporate bonds or borrows money, the Government may guarantee the repayment of the principal and interest on such bond or loan, although the Government is under no obligation to do so and has to-date not provided any such guarantees.

Toll Rates

The Issuer submits proposals for toll rate increases to the Government, which are set by the MOLIT upon consultation with the MOEF and representatives of consumers and workers. See "Business — Tolls."

Toll rates are determined based upon the total cost needed to provide transportation services to expressway users and is subject to the approval of the MOLIT. An increase in toll rates is subject to the following steps:

(1) The Issuer follows a precise set of guidelines issued by the MOLIT in preparing a proposal for toll adjustment, taking into account, among other things, its cash flow projections and estimated capital expenditures.

(2) The Issuer submits the proposal to its board of directors for approval, pursuant to the articles of incorporation of the Issuer.

(3) Upon approval by the board of directors of the Issuer, the Issuer submits the proposal to the MOLIT.

(4) The MOLIT, in consultation with the MOEF, considers the proposal, taking into consideration the national budget, financial status of the Issuer and comparison with other utility prices.

(5) The Road Policy Division of the MOLIT considers the proposal in consultation with representative consumers and workers.

(6) Upon approval by the Road Policy Division of the MOLIT, an official announcement is made in the official gazette or the newspapers.

(7) The new toll rates are implemented.

Government Road Construction Policy

The National Arterial Expressway Network Plan

The basic framework under which the Government has formulated its road construction policy is based on the following policy objectives: (i) seek balanced regional development through balanced national land use; (ii) maximize convenience in road use and diversify route options for motorists through establishing a road network system that addresses the traffic growth in the country; and (iii) promote industrial competitiveness and reduce traffic congestions by providing linkage among major cities, large-scale industrial complexes, harbors and ports.

In furtherance of the above objectives, the MOLIT, on behalf of the Government, announced in 1991 the National 7x9 Plan (subsequently amended as the National 7x9+6R Plan), which is a master road-development plan under the National Arterial Expressway Network Plan and is designed to provide the country with a grid-lock expressway network of 7,331 kilometers. When completed, this network of expressways is expected to consist of seven roads running north and south, nine roads running east and west and six ring-shaped beltways encircling major cities. Once completed, the network of expressways is expected to provide access to an expressway from anywhere in Korea within 30 minutes. In addition, the 7x9+6R arterial grid network is designed to establish a radial or circular road network system to decentralize the passing traffic between regions through the construction of circular expressways around large cities. 67.1% of the National 7x9+6R Plan, in terms of route kilometers, was completed as of June 30, 2018.

Expressways funded by private capital

In addition to the expressways constructed and managed by the Issuer, there are a limited number of expressways constructed and managed by private enterprises in Korea. The Act on Private Participation in Infrastructure of 1998, as amended, encourages private enterprises to invest in infrastructure projects, such as construction of roads. Currently, 24 projects have been approved by the MOLIT for development by private enterprises. Of these 24 projects, 18 have started commercial operations, namely the Incheon Airport Highway, the Cheonan-Nonsan Expressway, the New Daegu-Busan Expressway, the Ilsan-Twegyewon Expressway, the Busan-Ulsan Expressway, the Seoul-Chuncheon Expressway, the Yongin-Seoul Expressway, the Incheon Bridge, the West Suwon-Pyeongtaek Expressway, the Pyeongtaek-Siheung Expressway, the Suwon-Kwangmyeong Expressway and the Kwangju-Wonju Expressway, the Guri-Pocheon Expressway, the Sangju-Yeongcheon Expressway, the Incheon-Gimpo Expressway, the Anyang-Seongnam Expressway, the Oksan-Ochang Expressway and the Busan New Port the second road behind. These privately managed expressways are feeder roads supplementing the main expressways constructed and managed by the Issuer. As of June 30, 2018, expressways constructed and managed by private enterprises in Korea had total length of 776 kilometers, with 85 kilometers over three routes currently under construction.

The MOEF sets the size of the private investment projects and the MOLIT submits the plans for the projects. The selection of a contractor is made by the MOLIT after an open bidding process. The selected contractor is generally a consortium of several companies, as the construction of an expressway requires considerable capital. Once selected, the contractor is responsible for raising the capital necessary for the project. The period for toll collection rights is agreed between the contractor and the MOLIT. The contractor's right to collect tolls on the expressway that it has constructed terminates upon the expiration of the negotiated toll collection period.

The expressways funded by private capital are funded mainly through equity participation (including by the Issuer) and debt financing. The table below sets forth the Issuer's equity interest and capital contributions in operators of such expressways as of June 30, 2018.

Expressway	Operator	Issuer's equity interest	Issuer's capital contribution	Status of construction
Busan-Ulsan Expressway...	Busan-Ulsan Expressway Co., Ltd.	51%	Won 25 billion	Completed in 2008
Seoul-Chuncheon Expressway..................	Seoul-Chuncheon Expressway Corporation	10%	Won 10 billion	Completed in 2009
2nd Seoul-Incheon Linking Highway........................	2nd Seoul-Incheon Linking Highway Co., Ltd.	4.76%	Won 8 billion	Completed in 2017
Guri-Pocheon Expressway .	Guri-Pocheon Expressway Co., Ltd.	10%	Won 24 billion	Completed in 2017

The Issuer may opportunistically participate in other expressways funded by private capital in the future, subject to availability of funding for and estimated profitability of such projects.

From 1993 to 2006, the Issuer, at the request of the Government, made investments in five expressway construction and operation projects involving private investors. For these projects, the Issuer had not been able to fully recoup its investments and recently recognized capital reduction and impairment losses on intangibles. See "Management's Discussion and Analysis of Financial Condition and Results of Operations — Capital Reduction and Impairment Related to Investments in Privately Funded Expressway Projects."

BUSINESS

Overview

The Issuer is a Government-owned corporation established by the KEC Act to develop, manage and operate the nation's expressway network. Under the KEC Act, the Issuer is also mandated to develop areas adjacent to expressways and to conduct research and development relating to expressways. The Issuer has the exclusive right to operate and collect tolls on 4,151 kilometers of expressways in Korea, which represented approximately 87.1% of the total kilometers of expressways in Korea as of June 30, 2018. The network under the Issuer's supervision comprises of 30 routes throughout Korea and includes Korea's major road arteries that connect Korea's most populated metropolitan areas, including Seoul, Busan, Incheon, Daegu, Daejon, Gwangju and Ulsan. As of June 30, 2018, the Issuer operated 354 toll plazas.

The principal source of income for the Issuer is tolls collected from motorists for the use of the expressways managed by the Issuer. The Issuer also receives lease payments from operators of service areas and gas stations located at various points along the expressways. In addition, the Issuer provides, at cost, road construction services (including supervision of Government construction projects along various locations adjacent to expressways) and supporting services (including the purchase and sale on behalf of the Government of land related to expressways) to the Government. The Issuer's revenue from its toll business was ₩4,052 billion, ₩4,060 billion and ₩1,936 billion in 2016, 2017 and the first half of 2018, respectively, which represented 49.7%, 50.4% and 58.0% of the Issuer's revenues, or 88.9%, 88.0% and 87.8% of the Issuer's revenues other than from the construction and supporting businesses (which yield no gross profit as the Issuer operates these businesses at cost), in 2016, 2017 and the first half of 2018, respectively. Toll revenues are largely dependent on the total traffic volume on the expressways managed by the Issuer, which was 1,540 million, 1,587 million and 780 million vehicles in 2016, 2017 and the first half of 2018, respectively, while the total registered vehicles in Korea were 22 million, 23 million and 23 million as of December 31, 2016 and 2017 and June 30, 2018, respectively, according to the Korea National Statistical Office. See "Business — Traffic."

The Government's mandate for the Issuer includes implementation of the Government's National Arterial Expressway Network Plan, adopted in 1991, which sets forth a plan for the construction of Korea's national expressway network. A key component of this plan is the National 7x9+6R Plan, which contemplates construction of 7,331 kilometers of expressways throughout Korea in the form of a grid comprised of seven south-to-north expressways, nine east-to-west expressways and six ring-shaped beltways encircling major cities. 67.1% of the National 7x9+6R Plan, in terms of route kilometers, was completed as of June 30, 2018. As of June 30, 2018, the Issuer had 11 new expressway routes under construction for an aggregate length of 514.4 kilometers and 3 expressway routes under expansion for an aggregate length of 68.8 kilometers.

In light of its mandate to the Issuer, the Government provides substantial financial support to the Issuer for all of its expressway-related projects by way of periodic capital contributions, which is used to defray a substantial portion of the Issuer's costs incurred in the construction of the expressways contemplated in the National 7x9+6R Plan, as well as all of the Issuer's costs incurred in the acquisition of related land. Proceeds from subscription by the Government of new shares in the Issuer amounted to ₩1,374 billion and ₩1,361 billion in 2016 and 2017, respectively. With respect to 2018, the Government has budgeted ₩1,155 billion for capital contribution to the Issuer. The Government's capital contribution is generally set at a level to cover approximately 40% of the Issuer's budgeted construction costs and, since 2003, 100% of the Issuer's budgeted costs of acquiring related land. However, at times, the Government's capital contribution may fall below such level due to budgetary constraints or other public policy considerations. For example, the Government's actual subsidy ratio (defined as the ratio of the Government's capital contributions to the Issuer's actual costs for construction of new expressways and expansions) fell below the 40% level in 2006, 2007, 2008 and 2010. The actual subsidy ratio was 52% and 54% in 2016 and 2017, respectively. In respect of 2018, the Issuer budgeted construction costs of ₩2,571 billion and the Government budgeted capital contributions to the Issuer in the amount of ₩1,155 billion. During the first six months of 2018, the actual capital contributions from the Government amounted to ₩901 billion. See "Relationship with the Government — Financial Support from the Government."

As of June 30, 2018, 99.98% of the share capital of the Issuer was owned by the Government, with 86.15% held directly and 13.83% held indirectly through The Export-Import Bank of Korea, The Korea Development Bank and Korea Housing Financing Corporation, all of which were wholly-owned (directly or indirectly) by the Government, and the Industrial Bank of Korea, of which the Government is the majority shareholder.

The Issuer seeks to improve its overall financial position and capital structure. The Issuer's current funding strategy is to match the cash flow generated from borrowings more closely with anticipated capital expenditures, diversify funding sources and reduce financing costs. In addition, the Issuer has sought, and will continue to seek, increases in toll rates and increases in funding from the Government.

As of June 30, 2018, the Issuer had 5,793 full-time employees, of whom 62.9% were engineers, 34.2% were operations staff and 2.9% were administrative staff.

The Issuer was established in 1969. In 2007, the Issuer changed its English name from "Korea Highway Corporation" to "Korea Expressway Corporation." The Issuer's registered office is 77, Hyeoksin 8-ro, Gimcheon-si, Gyeongsangbuk-do, Korea.

Expressways Under Management, Construction and Expansion

Operation of Expressways

As of June 30, 2018, the Issuer operated an expressway network comprised of 30 routes, extending 4.151 kilometers. This network connects Korea's most populated metropolitan areas, including Seoul, Busan, Incheon, Daegu, Daejon, Gwangju and Ulsan, which are Korea's largest commercial and industrial cities.

The table below presents certain information with respect to the ten key expressways operated by the Issuer, which in the aggregate accounted for 80.8% of the Issuer's toll revenue in 2017.

	Length (km)	2017 Revenue (in billions of Won)	Percentage of Toll Revenue (%)	2017 Average Daily Traffic (in thousands)	Commencement of Operations(1)
Gyeongbu Expressway	415.4	959	23.6	766	1968-1970
Youngdong Expressway	234.4	378	9.3	325	1971-2001
Seohaean Expressway	336.6	330	8.1	261	1994-2001
Jungbu Inland Expressway	302.0	261	6.4	96	1977-2012
Namhae Expressway	273.2	306	7.5	268	1973-2012
Jungbu Expressway	332.5	311	7.7	284	1987-2005
Seoul Metropolitan Beltway	91.7	246	6.1	901	1991-1999
Joongang Expressway	288.7	164	4.0	290	1995-2001
Honam Expressway	194.2	155	3.8	188	1970-1973
Dangjin-Youngduk Expressway	278.9	173	4.3	62	2007-2016

(1) Date range indicates the years when different segments of the route were opened for travel to the general public.

The Issuer has the exclusive right to collect tolls from motorists using the expressways operated by the Issuer. As of June 30, 2018, the Issuer operated 354 toll plazas. The Issuer's revenue from its toll business was ₩4,052 billion, ₩4,060 billion and ₩1,936 billion in 2016, 2017 and the first half of 2018, respectively, which represented 49.7%, 50.4% and 58.0% of the Issuer's revenues, or 88.9%, 88.0% and 87.8% of the Issuer's revenues other than from the construction and supporting businesses (which yield no gross profit as the Issuer operates these businesses at cost), in 2016, 2017 and the first half of 2018, respectively. Toll revenues are largely dependent on the total traffic volume on the expressways managed by the Issuer, which was 1,540 million, 1,587 million and 780 million vehicles in 2016, 2017 and the first half of 2018, respectively, while the total registered vehicles in Korea were 22 million, 23 million and 23 million as of December 31, 2016 and 2017 and June 30, 2018, respectively, according to the Korea National Statistical Office. See "— Traffic." Approximately 90% of the vehicles using the expressway network operated by the Issuer in the first half of 2018 were passenger cars, representing 83% of the Issuer's toll revenue in the first half of 2018.

Construction and Expansion

Since its establishment, the Issuer has supervised the construction of 4,151 kilometers of expressways. As of June 30, 2018, the Issuer had 11 new expressway routes under construction for an aggregate length of 514.4 kilometers and three expressway routes under expansion for an aggregate length of 68.8 kilometers. Under the National 7x9+6R Plan, an additional 1,711 kilometers of expressway remain to be built. According to internal estimates, the average cost per kilometer to the Issuer of constructing new expressways was approximately ₩44 billion as of June 30, 2018.

Construction Approval Process

Ten to thirteen years generally elapse between the time the Government decides to construct a new expressway or expressway section and the day such expressway is open for the general public to travel. The construction of an expressway involves several steps, including the commissioning of feasibility studies, which takes between one to two years, preparation of master plans and blue prints for construction, which takes between four to five years, and finally, the actual construction of the expressway, which takes between five to six years. During the feasibility study stage, detailed and comparative studies of various alternative locations for constructing the expressways are conducted. Environmental studies and research and technical analysis, and analysis of traffic flows are also conducted. During the master plan and blue print stages, various meetings with environmental, business and local interest groups are held to identify their concerns. These meetings allow the Issuer to address the concerns of the community before commencing construction. The Issuer is responsible for preparing the master plan and the blue prints.

The Issuer must also locate and purchase, on behalf of the Government, the land for the proposed expressway, including obtaining any rights of way over private land as well as exercising the right to eminent domain on behalf of the Government. Since 2003, the Government generally provided for 100% of the Issuer's land acquisition costs. While the Issuer acquires the land, title is recorded in the name of the Government and the Issuer records the cost of the acquisition as a part of construction-in-progress and obtains expressway operating rights from the Government upon completion the construction of the expressway.

The Issuer acts as project manager for the construction of a certain section of an expressway and the Issuer uses a general contractor selected through a competitive bidding process to serve as the construction supervisor for that project. The Issuer selects the general contractor for a particular construction project based upon an open, competitive bid process, after taking into account the proposed contractor's experience with such projects, the cost proposal, prior successful projects completed on behalf of the Issuer by such contractor, safety record and quality, among other factors. Once selected, the contractor is responsible for the project as a whole, including the engagement of any subcontractors. The Issuer's construction offices are responsible for monitoring the construction of the sections of the expressway falling within their respective jurisdictions.

Construction of New Expressways

New expressways are constructed in accordance with policy initiatives of the MOLIT, which takes into account annual budgets and directives established by the Government. The Issuer invested ₩2,485 billion and ₩2,306 billion in 2016 and 2017, respectively and has budgeted ₩1,679 billion for 2018. As of June 30, 2018, the Issuer had 514.4 kilometers of new expressways under construction, comprising of 11 routes.

Expansion of Existing Expressways

Pursuant to the National Arterial Expressway Network Plan, the Issuer improves the expressway network under its management and regularly invests in enhancing the quality of the services it offers. To improve traffic flow, the Issuer widens sections of the expressways, and constructs new interchanges, where traffic is often congested. The Issuer invested W177 billion and W216 billion in 2016 and 2017, respectively and has budgeted W126 billion for 2018. As of June 30, 2018, the Issuer had 68.8 kilometers of expressways under expansion, comprising of 3 routes.

Expressway Maintenance

The Issuer seeks to maintain a high level of safety for motorists by keeping expressways and engineering structures in good condition. The Issuer also seeks to reduce the effects of wear and tear from traffic and the aging of the expressway network, and to meet the technical standards applicable to expressways and engineering structures.

The Issuer believes that regular inspection of the expressways and engineering structures is critical to extending the life of the expressways under the Issuer's management. The Issuer systematically inspects and tests the expressways semi-annually. Expressway surfaces are generally replaced every five to ten years. Engineering structures, signage and other works are also systematically inspected and tested periodically. As of June 30, 2018, approximately 64% of the Issuer's employees performed functions relating to maintenance and repair of the expressways and engineering structures. A substantial part of the maintenance and repair work is outsourced to third party contractors. In 2016 and 2017, the Issuer's costs relating to maintenance and repairs amounted to ₩298 billion and ₩331 billion, respectively.

Traffic

Traffic volume on the expressways under the Issuer's management is determined by the number of kilometers in service and the number of motorists utilizing the expressways, which in turn are influenced by a number of factors, including toll rates, the economic conditions in Korea, the number of registered vehicles in Korea, fuel prices and the accessibility and existence of alternative means of transportation.

The Issuer calculates traffic volume for a given period of calculation by aggregating the number of vehicles which have exited the expressways through the Issuer's toll plazas during such period. This method helps to reduce double counting of vehicles traveling on more than one route during the same journey. The table below presents traffic volume on the expressways operated by the Issuer, toll revenue from the use of such expressways and the total number of registered vehicles in Korea for the periods indicated.

	Traffic Volume (in millions)				
Period	Passenger Vehicles	Non-passenger Vehicles	Total Number of Vehicles	Toll Revenue (in billions of Won)	Total Registered Vehicles (in millions)
2016	1,388	151	1,540	4,052	22
2017	1,428	158	1,586	4,060	23
First six months of 2018	700	80	780	1,936	23

Source: Korea National Statistical Office and the Issuer's internal estimates

Traffic Management

The Issuer believes that traffic management and motorist assistance are part of its key functions. The Issuer has a Traffic Information Center, which seeks to optimize traffic flow on the expressway network by providing prompt and reliable traffic information to motorists using the expressways. The Traffic Information Center collects real-time traffic information from toll plazas, magnetic loops installed on the expressways, closed-circuit TVs at toll plazas and at various points along the expressways, emergency roadside telephones, patrol cars and regional weather forecasts. The Issuer's traffic management system is able to offer motorists with current and integrated expressway traffic information twenty-four hours a day, seven-days a week, through a call center and various broadcasting media, such as variable message signs, the Internet, a voice message service accessible by telephone and app services accessible by smart phones. The Traffic Information Center also receives data from the toll collection system and provides information such as travel speeds, traffic congestion, the amount of time required to travel a certain section of the expressway and optimal travel routes between various points on the expressway network. In addition, in order to reduce the number of times the motorists have to stop to pay tolls and otherwise improve the convenience of road usage, the Issuer has recently established an integrated toll system between the expressways operated by the Issuer and certain privately operated expressways and is currently expanding the areas in which the standardized expressway pass for nation-wide use can used.

Safety and Security

The safety and security of the motorists using the expressway network under the Issuer's management is a key priority for the Issuer. The Issuer works closely with the national police force to control traffic, and ensure the safety and security of motorists using the expressways. The national police force routinely patrols the expressways and the Issuer has established plans that outline the Issuer's response procedures to ensure motorists' safety and security. In recognition of the adverse effect on traffic conditions from heavy rainfalls and snowfalls, the Issuer seeks to continually improve its safety and emergency response procedures, including a state-of-art meteorological disaster response system, helicopter rescue operations, in order to more rapidly and effectively detect, as well as respond to, emergency situations. The Issuer has also expanded facilities for preventing traffic accidents, such as rest areas, and public awareness campaigns for safe driving and against drunk driving.

Accidents

The Issuer seeks to reduce the rate of traffic accidents on the expressways operated by the Issuer. The number of traffic accidents on the expressways operated by the Issuer was 2,195, 2,146 and 982 in 2016, 2017 and the first half of 2018, respectively. The number of fatalities (measured as deaths resulting at or within 30 days following the traffic accident) was 239, 214 and 117 in 2016, 2017 and the first half of 2018, respectively.

The measures taken by the Issuer to reduce accidents on the expressways operated by the Issuer include regular inspections of road conditions, prompt removal of hazardous debris from roads, installing barriers, signs and other safety enhancing facilities in areas with high incidence of accidents, strict management of irrigation systems to minimize the duration of wet surface caused by rainfall, installing rest areas for sleep-deprived motorists, adoption of a state-of-art meteorological disaster response system, instant alert messaging of accidents through commercial road navigation systems, and operation of an accident prevention system using big data. The Issuer also seeks to increase motorists' awareness of expressway safety through media campaigns.

Tolls

The principal source of income for the Issuer is tolls collected by the Issuer from the motorists for the use of expressways operated by the Issuer. The following table presents, since 2010, the dates on which toll rate increases were implemented, compared to the inflation rate and the average increase of utility prices during the period between the date of such toll rate increase and the date of the toll rate increase immediately preceding such toll rate increase.

	Average Toll Rate Increase	Inflation for the Preceding 12 Months Period (1)	Average Increase of Utility Prices for the Preceding 12 Months Period (2)
	(%)	(%)	(%)
November 2011	2.9	4.2	7.4
December 2015	4.7	1.3	(7.1)

Source: Korea National Statistical Office.

(1) Consumer Price Index.

(2) Consists of electricity, fuel, and water prices.

Toll Collection System

The Issuer uses two kinds of systems for toll collection: "open" and "closed."

For an expressway using the open toll collection system, motorists stop only once to pay a fixed amount of toll at a given checkpoint regardless of their entry or exit points along such expressway. In contrast, for an expressway using the closed toll collection system, motorists must make two stops, once to collect a ticket at the entry point of the expressway and later to pay toll at the exit point of the expressway. Tolls at the open systems are for a fixed amount, while toll amounts at the closed systems vary depending on the distance traveled. Open systems are generally used for expressways with short distances, such as those servicing motorists within a greater metropolitan area that typically have a high level of traffic congestion, while closed systems are generally used for expressways with long distances, such as between major cities.

In an effort to alleviate congestion at toll plazas, the Issuer operates an automated toll collection system known as "Hi-Pass." The system utilizes radio signals, transmitted between electronic terminals located at toll booths and transponders loaded onboard vehicles, to automate the entire process of tracking a vehicle's entry and exit from the expressway network and the collection of toll payments, which are either deducted automatically from Hi-Pass cards purchased in advance by motorists or charged in arrears.

Toll Rate Structure

Under the current toll rate structure adopted in March 2004, the toll amount paid by motorists using the expressways operated by the Issuer is generally determined as the sum of a fixed basic amount and a variable additional amount. For expressways using the open toll system, the basic toll amount is W720 with the variable additional toll amount determined by multiplying the distance in kilometers from the toll booth where the toll is being collected to the nearest entry/exit point on the expressway by a coefficient in the range of W44.3 to W74.4, depending on the vehicle type. For expressways using the closed toll system, the basic toll amount is W900 with the variable additional toll amount determined by multiplying the distance in kilometers actually traveled by the motorist (measured as the distance between the entry and exit checkpoints on the relevant expressway traveled by the motorist) by the coefficient used in the open toll rate calculation.

For expressways with only two lanes, tolls are reduced by 50% for both the basic and additional rates. For expressways with six lanes or more, the coefficient used in computing the additional variable rate is increased by 20%. Reduced toll rates also apply to certain types of vehicles, such as vehicles with engine displacements of 1,000 cubic centimeters or less and cargo vehicles using the expressways during designated off-peak hours, as well as commuters using the expressways during peak rush hour times.

Toll Collection

The Issuer collects tolls at a collection of toll booths known as toll plazas, typically located near the exit points of a given expressway. Motorists can pay tolls either manually or automatically. Manual payments involve the motorist stopping at a toll booth located at a lane designated for manual payment, by paying the toll to the toll collector stationed in the toll booth by cash. Automatic payments involve the motorist passing through (without stopping by) a toll booth located at a lane designated for Hi-Pass payment, where the toll is automatically debited from the motorist's Hi-Pass card account upon passing by the Hi-Pass reader at the toll booth. Each of the Issuer's toll plazas has a combination of manual and Hi-Pass toll booths.

The operation of the Issuer's toll booth plazas is outsourced to outside service providers under service contracts. The Issuer believes that, compared to direct handling of toll collection by internal employees of the issuer, such outsourcing reduces overhead (including employment-related benefits) and increases operational efficiency. However, since March 2013, a number of lawsuits have been filed by toll gate workers employed by outside service providers seeking to be recognized as employees of the Issuer. See "Litigation."

As of June 30, 2018, the Hi-Pass system was under operation at all of the toll booth plazas operated by the Issuer. The Issuer plans to continue to increase the proportion of Hi-Pass lanes at toll plazas. The Issuer believes that the availability of the Hi-Pass system at all of its toll plazas helps to improve traffic flow at toll plazas by reducing congestion from the vehicles stopping to make manual payments and also reduce the unit cost of revenue for the Issuer as the Hi-Pass system requires lower overhead in the long term compared to the manual toll booths staffed in person.

The Issuer also offers motorists the option of paying toll charges in arrears, in effect allowing Hi-Pass cards to be used as credit cards and thereby encouraging the use of these payment methods to paying by cash, which generally involves a longer stopover time due to the time required to hand out changes.

The Issuer is committed to continually improving the toll collection process. The Issuer gathers data on the number, type and driving distances of motorists who utilize the expressways operated by the Issuer based on either the magnetic tickets issued to motorists or information transmitted by the Hi-Pass system. The data is transmitted to the Issuer's headquarters by optical fiber cable laid along the expressways for auditing and recording. The data collected allows the Issuer to keep accurate records of the amount of tolls received and aids in reducing losses from fraud. At the same time, the Issuer can assess traffic volumes at various points on the expressways to assist in traffic management. Furthermore, the Issuer started implementing the Smart Tolling system in 2016 and expects to complete the implementation by 2020. The Smart Tolling system will gradually replace toll booths operated by toll workers by utilizing advanced image recognition technologies to identify and subsequently charge motorists, which serves to reduce congestion from the vehicles unregistered for the Hi-Pass system stopping to make manual payments at toll plazas. The Issuer believes that the increased width of the Smart Tolling lanes compared to Hi-Pass lanes will also help reduce congestion from vehicles registered for Hi-Pass system slowing down near the toll plazas. See "— Traffic — Traffic Management."

Toll Concessions

Under the KEC Act and the Toll Road Act, the Issuer has the exclusive right to collect tolls on the expressways operated by the Issuer until it recovers all of its investments made in connection with the construction of all of the expressways under the National 7x9+6R Plan, including related financing costs. In addition, the Toll Road Act requires the MOLIT to set the toll collection period for a period not exceeding 30 years. If the Issuer does not completely recover its investments made in connection with the construction of expressways under the National 7x9+6R Plan, including related financing costs, within the period set by the MOLIT, the MOLIT will consider extending the toll collection period upon the request of the Issuer.

Other Businesses

Service Areas and Gas Stations

In addition to the Issuer's principal business of constructing, managing and maintaining expressways, the Issuer also engages in the business of leasing service areas and gas stations. The Issuer leases to third parties the right to operate service areas and gas stations located at various points along the expressways. As of June 30, 2018, the Issuer leased 192 service areas and 191 gas stations. The Issuer's revenue from leasing service areas and gas stations was ₩223 billion, ₩238 billion and ₩116 billion in 2016, 2017 and the first half of 2018, respectively. As of June 30, 2018, the Issuer also directly operated 3 service areas and 9 gas stations.

The Issuer generally builds the service areas and gas stations and then leases them to third parties, selected through an open, competitive bidding process, who then operate various businesses, such as restaurants and shops, at such service areas and sell gasoline and liquefied petroleum gas at such gas stations. These operators make payments for the right to operate a business at the service areas and the gas stations. The terms of these leases are generally five years.

The Issuer allows service area and gas station operators, selected through an open, competitive bidding process, to construct their own structures and facilities. These operators generally pay a reduced fee for the right to operate such service areas and gas stations, as compared to those operators who conduct business on service areas and gas stations constructed by the Issuer. Allowing these operators to construct their own structures and facilities allows the Issuer to reduce its service area and gas station related investment costs. The terms of the contracts with these operators require that title to the structures and facilities constructed at the service area or gas station, as applicable, must be transferred to the Issuer without consideration at the end of the contract period. The length of the contract period is dependent on the size of the operator's investment.

	As of December 31,		As of June 30,
	2016	2017	2018
Number of service areas(1)	186	190	195
Number of gas stations(2)	186	194	200

(1) Includes three directly operated service area.

(2) Includes liquefied petroleum gas stations and nine directly operated gas stations.

	2016	2017	First six months of 2018
		(in billions of Won)	
Revenue from leasing of service areas	₩ 174	₩ 183	₩ 87
Revenue from leasing of gas stations	49	₩ 55	₩ 29
Total	₩ 223	₩ 238	₩ 116

Development of Areas Adjacent to Expressways

The construction and expansion of expressways create certain opportunities for development in areas such as public roads owned by the Government which have become obsolete, such as interchanges and areas under bridges. The Issuer develops, or supports third parties' development of, various businesses on these areas, which provide a variety of services to motorists and the general public. The lands on which these developments take place are owned by either the Government or the Issuer. The types of developments include theme parks, cultural centers, premium outlets, shopping mall complexes and solar energy complexes, among others. The Issuer has developed, or supported the development of, 76 such areas, of which 126 were in operation as of June 30, 2018.

At certain interchanges, the Issuer develops, or supports the development of, freight terminals and warehouses which are leased to and operated by private parties, generally for ten year terms.

Supporting and Incidental Services

The Issuer provides certain supporting services to the Government on a contractual basis. These services include acquiring land related to expressways and supervising the construction of structures, such as pedestrian bridges, on behalf of the Government. All of the actual costs incurred by the Issuer in providing such services are passed through to the Government.

The Issuer also provides, as part of its incidental business, certain services to the Government and other third parties, which principally consist of acquiring land unrelated to expressways for local municipalities.

Technical Consulting and Research and Development

The Issuer engages in the business of providing certain services to the non-governmental third parties for fees. These services include providing technical consulting and operating research and development projects with regard to road construction and maintenance.

Overseas Operations

The Issuer on occasion provides technical consulting services to Korean and foreign companies and government agencies engaged in road construction projects overseas. For example, in December 2014, the Issuer was selected by the Algerian government to supervise the installation of equipment to facilitate the toll payment system in certain sections of the Algeria East-West Highway. This project is expected to be completed by June 2019. In December 2014, the Issuer was selected by the Bangladesh government to supervise the construction of the main Padma Bridge. This project is expected to be completed by November 2019. In December 2016, the Issuer and the Road Development Authority of the Republic of Mauritius entered into a Memorandum of Understanding providing for the cooperation in the field of construction and maintenance of roads, bridges and tunnels in the context of the implementation of the Road Decongestion Programme. This project is expected to be completed by October 2020.

Subsidiaries, Affiliated Companies and Other Investments

As of June 30, 2018, the Issuer had one subsidiary, KEFMC, that was consolidated under the Government Accounting Standards for Public Corporations and Quasi-governmental Institutions in the Republic of Korea. KEFMC was established in June 2018 as a wholly owned subsidiary of the Issuer and engages in facility management and safety patrol business for the Issuer.

The Issuer also holds equity interest in the following companies.

BUEC, the company that constructed and is currently operating the privately funded Busan-Ulsan Expressway, was established in May 2006. Construction on the Busan-Ulsan Expressway was completed in December 2008. As of June 30, 2018, the Issuer held a 51.00% equity interest in BUEC, with the remaining 49% held by the National Pension Corporation.

Korea Construction Management Corporation ("KCMC") was established in December 1993 and engages in the business of construction supervision. As of June 30, 2018, the Issuer held a 42.50% equity interest in KCMC, with the remainder held by Korea Land and Housing Corporation and Korea Water Resources Corporation, each of which is a Government-owned entity.

Expressway Solar Power Co., Ltd. ("Expressway Solar") was established in April 2012 and engages in the business of solar energy generation. As of June 30, 2018, the Issuer held a 29% equity interest in Expressway Solar.

Highwaysolar Co., Ltd. ("Highway Solar") was established in 2013 and engages in the business of solar and other forms of renewable energy generation. As of June 30, 2018, the Issuer held a 29% equity interest in Highway Solar.

Seoul-Chuncheon Expressway Corporation ("SCEC") was established in 2002 and is engaged in the business of operating the Seoul-Chuncheon Expressway Corporation. As of June 30, 2018, the Issuer held a 10.0% equity interest in SCEC.

Dreamline Co., Ltd., which engages in the business of leasing fiber-optic networks on expressways, was established in July 1997. As of June 30, 2018, the Issuer held a 1.6% equity interest in Dreamline.

The 2nd Seoul-Incheon Linking Highway was established in August 2007 and engages in the business of operating the 2nd Seoul-Incheon Linking Highway. As of June 30, 2018, the Issuer held a 4.76% equity interest in the 2nd Seoul-Incheon Linking Highway.

The Seoul North Highway Corporation was established in October 2007 and engages in the business of operating the northern part of the Seoul Highway. As of June 30, 2018, the Issuer held a 10.0% equity interest in the Seoul North Highway Corporation.

The Korea Overseas Infrastructure & Urban Development Corporation ("KIND") was established in June 2018 and engages in the business of supporting global Public-Private-Partnership business. As of June 30, 2018, the Issuer held a 11.09% equity interest in this entity.

As part of the Government's initiative to streamline public corporations and make them more profitable, the Issuer is required to sell its stake in certain of its subsidiaries and affiliates in the near future. In accordance with such initiative, the Issuer is currently taking steps to sell its equity interests in SCEC, KCMC, BUEC and Dreamline, subject to prevailing market conditions. Currently, Korea Asset Management Corporation has been delegated with the sale of the Issuer's interests in KCMC and Dreamline.

Research and Development

The Issuer's Expressway and Transportation Research Institute ("ETRI"), established in 1973, is Korea's leading road research institute. ETRI engages in traffic, road pavement and infrastructure research, reviews and maintains a program to assure quality control at construction sites, examines all construction materials and performs safety checks of facilities. Investigating and solving various problems in expressway construction, and maintenance and management of construction sites, ETRI is a leader in domestic road technology development and participates in joint national research programs with the Government. ETRI is designated by the MOLIT and the Ministry of Knowledge Economy as an organization specializing in safety assessment and has obtained an ISO 9001 certification, an international quality standard system in the fields of expressway design, development, construction and service. In 2016, 2017 and the first half of 2018, the Issuer incurred ₩43 billion, ₩46 billion and ₩13 billion, or 0.5%, 0.6% and 0.4% of revenues, respectively, on research and development.

Competition

The Issuer faces two principal types of competition: (i) non-road modes of transportation, such as railway, and (ii) alternative road networks, such as toll-free public expressways and private expressways.

The principal competing mode of transportation in Korea that services the comparable destinations covered by the expressways operated by the Issuer is the national railway system, including the high-speed railway commonly known as KTX. However, the Issuer does not believe that rail transportation poses a material threat to the Issuer's business because high-speed railways (and railways in general) are used for long distance travel, while expressways are used mostly for short distance travel. For example, the Issuer estimates that approximately 90% of travel in Korea is for a distance of less than 100 kilometers (and approximately 54% of travel for a distance of less than 30 kilometers) and the average distance traveled on expressways is approximately 50 kilometers. In addition, the Issuer believes that the majority of travelers prefer driving to riding trains due to the greater convenience and privacy associated with the former. In addition, traveling by train requires the traveler to tailor their schedules to meet pre-set departure times, as well as arrange for other modes of transportation to travel to and from trains stations from their departure points and to their ultimate destinations. Furthermore, trains generally do not operate 24 hours a day, and travelers traveling at a time other than train operating hours have few other options than driving. Nevertheless, in recognition of competition from railways regardless of its effect, the Issuer is taking steps to improve the facilities on expressways that service the same destinations as railways and to enhance the convenience of the expressways.

Toll-free highways and expressways funded by private capital are the two principal alternative automotive modes of transportation available to motorists in Korea. The Issuer believes that toll-free highways do not represent a significant threat to the Issuer's business because these roads generally have fewer lanes, require more travel time due to lower speed limits, generally have lower road quality compared to expressways operated by the Issuer and generally do not provide the closest route to intended destinations.

As for privately funded expressways, 24 projects have to-date been approved by the MOLIT for development by private enterprises. Of these 24 projects, 18 have begun commercial operations in Korea, namely the Incheon Airport Highway, the Cheonan-Nonsan Expressway, the New Daegu-Busan Expressway, the Ilsan-Twegyewon Expressway, the Busan-Ulsan Expressway, the Seoul-Chuncheon Expressway, the Yongin-Seoul Expressway, the Incheon Bridge, the West Suwon-Pyeongtaek Expressway, the Pyeongtaek-Siheung Expressway, the Suwon-Kwangmyeong Expressway, the Kwangju-Wonju Expressway, the Guri-Pocheon Expressway, the Sangju-Yeongcheon Expressway, the Incheon-Gimpo Expressway, the Anyang-Seongnam Expressway, the Oksan-Ochang Expressway and the Busan New Port the second road behind. See "Relationship with the Government — Government Road Construction Policy — Expressways funded by private capital." The Issuer does not believe that the private expressway projects will pose a material threat to the Issuer's business given their limited overlap with the expressways operated by the Issuer and the location of these projects in relatively less populated areas. For example, the Incheon Airport Highway services a route that is not covered by the Issuer and therefore has not resulted in any loss of traffic volume for the Issuer. The Issuer further believes that the amount of traffic volume lost to the Cheonan-Nonsan Expressway is not material as these cities have relatively small population. With respect to the other projects planned for private development, these routes are expected to service destinations not served by the Issuer. The private expressway projects connect and complement the major expressways operated and maintained by the Issuer under the National 7x9+6R Plan.

Environmental Matters

The Issuer is subject to the Framework Act on Environmental Policy of 1990, as amended, and a number of related regulations covering air pollution, air quality, water pollution and the administration of hazardous substances. The Issuer believes that it is in material compliance with all applicable environmental laws and regulations. See "Risk Factors — Risks Relating to the Issuer — Environmental regulations may limit the Issuer's operations" and "Risk Factors — Risks Relating to the Issuer — The Issuer is subject to various operational risks, any of which could give rise to significant delays or additional costs."

In an effort to minimize environmental damage during the construction of expressways, the Issuer analyses the potential environmental impact of each expressway project and retains environmental experts from the initial design stage until completion of construction to evaluate the environmental impact of the proposed expressway project. From the beginning of the construction planning and design stage, the Issuer establishes strict procedures for inspection and analysis of environmental impact and also engages in open dialogue with affected residents and other members of the public through explanatory sessions and public hearings.

The Issuer implements an environmental management plan, designed to minimize negative environmental impact from the construction and operation of its expressways. Among other things, the plan contemplates taking measure to reduce pollution (including noise pollution), minimize waste generated from the construction and operation of expressways and make efficient use of energy and other resources in constructing and operating expressways.

Litigation

As of June 30, 2018, the Issuer was involved in 337 different court proceedings as a defendant, with an aggregate claim against the Issuer in the amount of ₩500 billion. Approximately 42% of such proceedings involving an aggregate claim against the Issuer in the amount of ₩2 billion were in relation to traffic accidents where the accident victims or insurance companies alleged road mismanagement by the Issuer.

A number of toll gate workers employed by outside service providers have, since March 2013, filed lawsuits demanding that the Issuer recognize the workers as its regular employees and accordingly pay wages in an amount equal to what they would have been entitled to if they were regular employees of the Issuer, or approximately ₩272 billion to the workers. In February 2017, the court of appeals ruled partially in favor of the toll gate workers. The Issuer appealed and the case is currently pending at the supreme court. In addition, in October 2013, safety patrol workers employed by outside service providers have filed lawsuits demanding that the Issuer recognize the workers as its regular employees and accordingly pay wages in an amount equal to what they would have been entitled to if they were regular employees of the Issuer, or approximately ₩32 billion to the workers. In June 2016 the court of appeals ruled partially in favor of the safety patrol workers. The Issuer appealed and the case is currently pending at the supreme court. Several similar cases are also pending in district courts and courts of appeals. Although the Issuer has set aside ₩39 billion as provision for litigation, if these cases are adversely determined against the Issuer, there is no assurance that it would not have a material adverse effect on the Issuer, its business, financial condition or results of operation.

Insurance

The Issuer maintains casualty and fire insurance for its facilities. The Issuer does not maintain any business interruption insurance, natural disaster insurance or liability insurance. In 2016, 2017 and the first half of 2018, the Issuer's losses from damages due to natural disasters amounted to ₩31 billion, ₩37 billion and ₩6 billion, respectively.

Employees

As of June 30, 2018, the Issuer had 5,793 full-time employees, all of whom are employed within Korea. Of the total number of employees, 62.9% were engineers, 34.2% were operations staff and 2.9% were administrative staff.

The Issuer has had a labor union since 1987. As of June 30, 2018, approximately 84.5% of the Issuer's employees were members of the union, which negotiates a collective bargaining agreement and wage agreement for its members each year. The Issuer maintains a good relationship with its employees and has not experienced any material labor disruptions.

MANAGEMENT

Under the Act on the Management of Public Institutions and the Issuer's articles of incorporation, the Issuer's management is vested in the board of directors (the "BOD"), which consists of not more than 15 directors, including the president.

The directors are classified into two categories: standing directors and non-standing directors. The number of standing directors may not be more than seven, including the president, and the non-standing directors may not be more than eight. In addition, the number of standing directors must be less than one-half of the total number of directors. The Issuer currently has seven standing directors and eight non-standing directors. The standing directors other than the Issuer's president and standing member of the Audit Committee are appointed by the Issuer's president upon approval by the general meeting of the Issuer's shareholders. The Issuer's standing directors presently constitute the Issuer's executive officers. The non-standing directors are appointed from among specialists in the private sector by the Minister of the MOEF upon nomination by the Committee on the Nomination of Officials ("Nomination Committee"), which is established in accordance with the Act on the Management of Public Institutions and composed of the non-standing directors and other members appointed by the BOD and approval by the Steering Committee of the MOEF and the general meeting of the Issuer's shareholders. The Issuer's president is appointed by the President of Korea upon the motion of the Minister of the MOLIT after being nominated by the Nomination Committee and approved by the Steering Committee of the MOEF and the general meeting of the Issuer's shareholders. Non-standing directors must constitute the majority of the members of the Nomination Committee. The president represents the Issuer and administers the Issuer's day-to-day business in all matters not specifically designated as responsibilities of the BOD.

The Act on the Management of Public Institutions and the articles of incorporation of the Issuer also require the Issuer to establish an Audit Committee as a committee of the BOD. The Audit Committee is comprised of three members, of whom two members must be non-standing directors. The principal function of the Audit Committee is to conduct internal review of the Issuer's operations and accounting, and to present its opinion to the BOD, thereby ensuring the independence and professionalism of the Issuer. The Issuer's standing member of the Audit Committee is appointed by the President of Korea upon the motion of the Minister of the MOEF after being nominated by the Nomination Committee and approved by the Steering Committee of the MOEF and the general meeting of the Issuer's shareholders. The standing member of the Audit Committee is also a member of the BOD.

The names, titles, and outside occupations, if any, of the directors and members of the Audit Committee and the respective years in which they took office are set forth below.

Name	Age[(1)]	Title/Position	Outside Occupation, if any	Position held since
Lee, Kang Rae	66	President	None	November 29, 2017
Lee, Woo Joung	60	Standing Director and Standing Member of the Audit Committee	None	June 22, 2018
Kim, Kwang Soo	58	Standing Director	None	March 13, 2017
Ko, Chae Suk	58	Standing Director	None	March 16, 2018
Lee, Sang Jun	57	Standing Director	None	March 16, 2018
Lee, Kang Hoon	57	Standing Director	None	March 16, 2018

Name	Age[1]	Title/Position	Outside Occupation, if any	Position held since
Hong, Doo Pyo	57	Standing Director	None	March 16, 2018
Park, Jae Sik..........	63	Non-standing Director and Non-standing Member of the Audit Committee	Team leader of the Korea Research Institute for Vocational Education & Training	March 31, 2014
Kim, Hang Sool	65	Non-standing Director	None	February 24, 2015
You, Young Joon	61	Non-standing Director and Non-standing Member of the Audit Committee	None	February 24, 2015
Jho, Wha Sun.........	53	Non-standing Director	Professor of Political Science and Diplomacy at Yonsei University	February 6, 2017
Baek, Byung Hoon..	67	Non-standing Director	Professor of Architectural Engineering at Semyung University	June 14, 2018
Eom, Hyeon Taek ...	63	Non-standing Director	None	June 14, 2018
Han, Jeong Hee	44	Non-standing Director	Lawyer	June 14, 2018

(1) As of June 30, 2018.

Lee, Kang Rae has been the president of the Issuer since November 29, 2017. Mr. Lee received a Bachelor's degree Business Administration from Myeongee University and a Master's degree and a doctorate degree in Business Administration from Seoul National University. He previously served as a member of the National Assembly of Korea.

Lee, Woo Joung has been a standing director and a standing member of the audit committee since June 22, 2018. Mr. Lee received a Bachelor's degree in Livestock Studies from Gangwon University. He previously served as a senior official at the Board of Audit and Inspection.

Kim, Kwang Soo has been a standing director since March 13, 2017. Mr. Kim currently serves as executive managing director of the Road Traffic Division. He received a Bachelor's degree in Civil Engineering from Joongang University and a Master's degree in SOC Investment and Development from Hanyang University. He previously served as director of the Road Division of the Issuer.

Ko, Chae Suk has been a standing director since March 16, 2018. Mr. Ko received a Bachelor's degree, a Master's degree and a doctorate degree in Commerce from Kyungkee University. He previously served as director of the Information Division of the Issuer.

Lee, Sang Jun has been a standing director since March 16, 2018. Mr. Lee received a Bachelor's degree in Business Operations from Choongnam University. He previously served as director of the Facilities Division of the Issuer.

Lee, Kang Hoon has been a standing director since March 16, 2018. Mr. Lee received a Bachelor's degree and a Master's degree in Civil Engineering from Hanyang University. He previously served as director of the Business Development Division of the Issuer.

Hong, Doo Pyo has been a standing director since March 16, 2018. Mr. Hong received a Bachelor's degree in Civil Engineering from Jeonbook University, a Master's degree in Transportation Engineering from Ahjoo University and a doctorate degree in Building and Transportation Engineering from Ahjoo University. He previously served as general manager of the Gwangjoo and Jeonnam Regional Division of the Issuer.

Park, Jae Sik has been a non-standing director since March 31, 2014. Mr. Park currently serves as a non-standing member of the Audit Committee. Mr. Park received a Bachelor's degree in Law and a Master's degree in Criminal Law from Konkuk University, and a Ph.D. degree in Commercial Law and Social Law from Kangwon University. Mr. Park is currently the team leader of the Korea Research Institute for Vocational Education & Training.

Kim, Hang Sool has been a non-standing director since February 24, 2015. Mr. Kim received a Bachelor's degree in Korean Language and Literature from Kyonggi University and a Master's degree in Reunification Policy from Dongguk University. Mr. Kim previously served as director of Byuksung College.

You, Young Joon has been a non-standing director and non-standing member of the audit committee since February 24, 2015. Mr. You received a Bachelor's degree in Business Administration from Korea National Open University and a Master's degree in Business Administration from Korea University. He previously served as director of the Presidential Security Service.

Jho, Wha Sun has been a non-standing director since February 6, 2017. Ms. Jho received a Bachelor's degree in Political Science and Diplomacy and a Master's degree in Political Science from Yonsei University, and a Ph.D. degree in Political Science from Northwestern University. Ms. Jho is currently a professor of Political Science and Diplomacy at Yonsei University.

Baek, Byung Hoon has been a non-standing director since June 14, 2018. Mr. Baek received a Bachelor's degree in Architectural Engineering from Hongik University and a Master's degree as well as a doctorate degree in Architectural Engineering from Yonsei University. Mr. Baek is currently a professor of Architectural Engineering at Semyung University.

Eom, Heyon Taek has been a non-standing director since June 14, 2018. Mr. Eom received a Bachelor's degree in Sociology from Seoul National University, a Master's degree in Business Administration from Seoul National University and a doctorate degree in Public Policy from Hanseoung University. Mr. Eom is currently a professor of Business Administration at Ahjoo University.

Han, Jeong Hee has been a non-standing director since June 14, 2018. Ms. Han received a Bachelor's degree and a Master's degree in Law from Ewha Women's University. Ms. Han is currently an attorney at the Han Jeong Hee legal services firm.

Resolutions can be passed by a majority of the board members.

The Issuer's president may be removed by the President of Korea upon motion of the MOLIT. In addition, the Minister of the MOEF may either recommend or request removal of the Issuer's president upon approval by the Steering Committee of the MOEF if the results of operations are deemed to be poor. The standing directors, in the order contemplated by internal regulations, assist the president and act for the president when the president is unable to act.

The business address of the directors is 77, Hyeoksin 8-ro, Gimcheon-si, Gyeongsangbuk-do, Korea.

Compensation of Directors and Executive Officers

For the year ended December 31, 2017, the aggregate amount of remuneration paid and accrued to the directors and executive officers was ₩1 billion. The aggregate amount the Issuer set aside or accrued during the year ended December 31, 2017 to provide retirement and severance benefits for directors and executive officers was ₩0.06 billion.

Board Practices

The term of the president is three years, and the term of the directors (other than the president) is two years. The president and directors may be reappointed for successive periods of one year each.

The president's management contract provides for benefits upon termination of his or her employment. The president is eligible for termination benefits after more than one year of continuous service. For each year of employment with the Issuer, the payment amount for termination benefits is equal to the average value of compensation for one month.

The terms for termination benefits for standing directors are determined in accordance with the Issuer's internal regulations for executive compensation. Standing directors are eligible for benefits after retirement or upon death following one year of continuous service. The payment amount for retirement benefits is calculated by computing the standard level of compensation and multiplying by the number of continuous years of service.

Related Party Transactions

The Issuer engages from time to time in various transactions with related parties, which include its affiliates. The Issuer believes that it has conducted its transactions with related parties as it would in comparable arm's length transactions with a non-related party, on a basis substantially as favorable to the Issuer as would be obtainable in such transactions. For details on the Issuer's related party transactions, see Note 39 to the Issuer's financial statements as of and for the years ended December 31, 2016 and 2017 and Note 28 of the notes to the Issuer's consolidated financial statements as of and for the six months ended June 30, 2018.

SHARE OWNERSHIP

The following table sets out certain information relating to the principal shareholders of the Issuer as of June 30, 2018.

	As of June 30, 2018	
Name of Shareholder	**Number of Common Shares Held**	**% of Total Common Shares**
Ministry of Land, Infrastructure and Transport	2,845,845,603	85.75%
Ministry of Economy and Finance	13,418,889	0.40
The Export-Import Bank of Korea(1)	328,714,464	9.91
The Korea Development Bank(2)	92,628,550	2.79
Industrial Bank of Korea(3)	22,423,519	0.68
Korea Housing Finance Corporation(4)	15,000,000	0.45
Kookmin Bank(5)	573,448	0.02
Total common shares	3,318,604,473	100.00%

(1) The Government owns, directly or indirectly, 100% of The Export-Import Bank of Korea, as of June 30, 2018.

(2) The Government owns, directly or indirectly, 100% of The Korea Development Bank, as of June 30, 2018.

(3) The Government owns, directly or indirectly, 61.9% in common and preferred shares of the Industrial Bank of Korea, as of June 30, 2018.

(4) The Government owns, directly or indirectly, 100% of Korea Housing Finance Corporation, as of June 30, 2018.

(5) Kookmin Bank received equity interests in the Issuer from the Government in connection with the recapitalization of Kookmin Bank.

REGULATION

The Issuer was established in order to facilitate road maintenance and to contribute to the development of road transportation under the KEC Act. The KEC Act contemplates that the Issuer may engage in the following activities:

- constructing, reconstructing, repairing or maintaining toll roads;
- constructing, reconstructing, repairing or maintaining roads necessary to facilitate the use of toll roads (including roads connected to toll roads);
- constructing, reconstructing, repairing or maintaining expressways for the use of which tolls will be charged;
- building and operating toll parking lots;
- building and operating service and gas stations adjacent to toll roads;
- acquiring and managing real estate necessary for the road business;
- constructing, reconstructing, repairing or maintaining roads by a mandate from the Government, local governments or other third parties and conducting research, tests, inspections, measurements or design of roads;
- construction, repair and maintenance, inspection, design and construction management of roads in foreign countries;
- managing toll roads, toll parking lots and other related facilities thereof by delegation of the Government, local governments or other third parties;
- building, operating and managing of "new and renewable energy facilities" pursuant to the Act on the Promotion of the Development, Use and Diffusion of New and Renewable Energy to utilize lands and facilities managed by the Issuer;
- business using road site and facilities relating to roads in order to facilitate the use of toll roads;
- property development business, such as establishing distribution and storage centers in areas adjacent to toll roads, in order to facilitate the usefulness and convenience of toll roads;
- research and technology development on toll roads;
- investments and making contributions to businesses related to the Issuer's business;
- any other business incidental to the foregoing businesses; and
- any other business in which the Issuer may engage under other laws.

In addition, the KEC Act provides that:

- the Issuer may (subject to board approval) issue bonds or receive loans up to an amount not exceeding four times the total of capital and reserves;
- the Government may guarantee the repayment of the principal of and interest on the bonds issued by the Issuer and loans borrowed by the Issuer; and

- the Government may, within the limit of the national budget, subsidize part of the Issuer's operating expenses, provide loans and subscribe to the bonds issued by the Issuer.

The Act on the Management of Public Institutions sets forth regulations on general matters such as reporting obligations of business performance, procedures for enactment and amendment of the articles of incorporation, method of formation and resolution of a board of directors, appointment, removal and duties of officials, budgeting, submission of statement of accounts, disclosure of business and inspection of operations and management of public institutions, including the Issuer.

The Toll Road Act contains provisions regarding the construction and reconstruction of toll roads, the management right of toll roads, determination, collection and distribution of tolls and restrictions on usage of collected tolls, including the following:

- The Issuer is entitled to collect tolls from the users of the toll roads which the Issuer constructed or reconstructed in accordance with the provisions of the Toll Road Act.

- Total amounts of the tolls to be collected may not exceed the aggregate costs for the construction, maintenance and repair of the relevant toll road.

- The Issuer may collect tolls and additional tolls not paid from a person who is obligated to pay tolls in accordance with the tax collection procedure with the approval of the MOLIT.

Under the Road Act, the MOLIT may delegate to the Issuer part of the statutory authority of the MOLIT with respect to expressways including, without limitation, construction and maintenance of expressways, in which case the Issuer, within the scope of such delegation, may exercise such authority over the relevant expressway as the government agency in charge.

TAXATION

The following summary contains a description of certain Korean and U.S. federal income tax consequences of the ownership and disposition of Notes, but it does not purport to be a comprehensive description of all of the tax considerations that may be relevant to a decision to purchase or dispose of Notes. This summary is based on the Korean and U.S. federal tax laws in force on the date of this Offering Memorandum (which are subject to change and which changes may have retroactive effect), and does not describe any tax consequences arising under the laws of any state, locality or taxing jurisdiction other than the laws of Korea and the federal laws of the United States.

Prospective purchasers of Notes should consult their own tax advisors as to the Korean, U.S. or other tax consequences of the ownership and disposition of Notes, including the effect of any foreign, state or local tax laws.

Korean Taxation

The taxation of non-resident individuals and non-Korean corporations ("Non-Residents") generally depends on whether they have a "Permanent Establishment" (as defined under Korean law) in Korea to which the relevant Korean source income is attributable or with which such relevant Korean source income is effectively connected. Non-Residents without such a Permanent Establishment in Korea are taxed in the manner described below. Non-Residents with such Permanent Establishment are taxed in accordance with different rules.

Tax on Interest

Special Tax Treatment Control Law (the "STTCL") exempts interest on notes denominated in a foreign currency (excluding payment to a Korean corporation or resident or a Permanent Establishment of a foreign corporation in Korea) from Korean income tax or corporation tax; provided that, the offering of the Notes is deemed to be an overseas issuance under the STTCL.

If not exempt under STTCL, the rate of income tax or corporation tax applicable to interest or any premium on the Notes, for a Non-Resident without a Permanent Establishment in Korea, is currently 14%. In addition, a tax surcharge, called a local income tax, is imposed at the rate of 10% of the income or corporation tax (raising the total tax rate to 15.4%).

The tax is withheld by the payer of the interest. Accordingly, Korean law entitles the payer of the interest to claim rectification of the Korean tax withheld. Korean law also entitles the person who has suffered the withholding of Korean tax to recover from the Government any part of the Korean tax withheld in the event that the payer of the interest pays the withheld taxes and submits the payment record within the deadline to the tax office. If he subsequently produces evidence that he was entitled to have his tax withheld at a lower rate, it may be possible to claim withheld tax from the tax office directly, or if not, from the payer.

The tax rates may be reduced by applicable tax treaty, convention or agreement between Korea and the country of the recipient of the interest. The relevant tax treaties are discussed below.

In addition, in order to obtain the benefit of a reduced rate available under applicable tax treaties, a non-resident holder should submit an application for such reduced rate to the party liable for the withholding before the receipt of relevant payment (if there is no change in the contents of such application, it is not required to re-submit for three years thereafter), together with a certificate of the non-resident holder's tax residence issued by a competent authority of the non-resident holder's residence country. However, this requirement does not apply to exemptions under Korean tax law. If the non-resident holder fails to obtain the benefit of a reduced rate by failing to make a timely submission of the above-mentioned application, the non-resident holder can get the tax refunded if the submission is made within 5 years thereafter.

Index Linked Notes

A detailed description of the tax considerations relevant to Index Linked Notes will be provided in the applicable Pricing Supplement.

Tax on Capital Gains

The Korean tax laws currently exclude from Korean taxation gains made by a Non-Resident without a Permanent Establishment in Korea from the sale of the Notes to a Non-Resident (other than to its Permanent Establishment in Korea). In addition, capital gains earned by a Non-Resident with or without a Permanent Establishment from the transfer outside Korea of the Notes are currently exempt from taxation by virtue of STTCL, provided that the issuance of the Notes is deemed to be an overseas issuance.

In the absence of an applicable tax treaty or any other special tax laws reducing or eliminating the capital gains tax, the applicable rate of tax is the lower of 11% (including surtax) of the gross realization proceeds (the "Gross Realization Proceeds") and (subject to the production of satisfactory evidence of the acquisition cost and the transfer cost of the relevant Notes) 22% (including surtax) of the gain made. The gain is calculated as the Gross Realization Proceeds less the acquisition cost and the transfer cost (including taxes, dues and brokerage commissions paid in direct connection with the acquisition and transfer of the Notes). If such evidence shows that no gain (or a loss) was made on the sale no Korean tax is payable. There is no provision under the relevant Korean law for offsetting gains and losses or otherwise aggregating transactions for the purpose of computing the net gain attributable to sales of securities of Korean companies.

The purchaser or any other designated withholding agent of Notes is obliged under Korean law to withhold the applicable amount of Korean tax and make payment thereof to the relevant Korean tax authority. Unless the seller can claim the benefit of an exemption from the tax under an applicable tax treaty or in the absence of the seller producing satisfactory evidence of his acquisition cost and the transfer cost in relation to the Notes being sold, the purchaser or such withholding agent must withhold an amount equal to 11% of the Gross Realization Proceeds. Any amounts withheld by the purchaser or such withholding agent must be paid to the relevant Korean tax authority no later than the tenth day of the month following the month in which the sale of the relevant Notes occurred. Failure to transmit the withheld tax to the Korean tax authorities in time technically subjects the purchaser or the withholding agent to penalties under Korean tax laws.

In addition, in order to obtain the benefit of a tax exemption available under applicable tax treaties, a non-resident holder should submit to the purchaser or the withholding agent an application for exemption, together with a certificate of the non-resident holder's tax residence issued by a competent authority of the non-resident holder's residence country. The purchaser or the withholding agent is required to submit the application for exemption together with the certificate of the non-resident holder's tax residence to its district tax office no later than ninth day of the month following the month in which sale proceeds are paid. However, this requirement does not apply to exemptions under Korean tax law.

Inheritance Tax and Gift Tax

Korean inheritance tax is imposed upon (a) all assets (wherever located) of the deceased if at the time of his death he was domiciled in Korea and (b) all property located in Korea which passes on death (irrespective of the domicile of the deceased). Gift tax is imposed in similar circumstances to the above based upon the donee's place of domicile in the case of (a) above. The taxes are imposed if the value of the relevant property is above a certain limit and the rate varies according to the value of the relevant property and the identity of the parties involved.

Under the Korean inheritance and gift tax laws, notes issued by Korean corporations are deemed located in Korea irrespective of where they are physically located or by whom they are owned.

Stamp Duty and Securities Transaction Tax

No stamp, issue or registration duties will be payable in Korea by the Noteholders in connection with the issue of the Notes. A securities transaction tax will not be imposed on the transfer of Notes.

Tax Treaties

At the date of this Offering Memorandum, Korea has tax treaties with inter alia Australia, Austria, Belgium, Canada, Denmark, Finland, France, Germany, Ireland, Italy, Japan, Luxembourg, the Netherlands, New Zealand, Norway, Singapore, Sweden, Switzerland, the United Kingdom and the United States of America where the rate of withholding tax on interest is reduced, generally to between 5 and 16.5% and the tax on capital gains is often eliminated.

At present, Korea has not entered into any tax treaties regarding its inheritance or gift tax.

U.S. Federal Income Taxation

The following discussion is a summary of certain United States federal income tax consequences of the purchase, ownership and disposition of Notes as of the date hereof.

The discussion set forth below is applicable to United States Holders (as defined below) (i) who are residents of the United States for purposes of the current income tax treaty between the United States and Korea (the "Treaty"); (ii) whose Notes are not, for purposes of the Treaty, attributable to a permanent establishment in Korea; and (iii) who otherwise qualify for the full benefits of the Treaty.

Except where noted, this summary deals only with holders that hold Notes as capital assets, and does not represent a detailed description of the United States federal income tax consequences applicable to you if you are subject to special treatment under the United States federal income tax laws, including if you are:

- a dealer in securities or currencies;
- one of certain financial institutions;
- a regulated investment company;
- a real estate investment trust;
- a tax-exempt organization;

- an insurance company;
- a person holding the Notes as part of a hedging, integrated, conversion or constructive sale transaction or a straddle;
- a trader in securities that has elected the mark-to-market method of accounting for your securities;
- a person liable for alternative minimum tax;
- a partnership or other pass-through entity for United States federal income tax purposes;
- a person required to accelerate the recognition of any item of gross income with respect to the Notes as a result of such income being recognized on an applicable financial statement;
- a person whose "functional currency" is not the U.S. dollar; or
- a United States expatriate.

As used herein, a "United States Holder" means a beneficial owner of a Note that is for United States federal income tax purposes:

- an individual citizen or resident of the United States;
- a corporation (or any other entity treated as a corporation for United States federal income tax purposes) created or organized in or under the laws of the United States, any state thereof or the District of Columbia;
- an estate the income of which is subject to United States federal income taxation regardless of its source; or
- a trust if it (1) is subject to the primary supervision of a court within the United States and one or more United States persons have the authority to control all substantial decisions of the trust or (2) has a valid election in effect under applicable United States Treasury regulations to be treated as a United States person.

This summary is based upon provisions of the U.S. Internal Revenue Code of 1986, as amended (the "Code"), and final, temporary and proposed regulations, rulings and judicial decisions as of the date hereof. Those authorities may be changed, perhaps retroactively, so as to result in United States federal income tax consequences different from those summarized below.

The discussion below assumes that all Notes issued pursuant to the Program will be classified for United States federal income tax purposes as the Issuer's indebtedness and you should note that in the event of an alternative characterization, the tax consequences would differ from those discussed below. The Issuer will summarize any special United States federal tax considerations relevant to a particular issue of the Notes in the applicable Pricing Supplement.

If a partnership (or other entity treated as a partnership for United States federal income tax purposes) holds Notes, the tax treatment of a partner will generally depend upon the status of the partner and the activities of the partnership. If you are a partner in a partnership holding Notes, you should consult your tax advisors.

This summary does not represent a detailed description of the United States federal income tax consequences to you in light of your particular circumstances and does not address the Medicare tax on net investment income or the effects of any state, local or non-United States tax laws. If you are considering the purchase of Notes, you should consult your own tax advisors concerning the particular United States federal income tax consequences to you of the ownership of the Notes, as well as the consequences to you arising under the laws of any other taxing jurisdiction.

Payments of Interest

Except as set forth below, interest on a Note will generally be taxable to you as ordinary income at the time it is paid or accrued in accordance with your method of accounting for United States federal income tax purposes.

In addition to interest on the Notes (which includes any Korean tax withheld from the interest payments you receive), you will be required to include in income any additional amounts paid in respect of such Korean tax withheld. You may be entitled to deduct or credit this tax, subject to certain limitations (including that the election to deduct or credit foreign taxes applies to all of your foreign taxes for a particular tax year). Korean taxes withheld in excess of the rate allowed by the Treaty will not be eligible for credit against your United States federal income tax liability. Interest income (including any additional amounts) on a Note generally will be considered foreign source income and, for purposes of the United States foreign tax credit, generally will be considered "passive category income." You will generally be denied a foreign tax credit for foreign taxes imposed with respect to the Notes where you do not meet a minimum holding period requirement during which you are not protected from risk of loss. The rules governing the foreign tax credit are complex. You are urged to consult your tax advisors regarding the availability of the foreign tax credit under your particular circumstances.

Original Issue Discount

If you own Notes issued with original issue discount ("OID"), such as a Zero Coupon Note, you will be subject to special tax accounting rules, as described in greater detail below. In that case, you should be aware that you generally must include OID in gross income (as ordinary income) in advance of the receipt of cash attributable to that income. However, you generally will not be required to include separately in income cash payments received on the Notes, even if denominated as interest, to the extent those payments do not constitute "qualified stated interest," as defined below. Notice will be given in the applicable Pricing Supplement when the Issuer determines that a particular Note will be issued with original issue discount (an "original issue discount Note").

Additional rules applicable to Notes that are denominated in or determined by reference to a currency other than the U.S. dollar ("foreign currency Notes") and that are issued with OID are described under "— Foreign Currency Notes" below.

A Note with an "issue price" that is less than the stated redemption price at maturity (the sum of all payments to be made on the Note other than "qualified stated interest") generally will be issued with OID in an amount equal to that difference if that difference is at least 0.25% of the stated redemption price at maturity multiplied by the number of complete years to maturity (or, in the case of an Installment Note, the weighted average maturity). The "issue price" of each Note in a particular offering will be the first price at which a substantial amount of that particular offering is sold to the public for cash. The term "qualified stated interest" means stated interest that is unconditionally payable in cash or in property, other than debt instruments of the Issuer, and meets all of the following conditions:

- it is payable at least once per year;
- it is payable over the entire term of the Note; and
- it is payable at a single fixed rate or, subject to certain conditions, a rate based on one or more interest indices.

The Issuer will give you notice in the applicable Pricing Supplement when the Issuer determines that a particular Note will bear interest that is not qualified stated interest.

If you own a Note issued with *de minimis* OID, which is discount that is not OID because it is less than 0.25% of the stated redemption price at maturity multiplied by the number of complete years to maturity (or, in the case of an Installment Note, the weighted average maturity), you generally must include the *de minimis* OID in income at the time principal payments on the Notes are made in proportion to the amount paid. Any amount of *de minimis* OID that you have included in income will be treated as capital gain.

Certain of the Notes may contain provisions permitting them to be redeemed prior to their stated maturity date at the Issuer's option and/or at your option. Original issue discount Notes containing those features may be subject to rules that differ from the general rules discussed herein. If you are considering the purchase of original issue discount Notes with those features, you should carefully examine the applicable Pricing Supplement and should consult your own tax advisors with respect to those features since the tax consequences to you with respect to OID will depend, in part, on the particular terms and features of the Notes.

If you own original issue discount Notes with a maturity upon issuance of more than one year, you generally must include OID in income in advance of the receipt of some or all of the related cash payments using the "constant yield method" described in the following paragraphs.

The amount of OID that you must include in income if you are the initial holder of an original issue discount Note is the sum of the "daily portions" of OID with respect to the Note for each day during the taxable year or portion of the taxable year in which you held that Note ("accrued OID"). The daily portion is determined by allocating to each day in any "accrual period" a pro rata portion of the OID allocable to that accrual period. The "accrual period" for an original issue discount Note may be of any length and may vary in length over the term of the Note, provided that each accrual period is no longer than one year and each scheduled payment of principal or interest occurs on the first day or the final day of an accrual period. The amount of OID allocable to any accrual period other than the final accrual period is an amount equal to the excess, if any, of:

- the Note's "adjusted issue price" at the beginning of the accrual period multiplied by its yield to maturity, determined on the basis of compounding at the close of each accrual period and properly adjusted for the length of the accrual period, over
- the aggregate of all qualified stated interest allocable to the accrual period.

OID allocable to a final accrual period is the difference between the amount payable at maturity, other than a payment of qualified stated interest, and the adjusted issue price at the beginning of the final accrual period. Special rules will apply for calculating OID for an initial short accrual period. The "adjusted issue price" of a Note at the beginning of any accrual period is equal to its issue price increased by the accrued OID for each prior accrual period, determined without regard to the amortization of any acquisition or bond premium, as described below, and reduced by any payments previously made on the Note other than qualified stated interest. Under these rules, you will have to include in income increasingly greater amounts of OID in successive accrual periods.

Floating Rate Notes are subject to special OID rules. In the case of an original issue discount Note that is a Floating Rate Note, both the “yield to maturity” and “qualified stated interest” will be determined solely for purposes of calculating the accrual of OID as though the Note will bear interest in all periods at a fixed rate generally equal to the rate that would be applicable to interest payments on the Note on its date of issue or, in the case of certain Floating Rate Notes, the rate that reflects the yield to maturity that is reasonably expected for the Note. Additional rules may apply if either:

- the interest on a Floating Rate Note is based on more than one interest index; or

- the principal amount of the Note is indexed in any manner.

The discussion above generally does not address Notes providing for contingent payments. You should carefully examine the applicable Pricing Supplement regarding the United States federal income tax consequences of the holding and disposition of any Notes providing for contingent payments.

You may elect to treat all interest on any Note as OID and calculate the amount includible in gross income under the constant yield method described above. For purposes of this election, interest includes stated interest, acquisition discount, OID, de minimis OID, market discount, de minimis market discount and unstated interest, as adjusted by any amortizable bond premium or acquisition premium. You should consult with your own tax advisors about this election.

Korean withholding taxes may be imposed at times that differ from the times at which you are required to include interest or OID in income for United States federal income tax purposes and this disparity may limit the amount of foreign tax credit available.

Short-Term Notes

In the case of Notes having a term of one year or less (“short-term Notes”), all payments, including all stated interest, will be included in the stated redemption price at maturity and will not be qualified stated interest. As a result, you will generally be taxed on the discount instead of stated interest. The discount will be equal to the excess of the stated redemption price at maturity over the issue price of a short-term Note, unless you elect to compute this discount using tax basis instead of issue price. In general, individuals and certain other cash method United States Holders of short-term Notes are not required to include accrued discount in their income currently unless they elect to do so, but may be required to include stated interest in income as the income is received. United States Holders that report income for United States federal income tax purposes on the accrual method and certain other United States Holders are required to accrue discount on short-term Notes (as ordinary income) on a straight-line basis, unless an election is made to accrue the discount according to a constant yield method based on daily compounding. If you are not required, and do not elect, to include discount in income currently, any gain you realize on the sale, exchange or retirement of a short-term Note will generally be ordinary income to you to the extent of the discount accrued by you through the date of sale, exchange or retirement. In addition, if you do not elect to currently include accrued discount in income you may be required to defer deductions for a portion of your interest expense with respect to any indebtedness attributable to the short-term Notes.

Market Discount

If you purchase a Note for an amount that is less than its stated redemption price at maturity (or, in the case of an original issue discount Note, its adjusted issue price), the amount of the difference will be treated as "market discount" for United States federal income tax purposes, unless that difference is less than a specified de minimis amount. Under the market discount rules, you will be required to treat any principal payment on, or any gain on the sale, exchange, retirement or other disposition of, a Note as ordinary income to the extent of the market discount that you have not previously included in income and is treated as having accrued on the Note at the time of the payment or disposition.

In addition, you may be required to defer, until the maturity of the Note or its earlier disposition in a taxable transaction, the deduction of all or a portion of the interest expense on any indebtedness attributable to the Note. You may elect, on a Note-by-Note basis, to deduct the deferred interest expense in a tax year prior to the year of disposition. You should consult your own tax advisors before making this election.

Any market discount will be considered to accrue ratably during the period from the date of acquisition to the maturity date of the Note, unless you elect to accrue on a constant interest method. You may elect to include market discount in income currently as it accrues, on either a ratable or constant interest method, in which case the rule described above regarding deferral of interest deductions will not apply. An election to accrue market discount on a current basis will apply to all debt instruments acquired with market discount that you acquire on or after the first day of the first taxable year to which the election applies. The election may not be revoked without the consent of the Internal Revenue Service ("IRS").

Acquisition Premium, Amortizable Bond Premium

If you purchase an original issue discount Note for an amount that is greater than its adjusted issue price but equal to or less than the sum of all amounts payable on the Note after the purchase date other than payments of qualified stated interest, you will be considered to have purchased that Note at an "acquisition premium." Under the acquisition premium rules, the amount of OID that you must include in gross income with respect to the Note for any taxable year will be reduced by the portion of the acquisition premium properly allocable to that year.

If you purchase a Note (including an original issue discount Note) for an amount in excess of the sum of all amounts payable on the Note after the purchase date other than qualified stated interest, you will be considered to have purchased the Note at a "premium" and, if it is an original issue discount Note, you will not be required to include any OID in income. You generally may elect to amortize the premium over the remaining term of the Note on a constant yield method as an offset to interest when includible in income under your regular accounting method. Special rules limit the amortization of premium in the case of convertible debt instruments. If you do not elect to amortize bond premium, that premium will decrease the gain or increase the loss you would otherwise recognize on disposition of the Note.

Sale, Exchange, Redemption, Retirement and Other Disposition of Notes

Your adjusted tax basis in a Note will, in general, be your cost for that Note, increased by OID, market discount or any discount with respect to a short-term Note that you previously included in income, and reduced by any amortized premium and any cash payments on the Note other than qualified stated interest. Upon the sale, exchange, redemption, retirement or other disposition of a Note, you will recognize gain or loss equal to the difference between the amount you realize upon the sale, exchange, redemption, retirement or other disposition (less an amount equal to any accrued and unpaid qualified stated interest, which will be taxable as interest income to the extent not previously included in income) and your adjusted tax basis in the Note. Except as described above with respect to certain short-term Notes or market discount, or with respect to gain or loss attributable to changes in exchange rates as discussed below with respect to foreign currency Notes, that gain or loss will be capital gain or loss and will be long-term capital gain or loss if you have held the Note for more than one year. Long-term capital gains of non-corporate United States Holders (including individuals) are eligible for reduced rates of taxation. The deductibility of capital losses is subject to limitations. Gain or loss realized by you on the sale, exchange, redemption, retirement or other disposition of a Note will generally be treated as United States source gain or loss. Consequently, you may not be able to claim a credit for any Korean tax imposed upon a disposition of a Note unless such credit can be applied (subject to applicable limitations) against tax due on other income treated as derived from foreign sources.

Foreign Currency Notes

Payments of Interest. If you receive interest payments made in a currency other than the U.S. dollar (a "foreign currency") and you use the cash basis method of accounting, you will be required to include in income the U.S. dollar value of the amount received, determined by translating the foreign currency received at the spot rate of exchange (the "spot rate") for such foreign currency in effect on the date such payment is received regardless of whether the payment is in fact converted into U.S. dollars. You will not recognize exchange gain or loss with respect to the receipt of such payment.

If you use the accrual method of accounting, you may determine the amount of income recognized with respect to such interest in accordance with either of two methods. Under the first method, you will be required to include in income for each taxable year the U.S. dollar value of the interest that has accrued during such year, determined by translating such interest at the average rate of exchange for the period or periods (or portions thereof) in such year during which such interest accrued. Under the second method, you may elect to translate interest income at the spot rate on:

- the last day of the accrual period,
- the last day of the taxable year if the accrual period straddles your taxable year, or
- the date the interest payment is received if such date is within five business days of the end of the accrual period.

In addition, if you use the accrual method of accounting, upon receipt of an interest payment on a Note (including, upon the sale of a Note, the receipt of proceeds which include amounts attributable to accrued interest previously included in income), you will recognize exchange gain or loss in an amount equal to the difference between the U.S. dollar value of such payment (determined by translating the foreign currency received at the spot rate for such foreign currency on the date such payment is received) and the U.S. dollar value of the interest income you previously included in income with respect to such payment. Any such exchange gain or loss will generally be treated as United Sates source ordinary income or loss.

Original Issue Discount. OID on a Note that is also a foreign currency Note will be determined for any accrual period in the applicable foreign currency and then translated into U.S. dollars, in the same manner as interest income accrued by a holder on the accrual basis, as described above. You will recognize exchange gain or loss, which is generally United States source ordinary income or loss, when OID is paid (including, upon the sale of a Note, the receipt of proceeds that include amounts attributable to OID previously included in income) to the extent of the difference between the U.S. dollar value of such payment (determined by translating the foreign currency received at the spot rate for such foreign currency on the date such payment is received) and the U.S. dollar value of the accrued OID (determined in the same manner as for accrued interest). For these purposes, all receipts on a Note will be viewed:

- first, as the receipt of any stated interest payments called for under the terms of the Note,

- second, as receipts of previously accrued OID (to the extent thereof), with payments considered made for the earliest accrual periods first, and

- third, as the receipt of principal.

Market Discount and Bond Premium. The amount of market discount includible in income with respect to a foreign currency Note will generally be determined by translating the market discount determined in the foreign currency into U.S. dollars at the spot rate on the date the foreign currency Note is retired or otherwise disposed of. If you have elected to accrue market discount currently, then the amount which accrues is determined in the foreign currency and then translated into U.S. dollars on the basis of the average exchange rate in effect during such accrual period. You will recognize exchange gain or loss, which is generally United States source ordinary income or loss, with respect to market discount which is accrued currently using the approach applicable to the accrual of interest income as described above.

Bond premium on a foreign currency Note will be computed in the applicable foreign currency. If you have elected to amortize the premium, the amortizable bond premium will reduce interest income in the applicable foreign currency. At the time bond premium is amortized, exchange gain or loss, which is generally United States source ordinary gain or loss, will be realized with respect to such amortized premium based on the difference between spot rates at such time and the time of acquisition of the foreign currency Note.

Sale, Exchange, Redemption, Retirement and Other Disposition of Foreign Currency Notes. Upon the sale, exchange, redemption, retirement or other disposition of a foreign currency Note, you will recognize gain or loss equal to the difference between the amount realized upon the sale, exchange, redemption, retirement or other disposition (less an amount equal to any accrued and unpaid qualified stated interest, which will be treated as a payment of interest for United States federal income tax purposes) and your adjusted tax basis in the foreign currency Note. Your initial tax basis in a foreign currency Note generally will be your U.S. dollar cost. If you purchased a foreign currency Note with foreign currency, your cost generally will be the U.S. dollar value of the foreign currency amount paid for such foreign currency Note determined at the time of such purchase. If your foreign currency Note is sold, exchanged, redeemed, retired, or otherwise disposed of for an amount denominated in foreign currency, then your amount realized generally will be based on the spot rate of the foreign currency on the date of sale, exchange, redemption, retirement, or other disposition. If you are a cash method taxpayer and the foreign currency Notes are traded on an established securities market for United States federal income tax purposes, foreign currency paid or received is translated into U.S. dollars at the spot rate on the settlement date of the purchase or sale. An accrual method taxpayer may elect the same treatment with respect to the purchase and sale of foreign currency Notes traded on an established securities market, provided that the election is applied consistently.

Except as described above with respect to certain short-term Notes or with respect to market discount and subject to the foreign currency rules discussed below, such gain or loss will be capital gain or loss and will be long-term capital gain or loss if at the time of sale, exchange, redemption, retirement or other disposition, the foreign currency Note has been held for more than one year. Long term capital gains of non-corporate United States Holders (including individuals) are eligible for reduced rates of taxation. The deductibility of capital losses is subject to limitations. Gain or loss realized by you on the sale, exchange, redemption, retirement, or other disposition of a foreign currency Note will generally be treated as United States source gain or loss. Consequently, you may not be able to claim a credit for any Korean tax imposed upon a disposition of a foreign currency Note unless such credit can be applied (subject to applicable limitations) against tax due on other income treated as derived from foreign sources.

A portion of your gain or loss with respect to the principal amount of a foreign currency Note may be treated as exchange gain or loss. Exchange gain or loss generally will be treated as United States source ordinary income or loss. For these purposes, the principal amount of the foreign currency Note is your purchase price for the foreign currency Note calculated in the foreign currency on the date of purchase, and the amount of exchange gain or loss recognized is equal to the difference between (i) the U.S. dollar value of the principal amount determined on the date of the sale, exchange, redemption, retirement or other disposition of the foreign currency Note and (ii) the U.S. dollar value of the principal amount determined on the date you purchased the foreign currency Note (or, possibly, in the case of cash method or electing accrual method taxpayers, the settlement dates of such disposition and/or purchase, provided the foreign currency Note is treated as traded on an established securities market for United States federal income tax purposes). The amount of exchange gain or loss realized on the disposition of the foreign currency Note (with respect to both principal and accrued interest) will be limited to the amount of overall gain or loss realized on the disposition of the foreign currency Note.

Exchange Gain or Loss with Respect to Foreign Currency. Your tax basis in any foreign currency received as interest on a foreign currency Note or on the sale, exchange, redemption, retirement or other disposition of a foreign currency Note, will be the U.S. dollar value thereof at the spot rate in effect on the date the foreign currency is received. Any gain or loss recognized by you on a sale, exchange or other disposition of the foreign currency will be ordinary income or loss and generally will be United States source gain or loss.

Dual Currency Notes. If so specified in an applicable Pricing Supplement relating to a foreign currency Note, the Issuer may have the option to make all payments of principal and interest scheduled after the exercise of such option in a currency other than the specified currency. Applicable United States Treasury regulations generally (i) apply the principles contained in the regulations governing contingent debt instruments to Dual Currency Notes in the “predominant currency” of the Dual Currency Notes and (ii) apply the rules discussed above with respect to foreign currency Notes with OID for the translation of interest and principal into U.S. dollars. If you are considering the purchase of Dual Currency Notes, you should carefully examine the applicable Pricing Supplement and should consult your own tax advisors regarding the United States federal income tax consequences of the holding and disposition of such Notes.

Reportable Transactions. Treasury regulations issued under the Code meant to require the reporting of certain tax shelter transactions could be interpreted to cover transactions generally not regarded as tax shelters, including certain foreign currency transactions. Under the Treasury regulations, certain transactions are required to be reported to the IRS, including, in certain circumstances, a sale, exchange, redemption, retirement or other disposition of a foreign currency Note or foreign currency received in respect of a foreign currency Note to the extent that such sale, exchange, redemption, retirement or other disposition results in a tax loss in excess of a threshold amount. If you are considering the purchase of a foreign currency Note, you should consult with your own tax advisors to determine the tax return obligations, if any, with respect to an investment in the Notes, including any requirement to file IRS Form 8886 (Reportable Transaction Disclosure Statement).

Index Linked Notes

The tax treatment of a United States Holder of Index Linked Notes will depend on factors including the specific index or indices used to determine indexed payments on the Note and the amount and timing of any contingent payments of principal and interest. Persons considering the purchase of Index Linked Notes should carefully examine the applicable Pricing Supplement and should consult their own tax advisors regarding the United States federal income tax consequences of the holding and disposition of such Notes.

Information Reporting and Backup Withholding

In general, information reporting requirements will apply to certain payments of principal, interest (including OID) and premium paid on Notes and to the proceeds of sale of a Note paid to you (unless you are an exempt recipient such as a corporation). A backup withholding tax may apply to such payments if you fail to provide a taxpayer identification number or a certification of exempt status, or if you fail to report in full dividend and interest income.

Any amounts withheld under the backup withholding rules will be allowed as a refund or a credit against your United States federal income tax liability provided the required information is timely furnished to the IRS.

CERTAIN ERISA CONSIDERATIONS

The following discussion is a summary of certain considerations associated with the purchase and holding of the Notes by (i) employee benefit plans that are subject to Title I of the U.S. Employee Retirement Income Security Act of 1974, as amended ("ERISA"), (ii) plans, individual retirement accounts and other arrangements that are subject to Section 4975 of the Code or provisions under any U.S. or non-U.S. federal, state, local or other laws or regulations that are similar to such provisions of the Code or ERISA (collectively, "Similar Laws"), and (iii) entities whose underlying assets are considered to include "plan assets" of any such plan, account or arrangement (each of the foregoing described in clauses (i), (ii) and (iii) referred to herein as a "Plan").

ERISA and the Code impose certain duties on persons who are fiduciaries of a Plan subject to Title I of ERISA or Section 4975 of the Code (an "ERISA Plan") and prohibit certain transactions involving the assets of an ERISA Plan and its fiduciaries or other interested parties. Under ERISA and the Code, any person who exercises any discretionary authority or control over the administration of such an ERISA Plan or the management or disposition of the assets of such an ERISA Plan, or who renders investment advice for a fee or other compensation to such an ERISA Plan, is generally considered to be a fiduciary of the ERISA Plan.

In considering an investment in the Notes of a portion of the assets of any Plan, a fiduciary should determine whether the investment is in accordance with the documents and instruments governing the Plan and the applicable provisions of ERISA, the Code or any Similar Law relating to a fiduciary's duties to the Plan including, without limitation, the prudence, diversification, delegation of control and prohibited transaction provisions of ERISA, the Code and any other applicable Similar Laws.

Section 406 of ERISA and Section 4975 of the Code prohibit ERISA Plans from engaging in specified transactions involving "plan assets" with persons or entities who are "parties in interest," within the meaning of ERISA, or "disqualified persons," within the meaning of Section 4975 of the Code, unless an exemption is available. A party in interest or disqualified person who engaged in a non-exempt prohibited transaction may be subject to excise taxes and other penalties and liabilities under ERISA and/or the Code. In addition, the fiduciary of the ERISA Plan that engaged in such a non-exempt prohibited transaction may be subject to penalties and liabilities under ERISA and/or the Code. The acquisition and/or holding of Notes by an ERISA Plan with respect to which the Issuer, a Dealer or their respective subsidiaries is considered a party in interest or a disqualified person may constitute or result in a direct or indirect prohibited transaction under Section 406 of ERISA and/or Section 4975 of the Code, unless the investment is acquired and is held in accordance with an applicable statutory, class or individual prohibited exemption. In this regard, the U.S. Department of Labor has issued prohibited transaction class exemptions that may apply to the acquisition and holding of the Notes. Each of the above-noted exemptions contains conditions and limitations on its application. Fiduciaries of ERISA Plans considering acquiring and/or holding the Notes in reliance on these or any other exemption should carefully review the exemption to assure it is applicable. There can be no assurance that all of the conditions of any such exemptions will be satisfied. There can be no assurance that any of these exemptions will be available.

Because of the foregoing, the Notes should not be purchased or held by any person investing in "plan assets" of any Plan, unless such purchase and holding will not constitute a non-exempt prohibited transaction under ERISA and the Code or a similar violation of any applicable Similar Laws.

By acceptance of a Note, each purchaser and subsequent transferee of a Note will be deemed to have represented and warranted that either (i) no portion of the assets used by such purchaser or transferee to acquire and hold the Notes constitutes assets of any ERISA Plan or Plan or (ii) the purchase and holding of the Notes by such purchaser or transferee will not constitute a non-exempt prohibited transaction under Section 406 of ERISA or Section 4975 of the Code or similar violation under any applicable Similar Laws.

The foregoing discussion is general in nature and is not intended to be all-inclusive. Due to the complexity of these rules and the penalties that may be imposed upon persons involved in non-exempt prohibited transactions, it is particularly important that fiduciaries or other persons considering purchasing any Notes on behalf of, or with the assets of, any Plan, should consult with their counsel regarding the matters described herein.

The sale of any Notes to any Plan is in no respect a representation by us, the Dealers or any of our respective affiliates or representatives, that such an investment meets all relevant legal requirements with respect to investments by Plans generally or any particular Plan, or that such an investment is appropriate for Plans generally or any particular Plan. In this regard, neither this discussion nor anything provided in this offering memorandum is or is intended to be investment advice directed at any potential Plan purchasers or at Plan purchasers generally and such purchasers of any notes (or interests therein) should consult and rely on their own counsel and advisers as to whether an investment in Notes is suitable.

BOOK-ENTRY CLEARANCE SYSTEMS

The information set out below is subject to any change in or reinterpretation of the rules, regulations and procedures of DTC, Euroclear or Clearstream (each a "Clearing System" and together, the "Clearing Systems") currently in effect. The information in this section concerning the Clearing Systems has been obtained from sources that the Issuer believes to be reliable, but none of the Issuer nor any Dealer takes any responsibility for the accuracy thereof. Investors wishing to use the facilities of any of the Clearing Systems are advised to confirm the continued applicability of the rules, regulations and procedures of the relevant Clearing System. None of the Issuer, the Arranger, any Dealer nor any other party to the Agency Agreement will have any responsibility or liability for any aspect of the records relating to, or payments made on account of, beneficial ownership interests in the Notes held through the facilities of any Clearing System or for maintaining, supervising or reviewing any records relating to such beneficial ownership interests. The relevant Pricing Supplement will specify the Clearing System(s) applicable for each Series.

Book-entry Systems

DTC

DTC has advised the Issuer that it is a limited purpose trust company organized under the New York Banking Law, a "banking organization" within the meaning of the New York Banking Law, a "clearing corporation" within the meaning of the New York Uniform Commercial Code and a "clearing agency" registered pursuant to Section 17A of the Exchange Act. DTC holds securities that its participants ("Participants") deposit with DTC. DTC also facilitates the settlement among Participants of securities transactions, such as transfers and pledges, in deposited securities through electronic computerized book-entry changes in Participants' accounts, thereby eliminating the need for physical movement of securities certificates. Direct Participants include securities brokers and dealers, banks, trust companies, clearing corporations and certain other organizations ("Direct Participants"). DTC is owned by a number of its Direct Participants and by the New York Stock Exchange, Inc., the American Stock Exchange, Inc. and the National Association of Securities Dealers, Inc. Access to the DTC System is also available to others such as securities brokers and dealers, banks and trust companies that clear through or maintain a custodial relationship with a Direct Participant, either directly or indirectly ("Indirect Participants").

Under the rules, regulations and procedures creating and affecting DTC and its operations (the "Rules"), DTC makes book-entry transfers of Registered Notes among Direct Participants on whose behalf it acts with respect to Notes accepted into DTC's book-entry settlement system ("DTC Notes") as described below and receives and transmits distributions of principal and interest on DTC Notes. The Rules are on file with the U.S. Securities and Exchange Commission. Direct Participants and Indirect Participants with which beneficial owners of DTC Notes ("Owners") have accounts with respect to the DTC Notes similarly are required to make book-entry transfers and receive and transmit such payments on behalf of their respective Owners. Accordingly, although Owners who hold DTC Notes through Direct Participants or Indirect Participants will not possess Registered Notes, the Rules, by virtue of the requirements described above, provide a mechanism by which Direct Participants will receive payments and will be able to transfer their interest in respect of the DTC Notes.

Purchases of DTC Notes under the DTC system must be made by or through Direct Participants, which will receive a credit for the DTC Notes on DTC's records. The ownership interest of each actual purchaser of each DTC Note ("Beneficial Owner") is in turn to be recorded on the Direct and Indirect Participant's records. Beneficial Owners will not receive written confirmation from DTC of their purchase, but Beneficial Owners are expected to receive written confirmations providing details of the transaction, as well as periodic statements of their holdings, from the Direct or Indirect Participant through which the Beneficial Owner entered into the transaction. Transfers of ownership interests in the DTC Notes are to be accomplished by entries made on the books of Participants acting on behalf of Beneficial Owners. Beneficial Owners will not receive certificates representing their ownership interests in DTC Notes, except in the event that use of the book-entry system for the DTC Notes is discontinued.

To facilitate subsequent transfers, all DTC Notes deposited by Participants with DTC are registered in the name of DTC's partnership nominee, Cede & Co. The deposit of DTC Notes with DTC and their registration in the name of Cede & Co. effect no change in beneficial ownership. DTC has no knowledge of the actual Beneficial Owners of the DTC Notes; DTC's records reflect only the identity of the Direct Participants to whose accounts such DTC Notes are credited, which may or may not be the Beneficial Owners. The Participants will remain responsible for keeping account of their holdings on behalf of their customers.

Conveyance of notices and other communications by DTC to Direct Participants, by Direct Participants to Indirect Participants, and by Direct Participants and Indirect Participants to Beneficial Owners will be governed by arrangements among them, subject to any statutory or regulatory requirements as may be in effect from time to time.

Redemption notices shall be sent to Cede & Co. If less than all of the DTC Notes within an issue are being redeemed, DTC's practice is to determine by lot the amount of the interest of each Direct Participant in such issue to be redeemed.

Neither DTC nor Cede & Co. will consent or vote with respect to DTC Notes. Under its usual procedures, DTC mails an Omnibus Proxy to the Issuer as soon as possible after the record date. The Omnibus Proxy assigns Cede & Co.'s consenting or voting rights to those Direct Participants to whose accounts the DTC Notes are credited on the record date (identified in a listing attached to the Omnibus Proxy).

Principal and interest payments on the DTC Notes will be made to DTC. DTC's practice is to credit Direct Participants' accounts on the due date for payment in accordance with their respective holdings shown on DTC's records unless DTC has reason to believe that it will not receive payment on the due date. Payments by Participants to Beneficial Owners will be governed by standing instructions and customary practices, as is the case with securities held for the accounts of customers in bearer form or registered in "street name," and will be the responsibility of such Participant and not of DTC or the Issuer, subject to any statutory or regulatory requirements as may be in effect from time to time. Payment of principal and interest to DTC is the responsibility of the Issuer, disbursement of such payments to Direct Participants is the responsibility of DTC, and disbursement of such payments to the Beneficial Owners is the responsibility of Direct and Indirect Participants.

Under certain circumstances, including if there is an Event of Default under the Notes, DTC will exchange the DTC Notes for definitive Registered Notes, which it will distribute to its Participants in accordance with their proportionate entitlements and which, if representing interests in a Rule 144A Global Note, will be legended as set forth under "Subscription and Sale and Transfer and Selling Restrictions."

Since DTC may only act on behalf of Direct Participants, who in turn act on behalf of Indirect Participants, any Owner desiring to pledge DTC Notes to persons or entities that do not participate in DTC, or otherwise take actions with respect to such DTC Notes, will be required to withdraw its Registered Notes from DTC as described below.

Euroclear and Clearstream

Euroclear and Clearstream each holds securities for its customers and facilitates the clearance and settlement of securities transactions by electronic book-entry transfer between their respective account holders. Euroclear and Clearstream provide various services including safekeeping, administration, clearance and settlement of internationally traded securities and securities lending and borrowing. Euroclear and Clearstream also deal with domestic securities markets in several countries through established depository and custodial relationships. Euroclear and Clearstream have established an electronic bridge between their two systems across which their respective participants may settle trades with each other.

Euroclear and Clearstream customers are world-wide financial institutions, including underwriters, securities brokers and dealers, banks, trust companies and clearing corporations. Indirect access to Euroclear and Clearstream is available to other institutions that clear through or maintain a custodial relationship with an account holder of either system.

Book-entry Ownership of and Payments in respect of DTC Notes

The Issuer may apply to DTC in order to have any Tranche of Notes represented by a Registered Global Note accepted in its book-entry settlement system. Upon the issue of any such Registered Global Note, DTC or its custodian will credit, on its internal book-entry system, the respective nominal amounts of the individual beneficial interests represented by such Registered Global Note to the accounts of persons who have accounts with DTC. Such accounts initially will be designated by or on behalf of the relevant Dealer. Ownership of beneficial interests in such a Registered Global Note will be limited to Direct Participants or Indirect Participants, including, in the case of any Regulation S Global Note, the respective depositaries of Euroclear and Clearstream. Ownership of beneficial interests in a Registered Global Note accepted by DTC will be shown on, and the transfer of such ownership will be effected only through, records maintained by DTC or its nominee (with respect to the interests of Direct Participants) and the records of Direct Participants (with respect to interests of Indirect Participants).

Payments in U.S. dollars of principal and interest in respect of a Registered Global Note accepted by DTC will be made to the order of DTC or its nominee as the registered holder of such Note. In the case of any payment in a currency other than U.S. dollars, payment will be made to the Exchange Agent on behalf of DTC or its nominee and the Exchange Agent will (in accordance with instructions received by it) remit all or a portion of such payment for credit directly to the beneficial holders of interests in the Registered Global Note in the currency in which such payment was made and/or cause all or a portion of such payment to be converted into U.S. dollars and credited to the applicable Participants' account.

The Issuer expects DTC to credit accounts of Direct Participants on the applicable payment date in accordance with their respective holdings as shown in the records of DTC unless DTC has reason to believe that it will not receive payment on such payment date. The Issuer also expects that payments by Participants to beneficial owners of Notes will be governed by standing instructions and customary practices, as is the case with securities held for the accounts of customers, and will be the responsibility of such Participant and not the responsibility of DTC, the Principal Paying Agent, the Registrar or the Issuer. Payment of principal, premium, if any, and interest, if any, on Notes to DTC is the responsibility of the Issuer.

Transfers of Notes Represented by Registered Global Notes

Transfers of any interests in Notes represented by a Registered Global Note within DTC, Euroclear and Clearstream will be effected in accordance with the customary rules and operating procedures of the relevant clearing system. The laws in some States within the United States require that certain persons take physical delivery of securities in definitive form. Consequently, the ability to transfer Notes represented by a Registered Global Note to such persons may depend upon the ability to exchange such Notes for Notes in definitive form. Similarly, because DTC can only act on behalf of Direct Participants in the DTC system who in turn act on behalf of Indirect Participants, the ability of a person having an interest in Notes represented by a Registered Global Note accepted by DTC to pledge such Notes to persons or entities that do not participate in the DTC system or otherwise to take action in respect of such Notes may depend upon the ability to exchange such Notes for Notes in definitive form. The ability of any holder of Notes represented by a Registered Global Note accepted by DTC to resell, pledge or otherwise transfer such Notes may be impaired if the proposed transferee of such Notes is not eligible to hold such Notes through a direct or indirect participant in the DTC system.

Subject to compliance with the transfer restrictions applicable to the Registered Notes described under "Subscription and Sale and Transfer and Selling Restrictions," cross-market transfers between DTC, on the one hand, and directly or indirectly through Clearstream or Euroclear accountholders, on the other, will be effected by the relevant clearing system in accordance with its rules and through action taken by the Registrar, the Fiscal Agent and any custodian ("Custodian") with whom the relevant Registered Global Notes have been deposited.

On or after the Issue Date for any Series, transfers of Notes of such Series between accountholders in Clearstream and Euroclear and transfers of Notes of such Series between participants in DTC will generally have a settlement date of three business days after the trade date (T+3). The customary arrangements for delivery versus payment will apply to such transfers.

Cross-market transfers between accountholders in Clearstream or Euroclear and DTC participants will need to have an agreed settlement date between the parties to such transfer. Because there is no direct link between DTC, on the one hand, and Clearstream and Euroclear, on the other, transfers of interests in the relevant Registered Global Notes will be effected through the Registrar, the Fiscal Agent and the Custodian receiving instructions (and, where appropriate, certification) from the transferor and arranging for delivery of the interests being transferred to the credit of the designated account for the transferee. In the case of cross-market transfers, settlement between Euroclear or Clearstream accountholders and DTC participants cannot be made on a delivery versus payment basis. The securities will be delivered on a free delivery basis and arrangements for payment must be made separately.

DTC, Clearstream and Euroclear have each published rules and operating procedures designed to facilitate transfers of beneficial interests in Registered Global Notes among participants and accountholders of DTC, Clearstream and Euroclear. However, they are under no obligation to perform or continue to perform such procedures, and such procedures may be discontinued or changed at any time. None of the Issuer, the Agents or any Dealer will be responsible for any performance by DTC, Clearstream or Euroclear or their respective direct or indirect participants or accountholders of their respective obligations under the rules and procedures governing their operations and none of them will have any liability for any aspect of the records relating to or payments made on account of beneficial interests in the Notes represented by Registered Global Notes or for maintaining, supervising or reviewing any records relating to such beneficial interests.

SUBSCRIPTION AND SALE AND TRANSFER AND SELLING RESTRICTIONS

The Dealers have in an amended and restated program agreement dated October 12, 2012 (as amended, supplemented and/or restated from time to time, the "Program Agreement"), agreed with the Issuer a basis upon which they or any of them may from time to time agree to purchase Notes or procure purchasers of Notes. Any such agreement will extend to those matters stated under "Form of the Notes" and "Terms and Conditions of the Notes" above. In the Program Agreement, the Issuer has agreed to reimburse the Dealers for certain of their expenses in connection with the establishment of the Program and the issue of Notes under the Program and to indemnify the Dealers against certain liabilities incurred by them in connection therewith.

In order to facilitate the offering of any Tranche of the Notes, certain persons participating in the offering of the Tranche may to the extent permitted by applicable laws and regulations engage in transactions that stabilize, maintain or otherwise affect the market price of the relevant Notes during and after the offering of the Tranche. Specifically, such persons may over-allot or create a short position in the Notes for their own account by selling more Notes than have been sold to them by the Issuer. Such persons may also elect to cover any such short position by purchasing Notes in the open market. In addition, such persons may stabilize or maintain the price of the Notes by bidding for or purchasing Notes in the open market and may impose penalty bids, under which selling concessions allowed to syndicate members or other broker-dealers participating in the offering of the Notes are reclaimed if Notes previously distributed in the offering are repurchased in connection with stabilization transactions or otherwise. The effect of these transactions may be to stabilize or maintain the market price of the Notes at a level above that which might otherwise prevail in the open market. The imposition of a penalty bid may also affect the price of the Notes to the extent that it discourages resales thereof. No representation is made as to the magnitude or effect of any such stabilizing or other transactions. Such transactions, if commenced, may be discontinued at any time. Stabilization activities are subject to certain prescribed time limits in certain jurisdictions.

The Dealers and certain of their affiliates may have performed certain investment banking and advisory services for the Issuer and/or its affiliates from time to time for which they have received customary fees and expenses and may, from time to time, engage in transactions with and perform services for the Issuer and/or its affiliates in the ordinary course of their business. In connection with each Tranche of Notes issued under the Program, the Dealers or certain of their affiliates may purchase Notes and be allocated Notes for asset management and/or proprietary purposes but not with a view to distribution.

In connection with each Tranche of Notes issued under the Program, the Dealers or their respective affiliates may purchase Notes for its or their own account and enter into transactions, including credit derivatives, such as asset swaps, repackaging and credit default swaps relating to such Notes and/or other securities of the Issuer or its subsidiaries or associates at the same time as the offer and sale of each Tranche of Notes or in secondary market transactions. Such transactions would be carried out as bilateral trades with selected counterparties and separately from any existing sale or resale of the Tranche of Notes to which a particular Pricing Supplement relates (notwithstanding that such selected counterparties may also be purchasers of such Tranche of Notes).

Transfer Restrictions

As a result of the following restrictions, purchasers of Notes in the United States are advised to consult legal counsel prior to making any purchase, offer, sale, resale or other transfer of such Notes.

Each purchaser of Registered Notes (other than a person purchasing an interest in a Registered Global Note with a view to holding it in the form of an interest in the same Global Note) or person wishing to transfer an interest from one Registered Global Note to another or from global to definitive form or vice versa, will be required to acknowledge, represent and agree as follows (terms used in this paragraph that are defined in Rule 144A or in Regulation S are used herein as defined therein):

(i) that either: (a) it is a QIB, purchasing (or holding) the Notes for its own account or for the account of one or more QIBs and it is aware that any sale to it is being made in reliance on Rule 144A or (b) it is an Institutional Accredited Investor, that, prior to its purchase of the Notes has delivered to the Registrar an IAI Investment Letter in the form as set forth below or (c) it is outside the United States and is not a U.S. person;

(ii) that the Notes have not been and will not be registered under the Securities Act or any other applicable U.S. state securities laws and may not be offered or sold within the United States or to, or for the account or benefit of, U.S. persons except as set forth below;

(iii) that, unless it holds an interest in a Regulation S Global Note and either is a person located outside the United States or is not a U.S. person, if in the future it decides to resell, pledge or otherwise transfer the Notes or any beneficial interests in the Notes, it will do so, prior to the date which is one year after the later of the last Issue Date for the Series and the last date on which the Issuer or an affiliate of the Issuer was the owner of such Notes, only (a) to the Issuer or any affiliate thereof, (b) inside the United States to a person whom the seller reasonably believes is a QIB purchasing for its own account or for the account of a QIB in a transaction meeting the requirements of Rule 144A, (c) outside the United States in compliance with Rule 903 or Rule 904 under the Securities Act, (d) pursuant to the exemption from registration provided by Rule 144 under the Securities Act (if available) or (e) pursuant to an effective registration statement under the Securities Act, in each case in accordance with all applicable U.S. state securities laws;

(iv) it will, and will require each subsequent holder to, notify any purchaser of the Notes from it of the resale restrictions referred to in paragraph (iii) above, if then applicable;

(v) that Notes initially offered in the United States to QIBs will be represented by one or more Rule 144A Global Notes, that Notes offered to Institutional Accredited Investors will be in the form of Definitive IAI Registered Notes and that Notes offered outside the United States in reliance on Regulation S will be represented by one or more Regulation S Global Notes;

(vi) that the Notes, other than the Regulation S Global Notes, will bear a legend to the following effect unless otherwise agreed to by the Issuer:

"THIS SECURITY HAS NOT BEEN AND WILL NOT BE REGISTERED UNDER THE U.S. SECURITIES ACT OF 1933, AS AMENDED (THE "SECURITIES ACT"), OR ANY OTHER APPLICABLE U.S. STATE SECURITIES LAWS AND, ACCORDINGLY, MAY NOT BE OFFERED OR SOLD WITHIN THE UNITED STATES OR TO, OR FOR THE ACCOUNT OR BENEFIT OF, U.S. PERSONS EXCEPT AS SET FORTH IN THE FOLLOWING SENTENCE. BY ITS ACQUISITION HEREOF, THE HOLDER (A) REPRESENTS THAT (1) IT IS A "QUALIFIED INSTITUTIONAL BUYER" (AS DEFINED IN RULE 144A UNDER THE SECURITIES ACT) PURCHASING THE SECURITIES FOR ITS OWN ACCOUNT OR FOR THE ACCOUNT OF ONE OR MORE QUALIFIED INSTITUTIONAL BUYERS OR (2) IT IS AN INSTITUTIONAL "ACCREDITED INVESTOR" (AS DEFINED IN RULE 501(A)(1), (2), (3) OR (7) UNDER THE SECURITIES ACT) (AN "INSTITUTIONAL ACCREDITED INVESTOR"); (B) AGREES THAT IT WILL NOT RESELL OR OTHERWISE TRANSFER THE SECURITIES EXCEPT IN ACCORDANCE WITH THE AGENCY AGREEMENT AND, PRIOR TO THE DATE WHICH IS ONE YEAR AFTER THE LATER OF THE LAST ISSUE DATE FOR THE SERIES AND THE LAST DATE ON WHICH THE ISSUER OR AN AFFILIATE OF THE ISSUER WAS THE OWNER OF SUCH SECURITIES OTHER THAN (1) TO THE ISSUER OR ANY AFFILIATE THEREOF, (2) INSIDE THE UNITED STATES TO A PERSON WHOM THE SELLER REASONABLY BELIEVES IS A QUALIFIED INSTITUTIONAL BUYER WITHIN THE MEANING OF RULE 144A UNDER THE SECURITIES ACT PURCHASING FOR ITS OWN ACCOUNT OR FOR THE ACCOUNT OF A QUALIFIED INSTITUTIONAL BUYER IN A TRANSACTION MEETING THE REQUIREMENTS OF RULE 144A, (3) OUTSIDE THE UNITED STATES IN COMPLIANCE WITH RULE 903 OR RULE 904 UNDER THE SECURITIES ACT, (4) PURSUANT TO THE EXEMPTION FROM REGISTRATION PROVIDED BY RULE 144 UNDER THE SECURITIES ACT (IF AVAILABLE) OR (5) PURSUANT TO AN EFFECTIVE REGISTRATION STATEMENT UNDER THE SECURITIES ACT, IN EACH CASE IN ACCORDANCE WITH ALL APPLICABLE SECURITIES LAWS OF THE STATES OF THE UNITED STATES AND ANY OTHER JURISDICTION; AND (C) IT AGREES THAT IT WILL DELIVER TO EACH PERSON TO WHOM THIS SECURITY IS TRANSFERRED A NOTICE SUBSTANTIALLY TO THE EFFECT OF THIS LEGEND.

THIS SECURITY AND RELATED DOCUMENTATION (INCLUDING, WITHOUT LIMITATION, THE AGENCY AGREEMENT REFERRED TO HEREIN) MAY BE AMENDED OR SUPPLEMENTED FROM TIME TO TIME, WITHOUT THE CONSENT OF, BUT UPON NOTICE TO, THE HOLDERS OF SUCH SECURITIES SENT TO THEIR REGISTERED ADDRESSES, TO MODIFY THE RESTRICTIONS ON AND PROCEDURES FOR RESALES AND OTHER TRANSFERS OF THIS SECURITY TO REFLECT ANY CHANGE IN APPLICABLE LAW OR REGULATION (OR THE INTERPRETATION THEREOF) OR IN PRACTICES RELATING TO RESALES OR OTHER TRANSFERS OF RESTRICTED SECURITIES GENERALLY. THE HOLDER OF THIS SECURITY SHALL BE DEEMED, BY ITS ACCEPTANCE OR PURCHASE HEREOF, TO HAVE AGREED TO ANY SUCH AMENDMENT OR SUPPLEMENT (EACH OF WHICH SHALL BE CONCLUSIVE AND BINDING ON THE HOLDER HEREOF AND ALL FUTURE HOLDERS OF THIS SECURITY AND ANY SECURITIES ISSUED IN EXCHANGE OR SUBSTITUTION THEREFOR, WHETHER OR NOT ANY NOTATION THEREOF IS MADE HEREON).";

(vii) if it is outside the United States and is not a U.S. person, that if it should resell or otherwise transfer the Notes prior to the expiration of the distribution compliance period (defined as 40 days after the later of the commencement of the offering and the closing date with respect to the original issuance of the Notes), it will do so only (a)(i) outside the United States in compliance with Rule 903 or Rule 904 under the Securities Act or (ii) to a QIB in compliance with Rule 144A and (b) in accordance with all applicable U.S. state securities laws; and it acknowledges that the Regulation S Global Notes will bear a legend to the following effect unless otherwise agreed to by the Issuer:

"THIS SECURITY HAS NOT BEEN AND WILL NOT BE REGISTERED UNDER THE U.S. SECURITIES ACT OF 1933, AS AMENDED (THE "SECURITIES ACT"), OR ANY OTHER APPLICABLE U.S. STATE SECURITIES LAWS AND, ACCORDINGLY, MAY NOT BE OFFERED OR SOLD WITHIN THE UNITED STATES OR TO, OR FOR THE ACCOUNT OR BENEFIT OF, U.S. PERSONS EXCEPT IN ACCORDANCE WITH THE AGENCY AGREEMENT AND PURSUANT TO AN EXEMPTION FROM REGISTRATION UNDER THE SECURITIES ACT OR PURSUANT TO AN EFFECTIVE REGISTRATION STATEMENT UNDER THE SECURITIES ACT. THIS LEGEND SHALL CEASE TO APPLY UPON THE EXPIRY OF THE PERIOD OF 40 DAYS AFTER THE COMPLETION OF THE DISTRIBUTION OF ALL THE NOTES OF THE TRANCHE OF WHICH THIS NOTE FORMS A PART."; and

(viii) that the Issuer and others will rely upon the truth and accuracy of the foregoing acknowledgements, representations and agreements and agrees that if any of such acknowledgements, representations or agreements made by it are no longer accurate, it shall promptly notify the Issuer; and if it is acquiring any Notes as a fiduciary or agent for one or more accounts, it represents that it has sole investment discretion with respect to each such account and that it has full power to make the foregoing acknowledgements, representations and agreements on behalf of each such account.

Institutional Accredited Investors who purchase Registered Notes in definitive form offered and sold in the United States in reliance upon the exemption from registration provided by Regulation D of the Securities Act are required to execute and deliver to the Registrar an IAI Investment Letter. Upon execution and delivery of an IAI Investment Letter by an Institutional Accredited Investor, Notes will be issued in definitive registered form; see "Form of the Notes."

The IAI Investment Letter will state, among other things, the following:

(i) that the Institutional Accredited Investor has received a copy of this Offering Memorandum and such other information as it deems necessary in order to make its investment decision;

(ii) that the Institutional Accredited Investor understands that any subsequent transfer of the Notes is subject to certain restrictions and conditions set forth in this Offering Memorandum and the Notes (including those set out above) and that it agrees to be bound by, and not to resell, pledge or otherwise transfer the Notes except in compliance with, such restrictions and conditions and the Securities Act;

(iii) that, in the normal course of its business, the Institutional Accredited Investor invests in or purchases securities similar to the Notes;

(iv) that the Institutional Accredited Investor is an "accredited investor" within the meaning of Rule 501(a)(1), (2), (3) or (7) of Regulation D under the Securities Act that is an institution and has such knowledge and experience in financial and business matters as to be capable of evaluating the merits and risks of its investment in the Notes, and it and any accounts for which it is acting are each able to bear the economic risk of its or any such accounts' investment for an indefinite period of time;

(v) that the Institutional Accredited Investor is acquiring the Notes purchased by it for its own account or for one or more accounts (each of which is an Institutional Accredited Investor) as to each of which it exercises sole investment discretion and not with a view to any distribution of the Notes, subject, nevertheless, to the understanding that the disposition of its property shall at all times be and remain within its control; and

(vi) that, in the event that the Institutional Accredited Investor purchases Notes, it will acquire Notes having a minimum purchase price of at least US$500,000 (or the approximate equivalent in another Specified Currency).

No sale of Legended Notes in the United States to any one purchaser will be for less than US$200,000 (or its foreign currency equivalent) principal amount or, in the case of sales to Institutional Accredited Investors, US$500,000 (or its foreign currency equivalent) principal amount and no Legended Note will be issued in connection with such a sale in a smaller principal amount. If the purchaser is a non-bank fiduciary acting on behalf of others, each person for whom it is acting must purchase at least US$200,000 (or its foreign currency equivalent) or, in the case of sales to Institutional Accredited Investors, US$500,000 (or its foreign currency equivalent) principal amount of Registered Notes.

Selling Restrictions

United States of America

The Notes have not been and will not be registered under the Securities Act and may not be offered or sold within the United States or to, or for the account or benefit of, U.S. persons except (i) to QIBs in reliance on Rule 144A, (ii) to Institutional Accredited Investors, that, prior to their purchase of the Notes have furnished an IAI Investment Letter and (iii) in accordance with Regulation S under the Securities Act.

The Bearer Notes are subject to U.S. tax law requirements and may not be offered, sold or delivered within the United States or its possessions or to a U.S. person, except in certain transactions permitted by U.S. tax regulations. Terms used in this paragraph have the meaning given to them by the U.S. Internal Revenue Code of 1986 and regulations thereunder.

In connection with any Notes which are offered or sold outside the United States in reliance on an exemption from the registration requirements of the Securities Act provided under Regulation S ("Regulation S Notes"), each Dealer has represented and agreed, and each further Dealer appointed under the Program will be required to represent and agree, that it will not offer, sell or deliver such Regulation S Notes (i) as part of their distribution at any time or (ii) otherwise until 40 days after the completion of the distribution, as determined and certified by the relevant Dealer or, in the case of an issue of Notes on a syndicated basis, the relevant lead manager, of all Notes of the Tranche of which such Regulation S Notes are a part, within the United States or to, or for the account or benefit of, U.S. persons. Each Dealer has further agreed, and each further Dealer appointed under the Program will be required to agree, that it will send to each dealer to which it sells any Regulation S Notes during the distribution compliance period a confirmation or other notice setting forth the restrictions on offers and sales of the Regulation S Notes within the United States or to, or for the account or benefit of, U.S. persons.

Until 40 days after the commencement of the offering of any Series of Notes, an offer or sale of such Notes within the United States by any dealer (whether or not participating in the offering) may violate the registration requirements of the Securities Act if such offer or sale is made otherwise than in accordance with an applicable exemption from registration under the Securities Act.

Dealers may arrange for the resale of Notes to QIBs pursuant to Rule 144A and each such purchaser of Notes is hereby notified that the Dealers may be relying on the exemption from the registration requirements of the Securities Act provided by Rule 144A. The minimum aggregate principal amount of Notes which may be purchased by a QIB pursuant to Rule 144A is US$200,000 (or the approximate equivalent thereof in any other currency).

Each issuance of Index Linked Notes or Dual Currency Notes shall be subject to such additional U.S. selling restrictions as the Issuer and the relevant Dealer may agree as a term of the issuance and purchase of such Notes, which additional selling restrictions shall be set out in the applicable Pricing Supplement.

European Economic Area

Unless the final terms (or pricing supplement, as the case may be) in relation to the Notes specifies the "Prohibition of Sales to EEA Retail Investors" as "Not Applicable", each Dealer has represented and agreed, and each further Dealer appointed under the Programme will be required to represent and agree, that it has not offered, sold or otherwise made available and will not offer, sell or otherwise make available any Notes which are the subject of the offering contemplated by the offering circular as supplemented by the final terms (or pricing supplement, as the case may be) in relation thereto to any retail investor in the European Economic Area. For the purposes of this provision:

(a) the expression "retail investor" means a person who is one (or more) of the following:

  (i) a retail client as defined in point (11) of Article 4(1) of Directive 2014/65/EU (as amended, "**MiFID II**"); or

  (ii) a customer within the meaning of Directive 2002/92/EC (as amended, the "**Insurance Mediation Directive**"), where that customer would not qualify as a professional client as defined in point (10) of Article 4(1) of MiFID II; or

  (iii) not a qualified investor as defined in the Prospectus Directive; and

(b) the expression an "offer" includes the communication in any form and by any means of sufficient information on the terms of the offer and the Notes to be offered so as to enable an investor to decide to purchase or subscribe the Notes.

If the final terms (or pricing supplement, as the case may be) in relation to the Notes specifies "Prohibition of Sales to EEA Retail Investors" as "Not Applicable", in relation to each Member State of the European Economic Area which has implemented the Prospectus

Directive (each, a "**Relevant Member State**"), with effect from and including the date on which the Prospectus Directive is implemented in that Relevant Member State no offer of Notes which are the subject of the offering contemplated by the offering circular may be made to the public in that Relevant Member State other than:

(a) to any legal entity which is a "qualified investor" as defined in the Prospectus Directive;

(b) to fewer than 150 natural or legal persons (other than "qualified investors" as defined in the Prospectus Directive), subject to obtaining the prior consent of the relevant dealer or dealers nominated by the Issuer for any such offer; or

(c) in any other circumstances falling within Article 3(2) of the Prospectus Directive,

provided that no such offer of Notes shall result in a requirement for the Issuer or any Dealer to publish a prospectus pursuant to Article 3 of the Prospectus Directive or a supplemental prospectus pursuant to Article 16 of the Prospectus Directive.

For the purposes of this provision, the expression an "offer of Notes to the public" in relation to any Notes in any Relevant Member State means the communication in any form and by any means of sufficient information on the terms of the offer and the Notes to be offered so as to enable an investor to decide to purchase or subscribe for the Notes, as the same may be varied in that Relevant Member State by any measure implementing the Prospectus Directive in that Relevant Member State. The expression "Prospectus Directive" means Directive 2003/71/EC (as amended, including by Directive 2010/73/EU), and includes any relevant implementing measure in the Relevant Member State.

United Kingdom

Each Dealer has represented and agreed, and each further Dealer appointed under the Program will be required to represent and agree, that:

(a) in relation to any Notes which have a maturity of less than one year, (i) it is a person whose ordinary activities involve it in acquiring, holding, managing or disposing of investments (as principal or agent) for the purposes of its business and (ii) it has not offered or sold and will not offer or sell any Notes other than to persons whose ordinary activities involve them in acquiring, holding, managing or disposing of investments (as principal or as agent) for the purposes of their businesses or who it is reasonable to expect will acquire, hold, manage or dispose of investments (as principal or agent) for the purposes of their businesses where the issue of the Notes would otherwise constitute a contravention of Section 19 of the FSMA by the Issuer;

(b) it has only communicated or caused to be communicated and will only communicate or cause to be communicated an invitation or inducement to engage in investment activity (within the meaning of Section 21 of the FSMA) received by it in connection with the issue or sale of any Notes in circumstances in which Section 21(1) of the FSMA does not apply to the Issuer; and

(c) it has complied and will comply with all applicable provisions of the FSMA with respect to anything done by it in relation to any Notes in, from or otherwise involving the United Kingdom.

Italy

Each Dealer has represented and agreed, and each further Dealer appointed under the Program will be required to represent and agree, that the offering of the Notes has not been registered pursuant to Italian securities legislation and, accordingly, no Notes may be offered, sold or delivered, nor may copies of the Offering Memorandum or of any other document relating to the Notes be distributed in the Republic of Italy, except:

(i) to qualified investors (investitori qualificati), as defined pursuant to Article 100 of Legislative Decree No. 58 of February 24, 1998, as amended (the "Financial Services Act") and Article 34 — ter, first paragraph, letter (b) of CONSOB Regulation No. 11971 of May 14, 1999, as amended from time to time (Regulation No. 11971); or

(ii) in other circumstances which are exempted from the rules on public offerings pursuant to Article 100 of the Financial Services Act and Regulation No. 11971.

Any offer, sale or delivery of the Notes or distribution of copies of the Offering Memorandum or any other document relating to the Notes in the Republic of Italy under (i) or (ii) above must be:

(a) made by an investment firm, bank or financial intermediary permitted to conduct such activities in the Republic of Italy in accordance with the Financial Services Act, CONSOB Regulation No. 16190 of October 29, 2007 (as amended from time to time) and Legislative Decree No. 385 of September 1, 1993, as amended (the "Banking Act"); and

(b) in compliance with Article 129 of the Banking Act, as amended, and the implementing guidelines of the Bank of Italy, as amended from time to time, pursuant to which the Bank of Italy may request information on the issue or the offer of securities in the Republic of Italy; and

(c) in compliance with any other applicable laws and regulations or requirement imposed by CONSOB or other Italian authority.

Japan

The Notes have not been and will not be registered under the Financial Instruments and Exchange Act of Japan (Law No. 25 of 1948, as amended) (the "FIEA"). Each Dealer has represented and agreed and each further Dealer appointed under the Program will be required to represent and agree that it has not offered or sold and will not offer or sell any Notes, directly or indirectly, in Japan or to, or for the benefit of, any resident of Japan (as defined under Item 5, Paragraph 1, Article 6 of the Foreign Exchange and Foreign Trade Control Law (Law No. 228 of 1949, as amended)) or to others for re-offering or resale, directly or indirectly, in Japan or to, or for the benefit of, a resident of Japan, except pursuant to an exemption from the registration requirements of, and otherwise in compliance with, the FIEA and other applicable laws, regulations and ministerial guidelines of Japan.

Korea

Each Dealer has represented and agreed and each further Dealer appointed under the Program will be required to represent and agree that:

(a) it has not offered, sold or delivered and will not offer, sell or deliver, directly or indirectly, any Notes in Korea, or to, or for the account or benefit of, any resident of Korea (as defined in the Foreign Exchange Transactions Act), except as otherwise permitted by applicable Korean laws and regulations; and

(b) any securities dealer to whom each Dealer and each further dealer may sell the Notes will agree that it will not offer any Notes, directly or indirectly, in Korea, or to any resident of Korea, except as permitted by applicable Korean laws and regulations, or to any other dealer who does not so represent and agree.

Singapore

This Offering Memorandum has not been and will not be registered as a prospectus with the Monetary Authority of Singapore under the Securities and Futures Act, Chapter 289 of Singapore (the "SFA"). Each Dealer represents, warrants and agrees, and each further Dealer appointed under the Program will be required to represent, warrant and agree that it has not offered or sold any Notes or caused the Notes to be made the subject of an invitation for subscription or purchase and will not offer or sell the Notes or cause the Notes to be made the subject of an invitation for subscription or purchase, and has not circulated or distributed, nor will it circulate or distribute, this Offering Memorandum or any other document or material in connection with the offer or sale, or invitation for subscription or purchase, of the Notes, whether directly or indirectly, to any person in Singapore other than (i) to an institutional investor under Section 274 of the SFA, (ii) to a relevant person pursuant to Section 275(1), or any person pursuant to Section 275(1A), and in accordance with the conditions specified in Section 275, of the SFA or (iii) otherwise pursuant to, and in accordance with the conditions of, any other applicable provision of the SFA.

Where the Notes are subscribed or purchased under Section 275 of the SFA by a relevant person which is:

(a) a corporation (which is not an accredited investor (as defined in Section 4A of the SFA)) the sole business of which is to hold investments and the entire share capital of which is owned by one or more individuals, each of whom is an accredited investor; or

(b) a trust (where the trustee is not an accredited investor) whose sole purpose is to hold investments and each beneficiary of the trust is an individual who is an accredited investor,

securities (as defined in Section 239(1) of the SFA) of that corporation or the beneficiaries' rights and interest (howsoever described) in that trust shall not be transferred within six months after that corporation or that trust has acquired the Notes pursuant to an offer made under Section 275 of the SFA except:

(1) to an institutional investor or to a relevant person as defined in Section 275(2) of the SFA, or to any person arising from an offer referred to in Section 275(1A) or Section 276(4)(i)(B) of the SFA;

(2) where no consideration is or will be given for the transfer;

(3) where the transfer is by operation of law;

(4) pursuant to Section 276(7) of the SFA; or

(5) as specified in Regulation 32 of the Securities and Futures (Offers of Investments) (Shares and Debentures) Regulations 2005 of Singapore.

Hong Kong

Each Dealer has represented, warranted and agreed that:

(a) it has not offered or sold and will not offer or sell in Hong Kong, by means of any document, any Notes (except for Notes which are a "structured product" as defined in the Securities and Futures Ordinance (Cap. 571) of Hong Kong) ("SFO") other than (i) to "professional investors" as defined in the SFO and any rules made under that Ordinance; or (ii) in other circumstances which do not result in the document being a "prospectus" as defined in the Companies (Winding Up and Miscellaneous Provisions) Ordinance (Cap. 32) of Hong Kong or which do not constitute an offer to the public within the meaning of that Ordinance; and

(b) it has not issued or had in its possession for the purposes of issue, and will not issue or have in its possession for the purposes of issue, whether in Hong Kong or elsewhere, any advertisement, invitation or document relating to the Notes, which is directed at, or the contents of which are likely to be accessed or read by, the public of Hong Kong (except if permitted to do so under the securities laws of Hong Kong) other than with respect to Notes which are or are intended to be disposed of only to persons outside Hong Kong or only to "professional investors" as defined in the SFO and any rules made under that Ordinance.

General

Each Dealer has agreed and each further Dealer appointed under the Program will be required to agree that it will (to the best of its knowledge and belief) comply with all applicable securities laws and regulations in force in any jurisdiction in which it purchases, offers, sells or delivers Notes or possesses or distributes this Offering Memorandum and will obtain any consent, approval or permission required by it for the purchase, offer, sale or delivery by it of Notes under the laws and regulations in force in any jurisdiction to which it is subject or in which it makes such purchases, offers, sales or deliveries and neither the Issuer nor any other Dealer shall have any responsibility therefor.

Neither the Issuer nor any of the Dealers represents that Notes may at any time lawfully be sold in compliance with any applicable registration or other requirements in any jurisdiction, or pursuant to any exemption available thereunder, or assumes any responsibility for facilitating such sale.

With regard to each Tranche, the relevant Dealer will be required to comply with such other additional restrictions as the Issuer and the relevant Dealer shall agree and as shall be set out in the applicable Pricing Supplement.

GENERAL INFORMATION

Authorization

The update of the Program has been duly authorized by resolutions of the Board of Directors of the Issuer dated December 26, 2017. Each issue of Notes under the Program will be authorized by the Board of Directors of the Issuer at the time of issue or at a meeting held annually to approve the issue of Notes to be issued in the following fiscal year.

Listing of Notes on the Singapore Stock Exchange

Approval in-principle has been received from the Singapore Stock Exchange in connection with the Program and application will be made for the listing and quotation of Notes that may be issued pursuant to the Program and which are agreed at or prior to the time of issue thereof to be so listed on the Singapore Stock Exchange. Such permission will be granted when such Notes have been admitted for listing and quotation on the Singapore Stock Exchange. For so long as any Notes are listed on the Singapore Stock Exchange and the rules of the Singapore Stock Exchange so require, such Notes, if traded on the Singapore Stock Exchange, will be traded in a minimum board lot size of S$200,000 (or its equivalent in foreign currencies).

Documents Available

From the date hereof and so long as Notes are capable of being issued under the Program, copies of the following documents will, when published, be available from the registered office of the Issuer and from the specified office of the Paying Agent for the time being in London:

(i) the constitutional documents (together with English translations) of the Issuer;

(ii) the auditors' reports and the audited consolidated financial statements of the Issuer in respect of the financial years ended December 31, 2016 and 2017 (together with English translations);

(iii) the independent auditors' review reports and the unaudited consolidated financial statements of the Issuer in respect of the financial periods ended June 30, 2017 and 2018 (together with English translations);

(iv) the most recently published audited consolidated annual financial statements of the Issuer and the most recently published interim financial statements of the Issuer (together with English translations);

(v) the Program Agreement, the Agency Agreement, the forms of the Global Notes, the Notes in definitive form, the Receipts, the Coupons and the Talons;

(vi) a copy of this Offering Memorandum; and

(vii) any future offering memoranda or circulars, prospectuses, information memoranda and supplements including Pricing Supplements (save that a Pricing Supplement relating to an unlisted Note will only be available for inspection by a holder of such Note and such holder must produce evidence satisfactory to the Issuer and the Principal Paying Agent as to its holding of Notes and identity) to this Offering Memorandum and any other documents incorporated herein or therein by reference.

Clearing Systems

The Notes have been accepted for clearance through Euroclear and Clearstream. The appropriate Common Code and ISIN for each Tranche of Bearer Notes allocated by Euroclear and Clearstream will be specified in the applicable Pricing Supplement. In addition, the Issuer may make an application for any Notes in registered form to be accepted for trading in book-entry form by DTC. The CUSIP and/or CINS numbers for each Tranche of Registered Notes, together with the relevant ISIN and common code, will be specified in the applicable Pricing Supplement. If the Notes are to clear through an additional or alternative clearing system the appropriate information will be specified in the applicable Pricing Supplement.

Significant or Material Change

Save as disclosed in this Offering Memorandum, there has been no significant change in the financial or trading position of the Issuer since June 30, 2018, and there has been no material adverse change in the financial position or prospects of the Issuer since June 30, 2018.

Litigation

Save as disclosed in this Offering Memorandum, the Issuer is not and has not been involved in any legal, arbitration, administrative or other proceedings, which might have or have had in the recent past (covering at least the previous 12 months preceding the date of this document) a material adverse effect on the financial position or the operations of the Issuer nor is the Issuer aware of any such proceedings pending or being threatened.

Independent Auditors

The Issuer’s audited financial statements as of and for the years ended December 31, 2016 and 2017, included in this Offering Memorandum, have been audited by Deloitte Anjin LLC, independent auditors, as stated in their reports appearing herein. The Issuer’s unaudited condensed consolidated financial statements as of June 30, 2017 and for the six months ended June 30, 2017 have been reviewed by Deloitte Anjin LLC, as stated in their report appearing herein. The Issuer’s unaudited condensed consolidated financial statements as of June 30, 2018 and for the six months ended June 30, 2018 have been reviewed by Ernst & Young Han Young, independent auditors, as stated in their report appearing herein.

With respect to the Issuer’s unaudited condensed consolidated financial statements as of June 30, 2017 and for the six months ended June 30, 2017, included herein, Deloitte Anjin LLC, independent auditors, have reported that they applied limited procedures in accordance with the review standards for interim financial statements in the Republic of Korea. However, their separate report included herein states that they did not audit and they do not express an opinion on those condensed consolidated interim financial statements. Accordingly, the degree of reliance on their report on such information should be restricted in light of the limited nature of the review procedures applied.

With respect to the Issuer’s unaudited condensed consolidated financial statements as of June 30, 2018 and for the six months ended June 30, 2018, included herein, Ernst & Young Han Young, independent auditors, have reported that they applied limited procedures in accordance with the review standards for interim financial statements in the Republic of Korea. However, their separate report included herein states that they did not audit and they do not express an opinion on those condensed consolidated interim financial statements. Accordingly, the degree of reliance on their report on such information should be restricted in light of the limited nature of the review procedures applied.

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Report on review of interim condensed consolidated financial statements

The Board of Directors and Shareholders
Korea Expressway Corporation and its subsidiary

We have reviewed the accompanying interim condensed consolidated financial statements of Korea Expressway Corporation (the "Company") and its subsidiary (collectively referred to as the "Group") which comprise the interim condensed consolidated statement of financial position as at June 30, 2018, and the interim condensed consolidated statement of comprehensive income, interim condensed consolidated statement of changes in equity and interim condensed consolidated statement of cash flows for the six-month period then ended, and a summary of significant accounting policies and other explanatory information.

Management's responsibility for the interim condensed consolidated financial statements

Management is responsible for the preparation and presentation of these interim condensed consolidated financial statements in accordance with Government Accounting Standards for Public Corporations and Quasi-governmental Institutions in the Republic of Korea ("Government Accounting Standards"), and for such internal control as management determines is necessary to enable the preparation of the interim condensed consolidated financial statements that are free from material misstatement, whether due to fraud or error.

Auditors' responsibility

Our responsibility is to express a conclusion on these interim condensed consolidated financial statements based on our review.

We conducted our review in accordance with the review standards for interim financial statements in the Republic of Korea. A review of interim financial information consists of making inquiries, primarily of persons responsible for financial and accounting matters, and applying analytical and other review procedures. A review is substantially less in scope than an audit conducted in accordance with auditing standards generally accepted in the Republic of Korea. Consequently, it does not enable us to obtain assurance that we would become aware of all significant matters that might be identified in an audit. Accordingly, we do not express an audit opinion.

Conclusion

Based on our review, nothing has come to our attention that causes us to believe that the accompanying interim condensed consolidated financial statements are not prepared, in all material respects, in accordance with Government Accounting Standards.

Other matter

The interim condensed consolidated statement of comprehensive income, interim condensed consolidated statement of changes in equity and interim condensed consolidated statement of cash flows for the six-month period ended June 30, 2017, prepared in accordance with Government Accounting Standards, presented for comparative purposes, were reviewed by Deloitte Anjin LLC, whose review report dated September 7, 2017, expressed an unqualified review conclusion; and the consolidated statement of comprehensive income, consolidated statement of changes in equity and consolidated statement of cash flows for the year ended December 31, 2017, not presented herein, were audited by Deloitte Anjin LLC, whose report dated March 21, 2018, expressed an unqualified opinion. The accompanying consolidated statement of financial position as at December 31, 2017, presented for comparative purposes, are not different in all material respect from the above audited consolidated statement of financial position.

Ernst & Young Han Young

September 21, 2018

This review report is effective as at September 21, 2018, the independent auditors' review report date. Accordingly, certain material subsequent events or circumstances may have occurred during the period from the independent auditors' review report date to the time this review report is used. Such events and circumstances could significantly affect the accompanying interim consolidated financial statements and may result in modification to this review report.

KOREA EXPRESSWAY CORPORATION AND ITS SUBSIDIARY

Interim condensed consolidated financial statements for the six-month periods ended June 30, 2018 and 2017

"The accompanying interim condensed consolidated financial statements, including all footnotes and disclosures, have been prepared by, and are the responsibility of, the Group."

Lee, Kang-Rae
Chief Executive Officer
Korea Expressway Corporation

Headquarters: (Address) 77, Hyeoksin 8-ro, Gimcheon-si, Gyeongsangbuk-do, Korea
(Telephone) +82-1588-2504

Korea Expressway Corporation and its subsidiary
Interim condensed consolidated financial statements
as at June 30, 2018 and December 31, 2017
(Korean won in thousands)

	Notes		June 30, 2018		December 31, 2017
Assets					
Current assets:					
Cash and cash equivalents	5,27	₩	332,680,558	₩	500,017,512
Short-term loans and receivables	9,27		1,991,282		2,081,367
Derivatives	6,27		220,367		-
Other financial assets	27		25,643,377		5,011,378
Trade and other receivables	27,28		186,084,820		204,705,641
Inventories			18,975,250		17,689,820
Other non-financial assets			600,579,952		5,130,339
			1,166,175,606		734,636,057
Non-current assets:					
Financial assets at fair value through profit or loss			77,872,098		885,595
Available-for-sale ("AFS") financial assets	8,27		-		95,886,544
Financial assets at fair value through other comprehensive income	8,27		21,585,521		-
Derivatives	6,27		24,518,188		32,720,836
Long-term loans and receivables	9,27		29,161,555		28,474,669
Trade and other receivables	27		80,916,438		80,099,332
Property and equipment	11		972,297,720		998,420,569
Investment property	12		1,287,409,616		1,293,941,039
Intangible assets	13		58,021,461,552		57,807,680,377
Investments in associates and joint venture	10		6,824,101		8,167,919
Other non-financial assets			7,886,394		8,834,861
			60,529,933,183		60,355,111,741
Total assets		₩	**61,696,108,789**	₩	**61,089,747,798**

(Continued)

Korea Expressway Corporation and its subsidiary
Interim condensed consolidated financial statements
as at June 30, 2018 and December 31, 2017 (cont'd)
(Korean won in thousands)

	Notes		June 30, 2018		December 31, 2017
Liabilities					
Current liabilities:					
Trade and other payables	27,28	₩	496,477,087	₩	696,643,496
Current portion of borrowings	14,27		100,000,000		-
Current portion of bonds, net	14,27		2,733,666,156		2,801,101,752
Derivatives	6,27		18,943,152		36,475,608
Current tax liability			46,254,525		38,703,839
Provision for short-term employee benefits	16		63,487,116		83,641,757
Other non-financial liabilities			103,647,682		82,970,630
			3,562,475,718		3,739,537,082
Non-current liabilities:					
Financial liabilities at FVTPL	6,14,27		159,369,807		144,854,321
Trade and other payables	27		541,668,158		595,814,833
Long-term borrowings	14,27		800,000,000		600,000,000
Bonds, net	14,27		21,827,970,863		22,026,360,131
Derivatives	6,27		131,558,732		152,109,314
Other non-financial liabilities			54,330,919		64,238,962
Employee benefits	15		131,572,264		124,899,602
Provisions	16		38,650,760		34,965,476
			23,685,121,503		23,743,242,639
Total liabilities		₩	**27,247,597,221**	₩	**27,482,779,721**
Equity					
Equity attributable to the owners of the parent:					
Share capital	18		33,186,044,730		32,285,244,730
Share discount			(4,250,597)		-
Retained earnings	19		1,342,768,217		1,311,487,753
Other equity component	20		(76,050,782)		10,235,594
Total equity			**34,448,511,568**		**33,606,968,077**
Total liabilities and equity		₩	**61,696,108,789**	₩	**61,089,747,798**

The accompanying notes are an integral part of the interim condensed consolidated financial statements.

Korea Expressway Corporation and its subsidiary
Interim condensed consolidated statements of comprehensive income
for the six-month periods ended June 30, 2018 and 2017
(Korean won in thousands, except earnings per share)

	Notes		2018		2017
Sales	4,21,28	₩	3,337,185,760	₩	3,610,005,543
Cost of sales	25,28		2,773,276,544		3,169,264,504
Gross profit			563,909,216		440,741,039
Selling and administrative expenses	25		101,934,415		93,701,444
Operating profit	4		461,974,801		347,039,595
Other income			50,005,313		83,624,666
Other expenses			22,713,778		21,209,575
Other profit			915,417		7,604,501
Finance income			123,092,221		214,701,013
Finance costs			520,870,571		514,814,382
Share of income (loss) of investment associates and joint ventures			(1,327,431)		(408,106)
Profit before income tax			91,075,972		116,537,712
Income tax expense	24		27,366,322		33,992,787
Profit for the period			63,709,650		82,544,925
Other comprehensive income for the period, net of tax					
Items subsequently unreclassified to profit or loss:					
Changes in equity of investments in associates and joint ventures	10		(70,157)		-
			(70,157)		-
Items subsequently reclassified to profit or loss:					
Net change in unrealized fair value of AFS financial assets			-		41,132
Net changes in unrealized fair value of cash flow hedges	6		(73,499,833)		37,528,625
Changes in equity of investments in associates and joint ventures	10		53,770		34,052
			(73,446,063)		37,603,809
Total comprehensive income (loss) for the period		₩	**(9,806,570)**	₩	**120,148,734**
Income (loss) attributable to:					
Equity holder of the parent			**63,709,650**		**82,544,994**
Non-controlling interests			**-**		**(69)**
			63,709,650		**82,544,925**
Total comprehensive income attributable to:					
Owners of the parent			**(9,806,570)**		**119,941,721**
Non-controlling interests			**-**		**207,013**
			(9,806,570)		**120,148,734**
Net earnings per share:	26				
Basic earnings per share		₩	20	₩	26
Diluted earnings per share		₩	20	₩	26

The accompanying notes are an integral part of the interim condensed consolidated financial statements.

Korea Expressway Corporation and its subsidiary
Interim condensed consolidated statements of changes in equity
for the six-month periods ended June 30, 2018 and 2017
(Korean won in thousands)

	Share capital	Retained earnings	Other equity components	Total	Non-controlling interests	Total equity
As at January 1, 2017	₩ 30,900,489,354	₩ 1,247,678,944	₩ (77,868,510)	₩ 32,070,299,788	₩ (197,132)	₩ 32,070,102,656
Total comprehensive income for the period:						
Profit for the period	-	82,544,994	-	82,544,994	(69)	82,544,925
Other comprehensive income	-	-	37,396,727	37,396,727	207,082	37,603,809
	-	82,544,994	37,396,727	119,941,721	207,013	120,148,734
Transactions with the owners of the parent recognized directly in equity:						
Capital increase by issuing new stocks	1,042,650,000	-	-	1,042,650,000	-	1,042,650,000
Dividends to owners of the parent	-	(37,109,578)	-	(37,109,578)	-	(37,109,578)
Others	-	-	-	-	119	119
	1,042,650,000	(37,109,578)	-	1,005,540,422	119	1,005,540,541
Reversal of share discount	24,159,376	(24,159,376)	-	-	-	-
At at June 30, 2017	₩ 31,967,298,730	₩ 1,268,954,984	₩ (40,471,783)	₩ 33,195,781,931	₩ 10,000	₩ 33,195,791,931
As at January 1, 2018	₩ 32,285,244,730	₩ 1,311,487,753	₩ 10,235,595	₩ 33,606,968,078	₩ -	₩ 33,606,968,078
Changes in accounting policies	-	12,770,157	(12,770,157)	-	-	-
As at January 1, 2018	32,285,244,730	1,324,257,910	(2,534,562)	33,606,968,078	-	33,606,968,078
Total comprehensive income for the period:						
Profit for the period	-	63,709,650	-	63,709,650	-	63,709,650
Other comprehensive income	-	-	(73,516,220)	(73,516,220)	-	(73,516,220)
	-	63,709,650	(73,516,220)	(9,806,570)	-	(9,806,570)
Transactions with the owners of the parent recognized directly in equity:						
Capital increase by issuing new stocks	900,800,000	-	-	900,800,000	-	900,800,000
Dividends to owners of the parent	-	(45,199,343)	-	(45,199,343)	-	(45,199,343)
Others	-		-	-	-	-
	900,800,000	(45,199,343)	-	855,600,657	-	855,600,657
Reversal of share discount	(4,250,597)	-		(4,250,597)		(4,250,597)
As at June 30, 2018	₩ 33,181,794,133	₩ 1,342,768,217	₩ (76,050,782)	₩ 34,448,511,568	₩ -	₩ 34,448,511,568

The accompanying notes are an integral part of the interim condensed consolidated financial statements.

Korea Expressway Corporation and its subsidiary
Interim condensed consolidated statements of cash flows
for the six-month periods ended June 30, 2018 and 2017
(Korean won in thousands)

	2018	2017
Cash flows from operating activities:		
Profit for the period	₩ 63,709,650	₩ 82,544,925
Adjustments to reconcile profit for the period to net cash flow:		
Recovery of doubtful accounts	(5,055)	(5,859)
Other bad debt expenses	290,204	1,815,582
Loss (gain) on valuation of financial assets at FVTPL, net	15,399,065	(14,260,025)
Gain on disposal of financial assets, net	(553,429)	(443,514)
Loss (gain) on valuation of derivative instruments, net	(82,488,833)	84,341,500
Loss (gain) on derivative instrument transactions, net	(22,574,600)	40,331,200
Loss on hedged item related to fair value hedge	1,485,051	2,161,199
Gain on disposal of property and equipment, net	(301,253)	(690,998)
Depreciation	77,274,527	71,100,496
Loss on disposal of investment property, net	31,640	-
Gain on disposal of intangible assets, net	(6,306,056)	(10,511,318)
Amortization	934,239,516	1,169,602,594
Interest expenses	385,328,576	316,762,633
Income tax expense	27,366,322	33,992,787
Loss (gain) on foreign currencies translation, net	82,413,573	(84,259,335)
Salary	776,905	1,019,738
Costs for retirement and severance benefits	11,669,617	10,646,612
Share of loss of investments in associates and joint venture	1,327,431	408,106
Dividends income	(35,782)	(390,625)
Interest income	(3,769,870)	(3,794,955)
Gain on insurance settlements	-	(2,445)
Gain on assets contributed	(4,450,313)	(23,325,023)
Income from incidental business	(7,022,046)	(6,941,885)
Increase in provisions	5,323,904	10,719,660
Reversal of provisions	(1,638,620)	(6,117,181)
Reversal of other allowance for doubtful accounts	(10,465)	(1,803,631)
Other income	(4,556,574)	(73,120)
	1,409,213,435	1,590,282,193

(Continued)

Korea Expressway Corporation and its subsidiary
Interim condensed consolidated statements of cash flows
for the six-month periods ended June 30, 2018 and 2017 (cont'd)
(Korean won in thousands)

	2018	2017
Cash flows from operating activities:		
Changes in working capital:		
Short-term loans	₩ 219,109	₩ 2,450,761
Other current financial assets	(20,631,999)	(577,526)
Other accounts receivable	19,818,075	9,501,077
Accrued revenue	745,996	5,633
Short-term deposits	8,155,208	21,754,000
Inventories	(1,285,430)	1,594,956
Short-term advance payments	(585,177,509)	(654,559,545)
Short-term prepaid expenses	(1,444,421)	(1,016,136)
Other current non-financial assets	(9,051,158)	(9,957,146)
Long-term loans	(815,910)	(1,675,816)
Long-term deposits	(10,464,001)	(25,667,440)
Long-term prepaid expenses	948,467	(1,617,912)
Short-term other accounts payable	(267,588,980)	(290,495,404)
Short-term accrued expenses	19,437,329	(1,054,202)
Short-term leasehold deposits	1,318,238	(22,378,853)
Short-term other deposits	7,003,362	59,924
Short-term advances from customers	1,949,221	68,312,120
Short-term unearned revenue	543,509	(6,397)
Withholdings	18,184,321	22,512,155
Provision for short-term employee benefits	(20,154,640)	(19,602,903)
Long-term leasehold deposits	9,489,023	29,000,793
Long-term unearned revenue	(2,885,996)	(2,933,071)
Payments of retirement and severance benefits	(581,918)	(983,251)
Other long-term employee benefits	(4,415,038)	(133,564)
	(836,685,142)	(877,467,747)
Dividends received	35,782	390,625
Interest paid	(405,327,301)	(401,761,623)
Interest received	3,043,621	4,130,808
Income taxes refund received	(19,815,635)	(73,237,307)
Net cash provided by operating activities	214,174,410	324,881,874

(Continued)

Korea Expressway Corporation and its subsidiary
Interim condensed consolidated statements of cash flows
for the six-month periods ended June 30, 2018 and 2017 (cont'd)
(Korean won in thousands)

		2018		2017
Cash flows from investing activities:				
Disposal of property and equipment	₩	434,833	₩	1,443,751
Disposal of AFS financial assets		-		151,047
Disposal of Financial assets at fair value through other comprehensive income		20,401,660		-
Disposal of intangible assets		8,251,638		11,061,786
Acquisition of non-current AFS financial assets		-		(3,205,000)
Acquisition of Financial assets at fair value through other comprehensive income		(23,972,735)		-
Settlement of derivatives		-		30,937,271
Acquisition of property and equipment		(18,031,095)		(13,559,748)
Acquisition of investment property		(17,747,493)		(21,948,243)
Acquisition of intangible assets		(1,153,164,666)		(1,374,577,007)
Net cash used in investing activities		(1,183,827,858)		(1,369,696,143)
Cash flows from financing activities:				
Proceeds from short-term borrowings		-		300,000,000
Proceeds from long-term borrowings		300,000,000		200,000,000
Proceeds from bonds		1,278,991,872		1,719,811,685
Proceeds from issuance of new stocks		896,549,403		1,042,650,000
Repayment of current portion of long-term borrowings		-		119
Repayments of short-term borrowings		-		(150,000,000)
Repayments of other non-current financial liabilities		-		(22,000,000)
Repayments of bonds		(1,628,025,437)		(2,015,722,400)
Dividends paid		(45,199,343)		(37,109,579)
Net cash provided by financing activities		802,316,495		1,037,629,825
Net decrease in cash and cash equivalents		(167,336,953)		(7,184,444)
Cash and cash equivalents at the beginning of the period		500,017,511		632,759,858
Cash and cash equivalents at the end of the period	₩	**332,680,558**	₩	**625,575,414**

The accompanying notes are an integral part of the interim condensed consolidated financial statements.

1. General

Korea Expressway Corporation (the "Company") was established on February 15, 1969, under the *Korea Expressway Corporation Act*. The Company is engaged in the construction and operation of an expressway network in the Republic of Korea. The Company generates its revenue primarily from tolls collected from motorists for the use of the expressways managed by the Company. The Company also receives lease payments paid by operations of service areas and oil stations located at various points along the expressways and fees from certain services for the Korean Government (the "Government"), including supervision of the government construction projects in various locations adjacent to the expressways.

As at June 30, 2018, the Company's shareholders and their shareholdings are as follows:

Shareholders	Number of shares	Ownership (%)
Ministry of Land, Infrastructure and Transport	2,845,845,603	85.75
Ministry of Strategy and Finance	13,418,889	0.40
Korea EXIM Bank	328,714,464	9.91
Korea Development Bank	92,628,550	2.79
Industrial Bank of Korea	22,423,519	0.69
Korea Housing Finance Corporation	573,448	0.02
Kookmin Bank	15,000,000	0.45
	3,318,604,473	100.00%

Consolidated subsidiary

Details of the Company and its subsidiary (collectively referred to as the "Group") as at June 30, 2018, are as follows. The Company has no subsidiary for the consolidation as at December 31, 2017 (Korean won in millions):

As at June 30, 2018:

Company	Country of domicile	Business	Assets	Liabilities	Revenue	Net income
Korea Expressway Corporation	Korea	Construction and management of roads	₩ 61,703,031	₩ 27,248,297	₩ 3,337,186	₩ 65,037
Korea Expressway Corporation Facility management	Korea	Building (facility) and Maintenance (service), etc.	700	-	-	-

As at December 31, 2017:

Company	Country of domicile	Business	Assets	Liabilities	Revenue	Net income
Korea Expressway Corporation	Korea	Construction and management of roads	₩ 61,094,626	₩ 27,482,780	₩ 8,059,819	₩ 135,497

2. Summary of significant accounting policies

Basis of preparation

The interim condensed consolidated financial statements of the Group have been prepared in accordance with Government Accounting Standards for Public Corporations and Quasi-governmental Institutions in the Republic of Korea ("Government Accounting Standards") pursuant to the *Act on the Management of Public Institutions and the Decree on Accounting for Public Corporations and Quasi-governmental Institutions,* which mandates application of Korean International Accounting Standards (KIFRS) enacted by the *Act on External Audit of Stock Companies* where specific accounting treatments are not prescribed by Government Accounting Standards.

The interim condensed consolidated financial statements do not include all the information and disclosures required in the annual financial statements, and should be read in conjunction with the Group's annual financial statements as at December 31, 2017.

2. Summary of significant accounting policies (cont'd)

1) Application of Government Accounting Standards

- Accounting Treatment for Assets Consigned

The Company recognizes assets received from the Government and others for the purpose of management or disposal on behalf of consignor as a deduction to the related assets.

- Recognition of Revenue and Expenses Related to Consignment Management

The Company recognizes funds received from the Ministry of Land, Infrastructure and Transport and others for consignment management services as revenue and expenses or assets and liabilities as the associated project progresses. The Company does not offset each account.

- Contribution to the Employee Welfare Fund

The Company contributes to the employee welfare fund and contributions are recognized as selling and administrative expenses in accordance with the *Employee Welfare Fund Act*.

Significant accounting policies

The accounting policies adopted for preparation of the interim financial statements are consistent with the accounting policies adopted for preparation of the annual financial statements for the year ended December 31, 2017, except for the following amendments to KIFRS effective as at January 1, 2018.

KIFRS 1115 *Revenue from Contracts with Customers*

KIFRS 1115 supersedes the following KIFRS: KIFRS 1011 *Construction Contracts*, KIFRS 1018 *Revenue.* If the contracts do not conform to the scope of the other standards, they apply to all revenue from contracts with customers. The new standard establishes a five-step model to account for revenue arising from contracts with customers. Under KIFRS 1115, revenue is recognized at an amount that reflects the consideration to which an entity expects to be entitled in exchange for transferring goods or services to a customer.

The standard requires entities to exercise judgement, taking into consideration all of the relevant facts and circumstances when applying each step of the model to contracts with their customers. The standard also specifies the accounting for the incremental costs of obtaining a contract and the costs directly related to fulfilling a contract.

The Group applies KIFRS 1115 *Revenue from Contracts with Customers* only to contracts that are not completed at the date of initial application with using the modified retrospective method on January 1, 2018. Therefore, the comparative information was not restated, and has been presented based on KIFRS 1011 *Construction Contracts* and KIFRS 1018 *Revenue* and other related Interpretations.

The impact of KIFRS 1115 adoption on the Group's financial statements is as follows:

The Group identified guarantees arising from contractual arrangements with customers in accordance with KIFRS 1115 as at June 30, 2018 as assurance-type guarantees and service-type guarantees. Guarantees of certainty types are accounted for in accordance with KIFRS 1037 *Provisions, Contingent Liabilities and Contingent Assets*. The guarantees of service types are accounted for as separate performance obligations that require allocation of transaction prices.

All contracts before the adoption of KIFRS 1115 were considered as contracts completed in accordance with the previous standards. There is no conversion effect on the Group's consolidated financial statements as of January 1, 2018.

2. Summary of significant accounting policies (cont'd)

KIFRS 1109 *Financial Instruments*

KIFRS 1109 *Financial Instruments* replaces KIFRS 1039 *Financial Instruments*: *Recognition and Measurement* for annual periods beginning on or after January 1, 2018, brings together all three aspects of the accounting for financial instruments: classification and measurement, impairment and hedge accounting. With the exception of hedge accounting, which the Group applied prospectively, the Group has applied KIFRS 1109 retrospectively, with the initial application date of January 1, 2018. The Group adjusted the cumulative effects of the initial application of the standard in the beginning balance of retained earnings as at January 1, 2018. The Group adjusted the cumulative effects of the initial application of the standard in the beginning balance of retained earnings as at January 1, 2018. In accordance with the initial application, the beginning balance of retained earnings and accumulated comprehensive income as at January 1, 2018 was decreased by ₩12,770 million, respectively.

Changes in the carrying amount of financial assets and financial assets classified by category are as follows (Korean won in millions):

Classification		Carrying amount	
KIFRS 1039	KIFRS 1109	KIFRS 1039	KIFRS 1109
AFS financial assets	Measured at fair value through other comprehensive income (FVOCI)	₩ 99,458	₩ 21,586
AFS financial assets	Measured at fair value through profit or loss (FVPL)	₩ -	₩ 77,872

(a) Classification and measurement

Except for certain trade receivables, under KIFRS 1109, the Group initially measures a financial asset at its fair value plus, in the case of a financial asset not at fair value through profit or loss, transaction costs.

Under KIFRS 1109, debt financial instruments are subsequently measured at fair value through profit or loss (FVTPL), amortised cost, or fair value through other comprehensive income (FVOCI). The classification is based on two criteria: the Group's business model for managing the assets; and whether the instruments' contractual cash flows represent 'solely payments of principal and interest' on the principal amount outstanding (the 'SPPI criterion').

The new classification and measurement of the Group's debt financial assets are, as follows:

- Debt instruments at amortised cost for financial assets that are held within a business model with the objective to hold the financial assets in order to collect contractual cash flows that meet the SPPI criterion. This category includes the Group's trade and other receivables, and loans included under other non-current financial assets.
- Debt instruments at FVOCI, with gains or losses recycled to profit or loss on derecognition. Financial assets in this category are the Group's quoted debt instruments that meet the SPPI criterion and are held within a business model both to collect cash flows and to sell.

Other financial assets are classified and subsequently measured as follows:

- Equity instruments at FVOCI, with no recycling of gains or losses to profit or loss on derecognition. This category only includes equity instruments, which the Group intends to hold for the foreseeable future and which the Group has irrevocably elected to so classify upon initial recognition or transition. The Group classified its unquoted equity instruments as equity instruments at FVOCI. Equity instruments at FVOCI are

2. Summary of significant accounting policies (cont'd)

not subject to an impairment assessment under KIFRS 1109. Under KIFRS 1039, the Group's unquoted equity instruments are classified as AFS financial assets. The Group recognizes changes in fair value of equity instruments classified as AFS financial assets that are not held for trading in OCI. As of January 1, 2018, the Group's AFS financial assets amounting to ₩73,688 million has been reclassified to equity instruments measured at FVOCI.

- Financial assets at FVTPL comprise derivative instruments and quoted equity instruments which the Group had not irrevocably elected, at initial recognition or transition, to classify at FVOCI. This category would also include debt instruments whose cash flow characteristics fail the SPPI criterion or are not held within a business model whose objective is either to collect contractual cash flows, or to both collect contractual cash flows and sell

The assessment of the Group's business models was made as at the date of initial application, January 1, 2018, and then applied retrospectively to those financial assets that were not derecognised before January 1, 2018. The assessment of whether contractual cash flows on debt instruments are solely comprised of principal and interest was made based on the facts and circumstances as at the initial recognition of the assets.
The accounting for the Group's financial liabilities remains largely the same as it was under KIFRS 1039. Similar to the requirements of KIFRS 1039, KIFRS 1109 requires contingent consideration liabilities to be treated as financial instruments measured at fair value, with the changes in fair value recognised in the statement of comprehensive income.

Under KIFRS 1109, embedded derivatives are no longer separated from a host contracts. Instead, financial assets are classified based on their contractual terms and the Group's business model.
The accounting for derivatives embedded in financial liabilities and in non-financial host contracts has not changed from that required by KIFRS 1039. Other financial assets are classified and subsequently measured as follows:

(b) Impairment

The adoption of KIFRS 1109 has fundamentally changed the Group's accounting for impairment losses for financial assets by replacing KIFRS 1039's incurred loss approach with a forward-looking expected credit loss (ECL) approach. KIFRS 1109 requires the Group to record an allowance for ECLs for all loans and other debt financial assets not held at FVTPL. ECLs are based on the difference between the contractual cash flows due in accordance with the contract and all the cash flows that the Group expects to receive. The shortfall is then discounted at an approximation to the asset's original effective interest rate.

For contract assets and trade and other receivables, the Group has applied the standard's simplified approach and has calculated ECLs based on lifetime expected credit losses. The Group has established a provision matrix that is based on the Group's historical credit loss experience, adjusted for forward-looking factors specific to the debtors and the economic environment.

In certain cases, the Group may consider a financial asset to be in default when internal or external information indicates that the Group is unlikely to receive the outstanding contractual amounts in full before taking into account any credit enhancements held by the Group.

(c) Hedge accounting

KIFRS 1109 applies mechanics of hedge accounting (fair value hedge accounting, cash flow hedge, foreign entities net investment hedge) specified in the current KIFRS 1039; however, the Group changed from the complex and rule-based hedge accounting requirements of KIFRS 1039 to the principle-based approach which focuses on the risk management activities.

Requirements for application of hedge accounting are relaxed by enlarging items designated as hedges and hedging instruments, evaluating the high risk avoidance effects, and eliminating the quantitative criteria (80 ~ 125%).

2. Summary of significant accounting policies (cont'd)

(d) Other adjustments

In addition to the adjustments described above, upon adoption of KIFRS 1109, other items of the primary financial statements such as deferred taxes, assets held for sale and liabilities associated with them, investments in the associate and joint venture (arising from the financial instruments held by these entities), income tax expense, retained earnings and exchange differences on translation of foreign operations were adjusted as necessary. The adjustment to Liabilities directly associated with assets held for sale only relates to the deferred tax impact of the KIFRS 1109 adjustments to the underlying assets.

KIFRS 2122 *Foreign Currency Transactions and Advance Consideration*
The Interpretation clarifies that, in determining the spot exchange rate to use on initial recognition of the related asset, expense or income (or part of it) on the derecognition of a non-monetary asset or non-monetary liability relating to advance consideration, the date of the transaction is the date on which an entity initially recognizes the non-monetary asset or non-monetary liability arising from the advance consideration. If there are multiple payments or receipts in advance, then the entity must determine the transaction date for each payment or receipt of advance consideration.

***Transfers of Investment Property* — Amendments to KIFRS 1040**
The amendments clarify when an entity should transfer property, including property under construction or development into, or out of investment property. The amendments state that a change in use occurs when the property meets, or ceases to meet, the definition of investment property and there is evidence of the change in use. Changes in management's intentions about real estate are not evidence of change in purpose. However, since Group's current practice is in line with the clarifications issued, the Group does not expect any effect on its consolidated financial statements.

Amendments to KIFRS 1102 *Classification and Measurement of Share-based Payment Transactions*
The KASB issued amendments to KIFRS 1102 *Share-based Payment* that address three main areas: the effects of vesting conditions on the measurement of a cash-settled share-based payment transaction; the classification of a share-based payment transaction with net settlement features for withholding tax obligations; and accounting where a modification to the terms and conditions of a share-based payment transaction changes its classification from cash settled to equity settled. On adoption, entities are required to apply the amendments without restating prior periods, but retrospective application is permitted if elected for all three amendments and other criteria are met. In addition, the Group has no share-based payment transaction with net settlement features for withholding tax obligations and had not made any modifications to the terms and conditions of its share-based payment transaction. Therefore, these amendments do not have any impact on the Group's consolidated financial statements.

KIFRS 1028 *Investments in Associates and Joint Ventures - Clarification that measuring investees at fair value through profit or loss is an investment-by-investment choice*
The amendments clarify that an entity that is a venture capital organization, or other qualifying entity, may elect, at initial recognition on an investment-by-investment basis, to measure its investments in associates and joint ventures at fair value through profit or loss. If an entity, that is not itself an investment entity, has an interest in an associate or joint venture that is an investment entity, the entity may, when applying the equity method, elect
To retain the fair value measurement applied by that investment entity associate or joint venture to the investment entity associate's or joint venture's interests in subsidiaries.
This election is made separately for each investment entity associate or joint venture, at the later of the date on which: (1) the investment entity associate or joint venture is initially recognized; (2) the associate or joint venture becomes an investment entity; and (3) the investment entity associate or joint venture first becomes a parent. These amendments are not applicable to the Group.

KIFRS 1101 *First-time Adoption of International Financial Reporting Standards - Deletion of short-term exemptions for first-time adopters*
Short-term exemptions in paragraphs E3–E7 of KIFRS 1101 were deleted because they have now served their intended purpose. The amendment is effective from January 1, 2018. This amendment is not applicable to the Group.

3. Significant accounting judgments, estimates and assumptions

In preparing the interim financial statements, management should make judgments, estimates and assumptions that affect the application of accounting policies and assets, liabilities and income, expense. Actual results may differ from these estimates.

The significant judgments made by management on the application of the Group's interim financial statements and the major sources of estimation uncertainty are the same as those of the annual consolidated financial statements for the year ended December 31, 2017.

4. Segment information

The Group is organized into four different strategic operating segments. Each operating segment separately provides products and services, and the Group manages each operating segment individually as technological and marketing strategies applied to each operating segment are different. The Chief Operating Decision Maker monitors and quarterly reviews the operating results of the business units separately.

Operating segments of the Group are as follows:

Operating segments	Description	Customers
Toll business	Highway	Highway user
Incidental business	Expressway rest stop, oil station lease and research service	Expressway rest stop operator, etc.
Supporting business	Consignment management service	Government, etc.
Construction business	Road construction	Government

Information for each segment for the six-month periods ended June 30, 2018 and 2017, is as follows (Korean won in millions):

For the six-month period ended June 30, 2018:

	Total revenue	Revenue from external customers	Operating income
Toll business	₩ 1,936,490	₩ 1,936,490	₩ 376,537
Incidental business	268,013	268,013	85,438
Supporting business	40,661	40,661	-
Construction business	1,092,021	1,092,021	-
	₩ 3,337,185	₩ 3,337,185	₩ 461,975

For the six-month period ended June 30, 2017:

	Total revenue	Revenue from external customer	Operating income
Toll business	₩ 2,003,179	₩ 2,003,179	₩ 256,644
Incidental business	239,093	239,093	90,395
Supporting business	68,890	68,890	-
Construction business	1,298,844	1,298,844	-
	₩ 3,610,006	₩ 3,610,006	₩ 347,039

All of the Group’s revenues are generated in Korea.

4. Segment information (cont'd)

The Korean government is a major customer of the supporting and construction operating segments, with revenue of ₩1,132,682 million and ₩1,367,734 million for the six-month periods ended June 30, 2018 and 2017, respectively. There are no other major customers representing more than 10% of the Group's revenue

5. Cash and cash equivalents

Cash and cash equivalents in the interim condensed consolidated statements of cash flows include cash and bank deposit, net of bank overdrafts. Cash and cash equivalents as at June 30, 2018, and December 31, 2017, are as follows (Korean won in millions):

	June 30, 2018	December 31, 2017
Cash	₩ 349,606	₩ 267,461
Cash equivalents	216,390	378,242
	565,996	645,703
Less: Government grants for consignment management service	(233,316)	(145,686)
	₩ 332,680	₩ 500,017

6. Derivatives

Composition of derivative instruments as at June 30, 2018, and December 31, 2017, is as follows (Korean won in millions):

	June 30, 2018		December 31, 2017	
	Current	Non-current	Current	Non-current
Financial asset at FVTPL:				
Interest rate swap	₩ -	₩ -	₩ -	₩ 886
	₩ -	₩ -	₩ -	₩ 886
Derivative instruments assets:				
Currency swap	₩ 220	₩ 586	₩ -	₩ 7,270
Interest rate swap	-	23,932	-	25,451
	₩ 220	₩ 24,518	₩	₩ 32,721
Financial liability at FVTPL:				
Non-derivative financial liability (*)	₩ -	₩ 114,079	₩ -	₩ 115,562
Interest rate swap	-	45,291	-	29,292
	₩ -	₩ 159,370	₩ -	₩ 144,854
Derivative instruments liabilities:				
Currency swap	₩ 18,943	₩ 97,303	₩ 36,476	₩ 117,781
Interest rate swap	-	34,256	-	34,328
	₩ 18,943	₩ 131,559	₩ 36,476	₩ 152,109

(*) The Group has entered into an interest rate swap contract to hedge risk of fair value fluctuations due to changes in interest rates of the Group's corporate bonds. The Group may eliminate or reduce an accounting mismatch arising from classification of corporate bonds and derivative instruments at amortized cost and fair value, respectively, through designating corporate bonds as financial liability at FVTPL.

6. Derivatives (cont'd)

Details of currency swaps as at June 30, 2018, are as follows (In millions of Korean won, EUR, USD, JPY, HKD, CHF, CNY, CNH, SEK and CAD):

			Contract amount			Contract interest rate		
	Bank	Contract period	Selling amount		Buying amount	Sell	Buy	Contract exchange rate
Cash flow hedge	Woori Bank	2012.03.02–2022.03.02	HKD	452	₩ 65,856	4.00%	3.96%	145.70
Cash flow hedge	Deutsche Bank Group	2012.05.07–2024.05.07	EUR	45	67,733	3.88%	3.98%	1,505.17
Cash flow hedge	Deutsche Bank Group	2012.05.07–2027.05.07	EUR	23	34,619	4.00%	4.06%	1,505.17
Cash flow hedge	Nomura Securities Co.	2013.08.05–2018.08.05	USD	100	111,000	2.78%	3.27%	1,110.00
Cash flow hedge	Nomura Securities Co.	2013.09.13–2018.09.13	EUR	75	107,870	2.23%	3.47%	1,438.26
Cash flow hedge	NH Investment & Securities Co., Ltd.	2015.03.18–2027.03.18	USD	50	56,150	3.02%	2.42%	1,123.00
Cash flow hedge	Korea EXIM Bank	2015.11.30–2030.11.30	USD	50	58,000	3.21%	2.41%	1,160.00
Cash flow hedge	Nomura Securities Co.	2015.12.08–2026.06.08	USD	100	115,000	3.10%	2.33%	1,150.00
Cash flow hedge	Nomura Securities Co.	2016.04.26–2026.10.26	USD	200	232,000	2.70%	1.84%	1,160.00
Cash flow hedge	Korea EXIM Bank	2016.07.05–2031.07.05	USD	100	116,000	2.57%	1.71%	1,160.00
Cash flow hedge	SC Bank.	2016.10.27–2019.10.28	USD	100	112,300	3M LIBOR+0.70%	1.48%	1,123.00
Cash flow hedge	Nomura Securities Co.	2016.10.27–2019.10.28	HKD	931	134,808	1.65%	1.51%	144.80
Cash flow hedge	HSBC	2016.12.07–2019.06.07	USD	200	233,600	3M LIBOR+0.78%	1.74%	1,168.00
Cash flow hedge	Hana Bank.	2017.04.20–2020.04.20	USD	150	172,350	3M LIBOR+0.70%	1.77%	1,149.00
Cash flow hedge	Korea EXIM Bank	2017.04.20–2020.04.20	USD	150	172,350	3M LIBOR+0.70%	1.77%	1,149.00
Cash flow hedge	Kookmin Bank	2017.04.20–2020.04.20	USD	100	114,900	3M LIBOR+0.70%	1.77%	1,149.00
Cash flow hedge	Nomura Securities Co.	2017.04.28–2020.04.28	SEK	720	92,304	2.31%	2.32%	128.20
Cash flow hedge	Korea EXIM Bank.	2017.05.11–2032.05.11	CAD	135	112,725	3.03%	2.32%	835.00
Cash flow hedge	Korea Development Bank	2017.06.07–2024.06.07	CHF	100	112,200	0.25%	2.24%	1,122.00
Cash flow hedge	IBK Bank	2017.06.07–2024.06.07	CHF	50	56,100	0.25%	2.24%	1,122.00
Cash flow hedge	Korea Development Bank.	2017.06.07–2024.06.07	CHF	80	89,760	0.25%	2.24%	1,122.00
Cash flow hedge	Nomura Securities Co	2018.03.05–2023.03.05	HKD	800	110,320	3.02%	2.45%	137.90
Cash flow hedge	Societe Generale	2018.03.28–2021.03.28	CNH	1,300	219,570	4.73%	2.12%	168.90

Details of interest swaps as at June 30, 2018, are as follows (Korean won in millions):

	Bank	Contract period	Notional amount	Sell	Buy
Fair value hedge	Nonghyup	2007.07.27–2022.07.27	₩ 100,000	5.60%	CD91+0.08%
Cash flow hedge	Nomura Securities Co.	2010.11.29–2020.11.29	100,000	32X [12-month average value of absolute value (5-year CMS market price - closing price)]	4.31%
Cash flow hedge	Morgan Stanley	2010.12.10–2020.12.10	40,000	30× change 1.50% (minimum), 8.50% (maximum)	4.28%
Cash flow hedge	Societe Generale	2010.12.10–2020.12.10	40,000	30× change 1.50% (minimum), 8.50% (maximum)	4.28%
Cash flow hedge	Deutsche Bank Group	2012.09.20–2022.09.20	100,000	One year: 4.00%, 2–10 years: 2.24% + 0.10 × (70%-Average	2.97%

	Bank	Contract period	Notional amount	Sell	Buy
				SIFMA/Average USD 3M LIBOR) minimum 0%, maximum 6%	
Cash flow hedge	Nomura Securities Co.	2013.12.09–2023.12.09	30,000	4.35%× n/N, 30/360	3.81%
Cash flow hedge	Nomura Securities Co.	2014.04.04–2024.04.04	30,000	1 year–2 years: 4.25%, 30/360 3–10 years: 3 %, 30/360 reference average spread for specified periods 0.00% (minimum), 5.50% (maximum) Spread Reference daily spread calculation: 20Y EUR Swap interest rate 0% (minimum), 6% (maximum)	3.56%
Cash flow hedge	Morgan Stanley	2014.09.04–2024.09.04	100,000	1) Before switch options are exercised. One year: 4.00%, 2Y–10Y: Annual Min (4.20%, 3.00×(average spread (20 EUR CMS - 2 EUR CMS))×N/M), (minimum 0.00%) 2) After switch options are exercised. Annual 3.65% (Fixed rate)	3.08%
Cash flow hedge	Deutsche Bank	2015.05.15–2030.05.15	30,000	One year: 4.50%, 2Y–: 8.0% - 0.1 × (average SIFMA/average 3M LIBOR) (Cap 5.50%, Floor 0.01%) or 5% fixed rate (Swap bank switch option)	2.69%
Cash flow hedge	Nomura Securities Co.	2015.08.19–2030.08.19	50,000	One year: 3.80%, 2Y–15Y: 2.11× (USD 30Y CMS -USD 2Y CMS)+0.2% (Cap 5.50%, Floor 0.00%) or 2.8% fixed rate (Swap bank switch option) 2) After switch options are exercised. Annual 2.8% (Fixed rate) – One year after the date of issue, it is possible to exercise switch options annually to the issuer – before exercising switch options, the written notice has to be submitted to Korea Securities Depository	2.46%
Cash flow hedge	Nomura Securities Co.	2015.09.23–2030.09.23	50,000	One year: 4.00%, 4.0%*(KRW 10Y CMS -USD 1Y CMS) (Cap 4.50%, Floor 0.25%) or 3.0% fixed rate (Swap bank switch option) 2) After switch options are exercised. Annual 3.0% (Fixed rate) – One year after the date of issue, it is possible to exercise switch options annually to the issuer – before exercising switch options, the written notice has to be submitted to Korea Securities Depository	2.28%
Cash flow hedge	Nomura Securities Co.	2015.10.28–2030.10.28	50,000	One year: 3.90%, 3.3%*(KRW 10Y - USD 1Y CMS) (Cap 4.50%, Floor 0.00%) or 2.8% fixed rate (Swap bank switch option) 2) After switch options are exercised. Annual 3.0% (Fixed rate) – One year after the date of issue, it is possible to exercise switch options annually to the issuer – before exercising switch options, the written notice has to be submitted to Korea Securities Depository	2.18%
Cash flow hedge	NH Investment & Securities Co., Ltd.	2016.06.23–2031.06.23	30,000	One year: 2.80%, 2.3%*(EUR 30Y CMS - EUR 5Y CMS) (Cap 3.00%, Floor 0.00%)	1.60%
Cash flow hedge	Hana Bank	2016.08.09–2021.08.09	100,000	CD91+0.08%	1.34%
Cash flow hedge	Hana Bank	2016.12.08–2021.12.08	200,000	CD91+0.36%	2.07%
Cash flow hedge	Hana Bank	2017.03.22–2022.03.22	200,000	CD91+0.22%	2.00%
Cash flow hedge	Hana Bank	2018.02.26–2023.02.24	150,000	CD91+0.34%	2.68%
Cash flow hedge	Hana Bank	2018.03.21–2023.03.21	150,000	CD91+0.34%	2.65%
Trading	JP Morgan Chase & Co.	2009.05.21–2021.07.21	50,000	CD91+0.08%	4.08%
Trading	Deutsche Bank Group	2009.05.21–2022.07.27	50,000	CD91+0.08%	4.08%

6. Derivatives (cont'd)

	Bank	Contract period	Notional amount	Sell	Buy
Trading	Societe Generale	2015.07.30–2022.10.30	70,000	5.82%	4.92%+7.85% ×(1-n/N) (n: days of USD CMS 10Y-2Y rate difference≥ 0, N: days of interest)
Trading	Societe Generale	2015.12.17–2024.3.17	90,000	5.38%	4.48%+7.76% ×(1-n/N) (n: days of USD CMS 10Y-2Y rate difference≥0, N: days for interest)
Trading	Nomura Securities Co.	2017.01.11–2022.04.11	100,000	5.30%	4.6%+ ［a%×(1-n/N)］ n: ［KRW CMS 10y - USD CMS 10y ≥ -1.25%
Trading	Societe Generale	2016.12.08–2025.03.08	100,000	5.24%	4.54%+a% ×(1-n/N) n: ［USDCMS30y-USDCMS2y≥ 0.00%

Derivatives transaction gain (loss) for the six-month period ended June 30, 2018 and 2017, is as follows (Korean won in millions):

	Gain (loss) on valuation		Gain (loss) on transaction		Accumulated comprehensive income (loss)	
	2018	2017	2018	2017	2018	2017
Apply hedge accounting:						
Currency swap	₩ 82,489	₩ (84,342)	₩ 22,575	₩ (40,331)	₩ (73,537)	₩ 23,857
Interest rate swap	(1,485)	(2,161)	-	-	37	13,672
	₩ 81,004	₩ (86,503)	₩ 22,575	₩ (40,331)	₩ (73,500)	₩ 37,529
Financial instrument at FVTPL:						
Currency swap	₩ -	₩ -	₩ -	₩ (26)	₩ -	₩ -
Interest rate swap	(16,884)	12,099	183	470	-	-
Bonds	1,485	2,161	-	-	-	-
	₩ (15,399)	₩ 14,260	₩ 183	₩ 444	₩ -	₩ -

7. Trade and other receivables

Changes in allowance for doubtful trade and other receivables for the six-month period ended June 30, 2018, and for the year ended December 31, 2017, are as follows (Korean won in millions):

	For the six-month periods ended June 30, 2018	For the year ended December 31, 2017
Beginning balance	₩ 7,165	₩ 7,587
Impairment loss recognized	274	813
Written off	(24)	(1,235)
Ending balance	₩ 7,415	₩ 7,165

8. Financial assets at fair value & AFS financial assets

Financial assets at fair value & AFS financial assets as at June 30, 2018, and December 31, 2017, are as follows (Korean won in millions):

	June 30, 2018	December 31, 2017
Non-current Financial instrument:		
AFS financial assets	₩ -	₩ 95,887
Financial asset at FVTPL	77,872	-
Financial instrument at FVOCI	21,585	-

Financial assets at FVTPL as at June 30, 2018 are as follows (Korean won in millions):

	Quantity	Percentage of ownership	Acquisition cost	Carrying amount
Seoul-Choonchun Highway (*1)	6,476,000	10.00%	₩ 32,380	₩ 45,481
The 2nd Seoul-Incheon Linking Highway Co., Ltd	1,602,230	4.76%	8,011	8,011
Seoul-north Highway	4,876,000	10.00%	24,380	24,380
			₩ 64,771	₩ 77,872

(*1) Financial instruments at FVTPL were pledged as collateral against the investees' debts as at June 30, 2018

Financial assets at FVOCI as at June 30, 2018 and December 31, 2018, are as follows (Korean won in millions):

	Quantity	Percentage of ownership	Acquisition cost	Carrying amount
DREAMLINE Corporation	181,549	1.60%	₩ 44,028	₩ 814
Korea Overseas Infrastructure & Urban Development Corporation	4,154,400	11.09%	20,772	20,772
			₩ 64,800	₩ 21,586

8. Financial assets at fair value & AFS financial assets (cont'd)

AFS financial assets as at December 31, 2017, are as follows (Korean won in millions):

	Quantity	Percentage of ownership	Acquisition cost		Carrying amount	
Seoul-Choonchun Highway (*1)	6,476,000	10.00%	₩	32,380	₩	45,481
The 2nd Seoul-Incheon Linking Highway Co., Ltd	1,602,230	4.76%		8,011		8,011
Seoul-north Highway	4,876,000	10.00%		24,380		24,380
DREAMLINE Corporation(*2)	181,549	1.60%		44,028		814
Beneficiary certificate	-	-		10,814		17,201
			₩	119,613	₩	95,887

(*1) AFS financial assets were pledged as collateral against the investees' debts.
(*2) As the recoverable amount is less than the acquisition cost, the total impairment loss was recognized during the year ended December 31, 2017. A reversal of impairment loss of ₩813 million was recognized through a fair value assessment as at December 31, 2017.

9. Loans

Details of loans as at June 30, 2018 and December 31, 2017, are as follows (Korean won in millions):

	June 30, 2018					
	Nominal value		Present value of discount		Carrying amount	
Loans for tuition (*1)	₩	5,389	₩	(542)	₩	4,847
Loans for housing (*2)		31,798		(5,797)		26,001
Loans for rental housing		305		-		305
	₩	37,492	₩	(6,339)	₩	31,153

	December 31, 2017					
	Nominal value		Present value of discount		Carrying amount	
Loans for tuition (*1)	₩	5,681	₩	(659)	₩	5,022
Loans for housing (*2)		31,280		(6,046)		25,234
Loans for rental housing		300		-		300
	₩	37,261	₩	(6,705)	₩	30,556

(*1) The Group provides loans to its employees, who have worked for more than a year, for the purpose of paying tuition of their children at zero interest rate. Loans are payable in four years (total of 16 installments), with a two-year grace period after the graduation.
(*2) The Group provides loans for housing to its employees who do not own house at market interest rate. Loans are payable in 20 years (installment), with a five-year grace period.

10. Investments in associates and joint ventures

Investments in associates and joint ventures as at June 30, 2018, and December 31, 2017, are as follows (Korean won in millions, except percentage of ownership):

June 30, 2018					
Company	Major business activity	Location of incorporation	Percentage of ownership	Acquisition cost	Carrying amount
Associates:					
Korea Construction Management Corp.	Building, civil engineering service	Korea	42.50%	₩ 9,822	₩ 3,516
Expressway Solar Power Co., Ltd.	Expressway solar power projects	Korea	29.00%	1,856	2,530
Highwaysolar Co., Ltd	New renewable energy service	Korea	29.00%	653	778
				12,331	6,824
Joint venture:					
Busan-Ulsan Expressway Co., Ltd. (*)	Road and facility operating service	Korea	51.00%	839	-
				839	-
				₩ 13,170	₩ 6,824

(*) The Group classified the investee is as a joint venture as all financial and operating policies of the investee require joint approval by the Group and the other investees.

December 31, 2017					
Company	Major business activity	Location of incorporation	Percentage of ownership	Acquisition cost	Carrying amount
Associates:					
Korea Construction Management Corp.	Building, civil engineering service	Korea	42.50%	₩ 9,822	₩ 4,961
Expressway Solar Power Co., Ltd.	Expressway solar power projects	Korea	29.00%	1,856	2,463
Highwaysolar Co., Ltd	New renewable energy service	Korea	29.00%	653	744
				12,331	8,168
Joint venture:					
Busan-Ulsan Expressway Co., Ltd. (*)	Road and facility operating service	Korea	51.00%	839	-
				839	-
				₩ 13,170	₩ 8,168

(*) The Group classified the investee is as a joint venture as all financial and operating policies of the investee require joint approval by the Group and the other investees.

10. Investments in associates and joint ventures (cont'd)

Changes in investments in associates and joint ventures for the six-month period ended June 30, 2018, and the year ended December 31, 2017, are as follows (Korean won in millions):

	January 1, 2018	Acquisition (disposal)	Gain (loss) on valuation	Change in equity	Dividend	June 30, 2018
Associates:						
Korea Construction Management Corp.	₩ 4,961	₩ -	₩ (1,499)	₩ 54	₩ -	₩ 3,516
Expressway Solar Power Co., Ltd.	2,463	-	137	(70)	-	2,530
Highway Solar Corp.	744	-	35	-	-	778
	8,168	-	(1,327)	(16)	-	6,824
Joint venture:						
Busan-Ulsan Expressway Co., Ltd.(*)	-	-	-	-	-	-
	-	-	-	-	-	-
	₩ 8,168	₩ -	₩ (1,327)	₩ (16)	₩ -	₩ 6,824

	January 1, 2017	Acquisition (disposal)	Gain (loss) on valuation	Change in equity	Dividend	December 31, 2017
Associates:						
Korea Construction Management Corp.	₩ 5,944	₩ -	₩ (1,016)	₩ 33	₩ -	₩ 4,961
Expressway Solar Power Co., Ltd.	2,343	-	120	-	-	2,463
Highway Solar Corp.	710	-	34	-	-	744
	8,997	-	(862)	33	-	8,168
Joint venture:						
Busan-Ulsan Expressway Co., Ltd.(*)	-	-	-	-	-	-
	-	-	-	-	-	-
	₩ 8,997	₩ -	₩ (862)	₩ 33	₩ -	₩ 8,168

(*) The balance of investments in Busan-Ulsan Expressway Co., Ltd. amounts to nil due to the cumulative losses. The Group suspended applying the equity method accordingly. As a result, the Group did not recognize the changes in equity investment amounting to ₩150,756 million (loss on valuation: ₩150,756 million) as at June 30, 2018. The Group provided its stock as collateral for investee's debts.

10. Investments in associates and joint ventures (cont'd)

Financial information of associates and joint ventures is as follows (Korean won in millions):

	June 30, 2018			
	Assets	Liabilities	Revenue	Net income (loss) for the period
Associates:				
Korea Construction Management Corp.	₩ 33,948	₩ 5,675	₩ 19,332	₩ (1,251)
Expressway Solar Power Co., Ltd.	18,488	9,765	1,392	187
Highway Solar Corp.	9,452	6,768	645	119
Joint venture:				
Busan-Ulsan Expressway Co., Ltd.	657,476	953,077	32,988	(25,338)

	December 31, 2017			
	Assets	Liabilities	Revenue	Net income (loss) for the period
Associates:				
Korea Construction Management Corp.	₩ 35,775	₩ 3,638	₩ 41,075	₩ (2,045)
Expressway Solar Power Co., Ltd.	19,143	10,651	3,018	643
Highway Solar Corp.	9,808	7,243	1,454	117
Joint venture:				
Busan-Ulsan Expressway Co., Ltd.	689,311	959,441	61,732	(30,597)

11. Property and equipment

Property and equipment as at June 30, 2018, and December 31, 2017, are as follows (Korean won in millions):

	June 30, 2018			
	Acquisition cost	Government grant	Accumulated depreciation	Carrying amount
Land	₩ 126,602	₩ -	₩ -	₩ 126,602
Buildings	839,229	(271)	(257,864)	581,094
Structures	90,130	(215)	(49,460)	40,455
Machinery	98,289	-	(76,923)	21,366
Information technology equipment	515,815	-	(420,461)	95,354
Vehicles	124,059	(61)	(83,774)	40,224
Furniture and fixtures	92,575	(8)	(57,019)	35,548
Tools and equipment	21,874	-	(16,247)	5,627
Construction in progress	26,028	-	-	26,028
	₩ 1,934,601	₩ (555)	₩ (961,748)	₩ 972,298

	December 31, 2017			
	Acquisition cost	Government grant	Accumulated depreciation	Carrying amount
Land	₩ 126,602	₩ -	₩ -	₩ 126,602
Buildings	832,254	(276)	(243,651)	588,327
Structures	89,854	(223)	(48,171)	41,460
Machinery	98,979	-	(73,965)	25,014
Information technology equipment	516,657	-	(406,206)	110,451
Vehicles	126,713	(71)	(79,854)	46,788
Furniture and fixtures	91,876	(11)	(51,171)	40,694
Tools and equipment	26,561	-	(19,980)	6,581
Construction in progress	12,504	-	-	12,504
	₩ 1,922,000	₩ (581)	₩ (922,998)	₩ 998,421

11. Property and equipment (cont'd)

Changes in property and equipment for the six-month period ended June 30, 2018 and the year ended December 31, 2017, are as follows (Korean won in millions):

	January 1, 2018	Acquisition (*1)	Disposals	Depreciation	Other (*2)	June 30, 2018
Land	₩ 126,602	₩ -	₩ -	₩ -	₩ -	₩ 126,602
Buildings	588,603	6,951	-	(14,212)	23	581,365
(Government grant)	(276)	-	-	5	-	(271)
Structures	41,683	282	(18)	(1,323)	46	40,670
(Government grant)	(223)	-	-	8	-	(215)
Machinery	25,014	164	(40)	(3,803)	31	21,366
Information technology equipment	110,451	284	(75)	(15,306)	-	95,354
Vehicles	46,858	-	-	(6,744)	171	40,285
(Government grant)	(70)	-	-	9	-	(61)
Furniture and fixtures	40,705	1,062	-	(6,229)	19	35,557
(Government grant)	(11)	-	-	3	-	(8)
Tools and equipment	6,581	-	(1)	(953)	-	5,627
Construction in progress	12,504	13,813	-	-	(290)	26,027
	₩ 998,421	₩ 22,556	₩ (134)	₩ (48,545)	₩ -	₩ 972,298

(*1) The amount of acquisition includes gain on assets contributed of ₩4,525 million.
(*2) Other changes are due to reclassification of construction in progress.

	January 1, 2017	Acquisition	Disposals	Depreciation	Other (*)	December 31, 2017
Land	₩ 89,539	₩ 3,633	₩ -	₩ -	₩ 33,430	₩ 126,602
Buildings	600,395	16,915	(1,324)	(28,722)	1,339	588,603
(Government grant)	(260)	(26)	-	10	-	(276)
Structures	40,477	3,646	-	(2,477)	37	41,683
(Government grant)	(239)	-	-	16	-	(223)
Machinery	23,154	8,734	(44)	(6,885)	55	25,014
(Government grant)	(2)	-	-	2	-	-
Information technology equipment	109,712	27,429	(112)	(28,024)	1,446	110,451
Vehicles	39,994	18,349	(2)	(11,483)	-	46,858
(Government grant)	(27)	(56)	-	13	-	(70)
Furniture and fixtures	38,754	13,598	(4)	(11,708)	65	40,705
(Government grant)	(17)	-	-	6	-	(11)
Tools and equipment	7,743	807	-	(1,969)	-	6,581
Construction in progress	7,231	8,215	-	-	(2,942)	12,504
	₩ 956,454	₩ 101,244	₩ (1,486)	₩ (91,221)	₩ 33,430	₩ 998,421

(*) Other changes are due to reclassification of construction in progress and others.

Buildings, structures and other assets are insured against fire and casualty losses by AIG Korea Inc. and others, and the Group carries general insurance of MG Non-Life Insurance Co., Ltd. for vehicles.

12. Investment property

Investment property as at June 30, 2018 and December 31, 2017, is as follows (Korean won in millions):

	June 30, 2018		
	Acquisition cost	Accumulated depreciation	Carrying amount
Land	₩ 236,084	₩ -	₩ 236,084
Buildings	1,016,240	(372,657)	643,583
Structures	524,459	(291,034)	233,425
Construction in progress	174,317	-	174,317
	₩ 1,951,100	₩ (663,691)	₩ 1,287,409

	December 31, 2017		
	Acquisition cost	Accumulated depreciation	Carrying amount
Land	₩ 236,084	₩ -	₩ 236,084
Buildings	1,001,071	(354,752)	646,319
Structures	517,678	(280,278)	237,400
Construction in progress	174,138	-	174,138
	₩ 1,928,971	₩ (635,030)	₩ 1,293,941

Changes in investment property for the six-month period ended June 30, 2018, and the year ended December 31, 2017, are as follows (Korean won in millions):

	January 1, 2018	Acquisition (*1)	Disposals	Depreciation	Other (*2)	June 30, 2018
Land	₩ 236,084	₩ -	₩ -	₩ -	₩ -	₩ 236,084
Buildings	646,319	5,565	-	(17,905)	9,605	643,583
Structures	237,400	876	-	(10,824)	5,973	233,425
Construction in progress	174,138	15,757	-	-	(15,578)	174,317
	₩ 1,293,941	₩ 22,198	₩ -	₩ (28,729)	₩ -	₩ 1,287,410

(*1) The amount of acquisition includes gain on assets contributed of ₩4,450 million.
(*2) Other changes are due to reclassification of construction in progress.

	January 1, 2017	Acquisition (*1)	Disposals	Depreciation	Other (*2)	December 31, 2017
Land	₩ 148,901	₩ -	₩ -	₩ -	₩ 87,183	₩ 236,084
Buildings	584,398	63,013	(4,105)	(29,638)	32,651	646,319
Structures	216,573	34,135	(650)	(19,383)	6,725	237,400
Construction in progress	191,719	86,467	-	-	(104,048)	174,138
	₩ 1,141,591	₩ 183,615	₩ (4,755)	₩ (49,021)	₩ 22,511	₩ 1,293,941

(*1) The amount of acquisition includes gain on assets contributed of ₩31,242 million.
(*2) Other changes are due to reclassification of construction in progress and others.

12. Investment property (cont'd)

The amounts recognized in income and expenses from investment property for the six-month periods ended June 30, 2018 and 2017, are as follows (Korean won in millions):

	June 30, 2018	June 30, 2017
Beginning balance	₩ 115,657	₩ 111,961
Impairment loss recognized	(32,015)	(28,481)
Ending balance	₩ 83,642	₩ 83,480

There are no significant differences between the carrying amount and fair value of investment property.

The Group directly owns the investment property.

13. Intangible assets

Intangible assets as at June 30 2018, and December 31, 2017, are as follows (Korean won in millions):

	June 30, 2018			
	Acquisition cost	Accumulated amortization	Accumulated impairment	Carrying amount
Software	₩ 157,417	₩ (122,128)	₩ -	₩ 35,289
Industrial property rights	1,098	(363)	-	735
Development cost	386	(386)	-	-
Construction in progress	5,268,832	-	(262,588)	5,006,244
Expressway operating rights	80,869,402	(27,898,254)	-	52,971,148
Others	8,045		-	8,045
	₩ 86,305,180	₩ (28,021,131)	₩ (262,588)	₩ 58,021,461

	December 31, 2017			
	Acquisition cost	Accumulated amortization	Accumulated impairment	Carrying amount
Software	₩ 157,509	₩ (115,808)	₩ -	₩ 41,701
Industrial property rights	1,024	(335)	-	689
Development cost	386	(386)	-	-
Construction in progress	5,966,106	-	(262,588)	5,703,518
Expressway operating rights	79,024,181	(26,970,454)	-	52,053,727
Others	8,045	-	-	8,045
	₩ 85,157,251	₩ (27,086,983)	₩ (262,588)	₩ 57,807,680

Changes in intangible assets for the six-month period ended June 30, 2018, and for the year ended December 31, 2017, are as follows (Korean won in millions):

	January 1, 2018	Acquisition (*1)	Disposals	Amortization	Other (*2)	June 30, 2018
Software	₩ 41,701	₩ -	₩ -	₩ (6,412)	₩ -	₩ 35,289
Industrial property rights	689	73	-	(27)	-	735
Construction in progress	5,703,518	1,149,893	-	-	(1,847,167)	5,006,244
Expressway operating rights	52,053,727	-	(1,946)	(927,800)	1,847,167	52,971,148
Others	8,045	-	-	-	-	8,045
	₩ 57,807,680	₩ 1,149,966	₩ (1,946)	₩ (934,239)	₩ -	₩ 58,021,461

13. Intangible assets (cont'd)

(*1) Acquisition of construction in progress includes ₩56,173 million of capitalized interest.
(*2) Other changes are due to reclassification of construction in progress.

	January 1, 2017	Acquisition (*1)	Disposals	Amortization	Other (*2)	December 31, 2017
Software	₩ 37,334	₩ 11,172	₩ (852)	₩ (11,991)	₩ 6,038	₩ 41,701
Industrial property rights	624	115	-	(64)	14	689
Construction in progress	6,354,680	2,652,391	-	-	(3,303,553)	5,703,518
Expressway operating rights	49,866,709	730,321	(2,394)	(1,782,469)	3,241,560	52,053,727
Others	8,045	-	-	-	-	8,045
	₩ 56,267,392	₩ 3,393,999	₩ (3,246)	₩ (1,794,524)	₩ (55,941)	₩ 57,807,680

(*1) Acquisition of construction in progress includes ₩129,194 million of capitalized interest.
(*2) Other changes are due to reclassification of construction in progress.

Major individual intangible assets as at June 30, 2018, and December 31, 2017, are as follows (Korean won in millions):

	Detail	June 30, 2018	December 31, 2017
Expressway operating rights	Right to highway management	₩ 52,971,148	₩ 52,053,727

(*) The Group amortizes service and operating rights using the investment cost recovery method

14. Borrowings and bonds

Borrowings and bonds as at June 30, 2018 and December 31, 2017, are as follows (Korean won in millions):

	June 30, 2018	December 31, 2017
Current:		
Current portion of long-term borrowings	₩ 100,000	₩ -
Current portion of bonds	2,733,786	2,801,207
Less: discount on bonds	(120)	(105)
	2,833,666	2,801,102
Noncurrent:		
Long-term borrowings	800,000	600,000
Bonds	21,834,362	22,032,663
Less: discount on bonds	(6,391)	(6,303)
Financial liability at FVTPL (*)	114,096	115,581
Less: discount on bonds (*)	(17)	(19)
	22,742,050	22,741,922
	₩ 25,575,716	₩ 25,543,024

(*) The Group has entered into an interest rate swap contract to hedge risk of fair value fluctuations due to changes in interest rates of the Group's corporate bonds. The Group may eliminate or reduce an accounting mismatch arising from classification of corporate bonds and derivative instruments at amortized cost and fair value, respectively, through designating corporate bonds as financial liability at FVTPL.

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14. Borrowings and bonds (cont'd)

Long-term borrowings as at June 30, 2018, and December 31, 2017, are as follows (Korean won in millions):

Type	Lenders	June 30, 2018 Interest rates	June 30, 2018 Carrying amount	December 31, 2017 Carrying amount
Loan operating funds	The Bank of Tokyo Mitsubishi UFG, Ltd.	1.60%	₩ 100,000	₩ 100,000
Loan operating funds	KEB Hana Bank	1.34%	100,000	100,000
Loan operating funds	KEB Hana Bank	2.07%	200,000	200,000
Loan operating funds	KEB Hana Bank	2.00%	200,000	200,000
Loan operating funds	KEB Hana Bank	2.68%	150,000	-
Loan operating funds	KEB Hana Bank	2.65%	150,000	-
			900,000	600,000
	Less: current portion		(100,000)	-
			₩ 800,000	₩ 600,000

Details of bonds as at June 30 2018, and December 31, 2017, are as follows (In millions of Korean won, USD, JPY, HKD, EUR, CHF, CNY):

Series	Annual interest rate (%)	Maturity	June 30, 2018 Foreign currency	June 30, 2018 Local currency	December 31, 2017 Foreign currency	December 31, 2017 Local currency
408th	5.35	2027.02.14	-	₩ 180,000	-	₩ 180,000
410th	5.29	2027.02.27	-	80,000	-	80,000
411st	5.39	2037.02.27	-	50,000		50,000
416th	5.30	2022.04.11	-	100,000		100,000
419th	5.60	2022.07.27	-	114,096	-	115,581
425th	5.82	2022.10.30	-	70,000	-	70,000
432nd	-	2018.02.27	-	-	-	80,000
434th	-	2018.03.12	-	-	-	120,000
436th	-	2018.03.20	-	-	-	90,000
438th	-	2018.04.04	-	-	-	60,000
439th	-	2018.04.24	-	-	-	120,000
443rd	-	2018.06.27	-	-	-	100,000
447th	6.87	2018.10.02	-	120,000	-	120,000
449th	7.13	2018.10.09	-	150,000	-	150,000
450th	7.17	2018.10.15	-	100,000	-	100,000
461st	5.85	2019.02.24	-	110,000	-	110,000
463rd	5.23	2019.03.13	-	120,000	-	120,000
464th	5.38	2024.03.17	-	90,000	-	90,000
466th	5.45	2029.04.02	-	150,000	-	150,000
467th	5.17	2019.04.16	-	100,000	-	100,000
468th	5.35	2039.04.21	-	60,000	-	60,000
470th	4.99	2019.04.29	-	90,000	-	90,000
471st	5.32	2019.05.27	-	100,000	-	100,000
473rd	5.60	2019.06.12	-	190,000	-	190,000
474th	5.48	2019.06.23	-	120,000	-	120,000
476th	5.41	2019.07.07	-	70,000	-	70,000
479th	5.60	2019.07.23	-	190,000	-	190,000
480th	5.65	2019.08.06	-	150,000	-	150,000
483rd	5.62	2019.11.04	-	80,000	-	80,000
486th	5.24	2025.03.08	-	100,000	-	100,000
487th	5.15	2017.02.19	-	120,000	-	120,000
491st	5.24	2020.05.26	-	100,000	-	100,000
493rd	5.12	2020.06.16	-	140,000	-	140,000
494th	5.13	2020.06.28	-	150,000	-	150,000
495th	5.07	2020.07.06	-	120,000	-	120,000
496th	5.21	2025.07.13	-	140,000	-	140,000
497th	5.25	2030.07.20	-	90,000	-	90,000
498th	5.12	2025.07.27	-	100,000	-	100,000
500th	4.98	2040.08.26	-	120,000	-	120,000
501st	4.65	2020.09.07	-	120,000	-	120,000

503rd	4.57	2025.09.29	-	130,000	-	130,000
505th	4.58	2025.10.25	-	130,000	-	130,000
506th	4.74	2020.11.15	-	150,000	-	150,000
509th	4.31	2020.11.29	-	100,000	-	100,000
511st	4.40	2018.12.07	-	50,000	-	50,000
512th	4.28	2020.12.10	-	80,000	-	80,000
515th	4.91	2030.12.17	-	100,000		100,000
516th	-	2018.01.21	-	-		200,000
517th	-	2018.02.28	-	-	-	150,000
518th	4.64	2021.03.14	-	150,000	-	150,000
520th	4.65	2021.04.18	-	150,000	-	150,000
521st	-	2018.04.28	-	-	-	70,000
522nd	4.62	2026.05.20	-	120,000	-	120,000
523rd	4.39	2021.05.27	-	80,000	-	80,000
524th	4.39	2021.06.14	-	150,000	-	150,000
525th	4.40	2021.06.21	-	130,000	-	130,000
526th	4.52	2026.06.28	-	130,000	-	130,000
528th	4.32	2021.07.26	-	190,000	-	190,000
529th	4.08	2021.08.16	-	70,000	-	70,000
530th	4.27	2031.08.23	-	200,000	-	200,000
531st	3.92	2021.09.16	-	120,000	-	120,000
532nd	4.31	2031.09.23	-	180,000	-	180,000
534th	4.40	2026.10.25	-	100,000	-	100,000
535th	4.15	2021.11.08	-	200,000	-	200,000
536th	3.93	2018.11.24	-	200,000	-	200,000
538th	4.08	2021.11.30	-	170,000	-	170,000
539th	3.94	2018.12.06	-	100,000	-	100,000
540th	4.01	2021.12.15	-	100,000	-	100,000
541st	4.04	2022.01.18	-	100,000	-	100,000
542nd	4.13	2027.01.31	-	150,000	-	150,000
543rd	4.25	2027.03.21	-	250,000	-	250,000
544th	4.14	2022.03.27	-	100,000	-	100,000
546th	4.00	2022.04.12	-	150,000	-	150,000
548th	3.89	2019.04.24	-	100,000	-	100,000
549th	3.99	2027.05.11	-	100,000	-	100,000
550th	3.83	2022.05.22	-	100,000	-	100,000
551st	4.05	2032.05.25	-	150,000	-	150,000
553rd	3.90	2027.06.15	-	70,000	-	70,000
554th	4.02	2032.06.27	-	150,000	-	150,000
555th	3.25	2022.07.24	-	150,000	-	150,000
556th	3.10	2027.08.30	-	100,000	-	100,000
558th	2.97	2022.09.20	-	100,000	-	100,000
559th	3.14	2022.09.25	-	200,000	-	200,000
560th	3.48	2062.09.26	-	100,000	-	100,000
562nd	3.21	2022.12.11	-	150,000	-	150,000
563rd	3.37	2027.12.18	-	190,000	-	190,000
564th	3.22	2028.01.22	-	150,000	-	150,000
565th	3.13	2023.01.28	-	150,000	-	150,000
566th	-	2018.03.20	-	-	-	100,000
567th	3.28	2033.02.13	-	150,000	-	150,000
568th	3.17	2028.02.27	-	100,000	-	100,000
569th	3.03	2023.03.21	-	150,000	-	150,000
570th	3.16	2033.03.27	-	150,000	-	150,000
573rd	3.25	2023.06.05	-	100,000	-	100,000
574th	3.42	2025.06.13	-	100,000	-	100,000
575th	-	2018.06.26	-	-	-	150,000
576th	3.53	2020.07.25	-	150,000	-	150,000
577th	3.68	2020.08.22	-	150,000	-	150,000
578th	3.76	2023.09.05	-	100,000	-	100,000
579th	3.56	2023.09.26	-	50,000	-	50,000

580th	3.62	2023.10.02	-	60,000	-	60,000
581st	3.46	2020.10.07	-	60,000	-	60,000
582nd	3.73	2028.10.10	-	100,000	-	100,000
583rd	3.58	2020.10.16	-	140,000	-	140,000
584th	3.47	2018.11.14	-	100,000	-	100,000
586th	3.65	2019.11.29	-	100,000	-	100,000
587th	3.65	2018.12.06	-	150,000	-	150,000
588th	3.81	2023.12.09	-	30,000	-	30,000
589th	3.76	2020.12.12	-	80,000	-	80,000
590th	3.52	2019.01.19	-	100,000	-	100,000
591st	3.38	2019.02.06	-	100,000	-	100,000
592nd	3.68	2024.02.13	-	100,000	-	100,000
593rd	3.32	2019.02.20	-	100,000	-	100,000
594th	3.40	2020.02.27	-	80,000	-	80,000
595th	3.35	2019.03.07	-	100,000	-	100,000
596th	3.64	2024.03.13	-	100,000	-	100,000
597th	3.43	2021.03.20	-	100,000	-	100,000
599th	3.65	2024.03.27	-	60,000	-	60,000
600th	3.65	2024.04.02	-	50,000	-	50,000
601st	1Y~2Y : 4.25%, 30/360 3Y~10Y : 3 X Spread Reference 0.00%(minimum), 5.50%(maximum)	2024.04.04	-	30,000	-	30,000
603rd	3.66	2024.04.16	-	120,000	-	120,000
604th	3.41	2020.04.23	-	100,000	-	100,000
605th	3.24	2029.07.16	-	50,000	-	50,000
606th	1Y: 4.00%, 2Y~10Y: Annual Min(4.20%, 3.00×(avg spread(20 EUR CMS - 2 EUR CMS))×N/M), (minimum 0.00%)	2024.09.04	-	100,000	-	100,000
607th	2.95	2029.10.02	-	100,000	-	100,000
608th	3.00	2029.10.15	-	100,000	-	100,000
609th	2.96	2034.10.30	-	170,000	-	170,000
610th	2.69	2024.11.06	-	250,000	-	250,000
611st	2.86	2026.11.13	-	100,000	-	100,000
612th	2.69	2022.11.20	-	100,000	-	100,000
613th	2.53	2019.12.11	-	150,000	-	150,000
614th	2.78	2024.12.24	-	50,000	-	50,000
615th	2.46	2025.02.13	-	190,000	-	190,000
616th	2.55	2030.02.27	-	200,000	-	200,000
617th	2.45	2025.03.06	-	100,000	-	100,000
618th	2.09	2020.03.16	-	140,000	-	140,000
619th	2.33	2030.04.16	-	100,000	-	100,000
620th	2.36	2025.04.24	-	90,000	-	90,000
622nd	2.80	2030.05.14	-	170,000	-	170,000
623rd	1Y: 4.50% 2Y-: 8.0%-0.1x[average SIFMA/average 3M LIBOR](Cap 5.50%, Floor 0.01%) or 5% fixed rate (Swap bank switch option)	2030.05.14	-	30,000	-	30,000
625th	2.56	2025.05.28	-	70,000	-	70,000
626th	2.64	2025.06.19	-	130,000	-	130,000
627th	2.57	2025.07.22	-	150,000	-	150,000
628th	2.13	2020.07.30	-	100,000	-	100,000
631st	One year : 3.8% , 2Y -15Y: 2.11*(USD 30Y	2025.02.13	-	50,000	-	50,000

	CMS -USD 2Y CMS)+0.2% (Cap 5.50%, Floor 0.00% or 2.8 fixed rate (Swap bank switch option) After switch options are exercised. Annual 2.8% (Fixed rate)					
632nd	2.37	2025.08.19	-	80,000	-	80,000
633rd	2.55	2035.09.15	-	130,000	-	130,000
634th	One year : 4.0%, 2Y-15Y: 4.0%*(KRW 10Y CMS -USD 1Y CMS) (Cap 4.50%, Floor 0.25% or 3.0 fixed rate (Swap bank switch option) After switch options are exercised. Annual 3.0% (Fixed rate)	2035.09.15	-	50,000	-	50,000
635th	2.24	2025.09.24	-	50,000	-	50,000
636th	One year: 3.90%, 2Y–15Y: 2.24× 3.3%*(KRW 10Y CMS -USD 1Y CMS) (Cap 4.50%, Floor 0.00% or 2.8% fixed rate (Swap bank switch option) After switch options are exercised. Annual 3.0% (Fixed rate)	2035.09.15	-	50,000	-	50,000
637th	2.40	2025.11.12	-	150,000	-	150,000
638th	2.12	2020.11.25	-	50,000	-	50,000
639th	2.49	2030.11.30	-	200,000	-	200,000
640th	2.09	2020.12.14	-	180,000	-	180,000
641st	2.35	2030.12.16	-	120,000	-	120,000
642nd	1.98	2036.02.18	-	190,000	-	190,000
643rd	1.74	2021.03.04	-	100,000	-	100,000
644th	2.01	2046.05.25	-	150,000	-	150,000
645th	1.60	2031.06.23	-	30,000	-	30,000
646th	1.54	2036.07.20	-	150,000	-	150,000
647th	1.31	2019.08.19	-	150,000	-	150,000
648th	1.57	2046.08.26	-	100,000	-	100,000
649th	1.44	2019.09.29	-	190,000	-	190,000
650th	1.52	2021.10.17	-	110,000	-	110,000
651st	1.85	2046.10.24	-	130,000	-	130,000
652nd	1.90	2046.11.10	-	140,000	-	140,000
653rd	2.06	2021.11.24	-	200,000	-	200,000
654th	2.12	2021.12.08	-	160,000	-	160,000
655th	2.3	2047.02.17	-	150,000	-	150,000
656th	2.02	2022.02.27	-	140,000	-	140,000
657th	2.35	2047.03.17	-	110,000	-	110,000
658th	2.16	2024.03.29	-	50,000	-	50,000
659th	2.24	2027.03.29	-	20,000	-	20,000
660th	2.03	2022.04.18	-	100,000	-	100,000
661st	2.38	2037.04.19	-	110,000	-	110,000
662nd	2.31	2047.06.21	-	120,000	-	120,000

663rd	2.42	2037.08.24	-	140,000	-	140,000
664th	2.33	2027.08.31	-	70,000	-	70,000
665th	2.09	2022.09.07	-	60,000	-	60,000
666th	2.37	2032.09.08	-	160,000	-	160,000
667th	2.32	2027.09.15	-	160,000	-	160,000
668th	2.35	2047.09.21	-	150,000	-	150,000
669th	2.4	2037.09.27	-	100,000	-	100,000
670th	2.47	2037.10.12	-	150,000	-	150,000
671st	2.64	2037.11.03	-	150,000	-	150,000
672nd	2.63	2027.11.10	-	90,000	-	90,000
673rd	2.57	2022.11.16	-	110,000	-	110,000
674th	2.32	2020.11.20	-	100,000	-	100,000
675th	2.66	2047.11.24	-	170,000	-	170,000
676th	2.54	2047.12.08	-	100,000	-	100,000
677th	2.89	2048.02.21	-	150,000	-	-
678th	2.86	2038.03.09	-	130,000	-	-
679th	2.73	2023.03.14	-	170,000	-	-
680th	2.87	2048.05.10	-	100,000	-	-
681st	2.88	2033.05.18	-	110,000	-	-
682th	2.67	2023.05.31	-	90,000	-	-
683th	2.66	2048.06.28	-	90,000	-	-
684th	2.54	2023.06.28	-	110,000	-	-
7th foreign bond	4.00	2022.03.02	HKD 452	64,604	HKD 452	61,956
9th foreign bond	3.88	2024.05.07	EUR 45	58,366	EUR 45	57,566
10th foreign bond	4.00	2027.05.07	EUR 23	29,831	EUR 23	29,423
12th foreign bond	2.78	2018.08.05	USD 100	112,170	USD 100	107,140
13th foreign bond	2.23	2018.09.13	EUR 75	97,277	EUR 75	95,944
16th foreign bond	-	2018.03.15	-	-	CHF 220	240,838
17th foreign bond	-	2018.03.18	-	-	CNY 900	147,285
18th foreign bond	3.02	2027.03.18	USD 50	56,085	USD 50	53,570
19th foreign bond	3.21	2030.11.30	USD 50	56,085	USD 50	53,570
20th foreign bond	3.10	2026.06.08	USD 100	112,170	USD 100	107,140
21st foreign bond	2.70	2026.10.26	USD 200	224,340	USD 200	214,280
22th foreign bond	2.57	2031.07.05	USD 100	112,170	USD 100	107,140
23th foreign bond	3M USD LIBOR+0.70%	2019.10.28	USD 100	112,170	USD 100	107,140
24th foreign bond	1.65	2019.10.18	HKD 931	133,068	HKD 931	127,612
25th foreign bond	3M USD LIBOR+0.78%	2019.06.07	USD 200	224,340	USD 200	214,280
26th foreign bond	3M LIBOR+0.70%	2020.04.20	USD 400	448,680	USD 400	428,560
27th foreign bond	2.31	2032.04.28	SEK 720	89,402	SEK 720	93,528
28th foreign bond	3.03	2032.05.11	CAD 135	114,226	CAD 135	115,113
29th foreign bond	0.25	2024.06.07	CHF 230	258,587	CHF 230	251,786
30th foreign bond	3.02	2023.03.05	HKD 800	114,344	-	-
31st foreign bond	4.73	2021.03.08	CNH 1,300	220,233	-	-
				24,682,244		24,949,452
Less: discount on bonds				(6,528)		(6,427)

	24,675,716	24,943,024
Less: current portion of bonds	(2,733,786)	(2,801,207)
Less: current portion of discount on bonds	120	105
Less: financial liabilities at FVTPL	(114,096)	(115,581)
Less: current portion of discount on bonds	17	19
	₩ 21,827,971	₩ 22,026,360

The repayment schedule of borrowings and bonds as at June 30, 2018 and December 31, 2017, is as follows (Korean won in millions):

	June 30, 2018		
	Borrowings	Bonds	Total
Within 1 year	₩ 100,000	₩ 2,733,787	₩ 2,833,787
1 year–5 years	800,000	9,377,195	10,177,195
More than 5 years	-	12,571,262	12,571,262
	₩ 900,000	₩ 24,682,244	₩ 25,582,244

	December 31, 2017		
	Borrowings	Bonds	Total
Within 1 year	₩ -	₩ 2,801,207	₩ 2,801,207
1 year–5 years	600,000	9,785,129	10,385,129
More than 5 years	-	12,363,116	12,363,116
	₩ 600,000	₩ 24,949,452	₩ 25,549,452

15. Employee benefits

Defined contribution pension plan

The Group operates a defined contribution pension plan, which requires contributions to be made to separately administered funds. If employees retire prior to meeting the conditions of the defined contribution pension plan, the Group's contribution reduces by the amount of contribution forfeited.

Contribution amounting to ₩6,731 million (prior year ₩7,174 million) in the statement of comprehensive income represents the amount to be contributed by the Group, which is calculated based on the rates stated under the pension plan. The Group made all contributions to be paid for the six-month period ended June 30, 2018.

Defined benefit pension plan

The Group operates a defined benefit pension plan for employees. A recent valuation on actuarial assumptions for plan assets and defined benefit obligation was performed by Dlog, an actuary consulting firm, on January 17, 2018. The present value of defined benefit obligation and related service costs are determined using the projected unit credit method.

The component of employee benefits liabilities as at June 30, 2018, and December 31, 2017, is as follows (Korean won in millions):

	June 30, 2018	December 31, 2017
Present value of defined benefit obligation	₩ 158,039	₩ 147,133
Fair value of plan assets	(105,347)	(105,529)
Net defined benefit liabilities	₩ 52,692	₩ 41,604

Expenses recognized in profit or loss for the six-month periods ended June 30, 2018 and 2017, are as follows (Korean won in millions):

	June 30, 2018	December 31, 2017
Current service costs	₩ 11,068	₩ 9,930
Interest expenses on liabilities	2,135	1,555
Interest income on plan assets	(1,533)	(838)
Ending balance	₩ 11,670	₩ 10,647

16. Provisions

Provisions as at June 30, 2018, and December 31, 2017, are as follows (Korean won in millions):

	June 30, 2018		December 31, 2017	
	Current	Non-current	Current	Non-current
Provisions for litigation	₩ -	₩ 38,651	₩ -	₩ 34,965
Provisions for short-term employee benefits	63,487	-	83,642	-
	₩ 63,487	₩ 38,651	₩ 83,642	₩ 34,965

Changes in provisions for the six-month period ended June 30, 2018, and for the year ended December 31, 2017, are as follows (Korean won in millions):

	June 30, 2018		December 31, 2017	
	Provisions for litigation	Provisions for short-term employee benefits	Provisions for litigation	Provisions for short-term employee benefits
Beginning balance	₩ 34,965	₩ 83,642	₩ 6,461	₩ 82,920
Increase	5,324	63,487	34,789	83,642
Utilization	-	(83,642)	-	(82,920)
Reversal	(1,638)	-	(6,285)	-
Ending balance	₩ 38,651	₩ 63,487	₩ 34,965	₩ 83,642

17. Government grants

Government grants whose primary condition is that the Company purchases; constructs; or, otherwise, acquires assets are deducted in calculating the carrying amount of the asset in accordance with the Article 44-3 of the Korean Government-owned and Quasi-government Accounting Standards.

Government grants as at June 30, 2018, and December 31, 2017, are as follows (Korean won in millions):

	June 30, 2018	December 31, 2017
Buildings	₩ 271	₩ 276
Structures	215	223
Vehicles	61	71
Furniture and fixtures	8	11
	₩ 555	₩ 581

Changes in government grants for the six-month period ended June 30, 2018, and for the year ended December 31, 2017, are as follows (Korean won in millions):

	June 30, 2018		
	January 1, 2018	Decrease	June 30, 2018
Buildings	₩ 276	₩ (5)	₩ 271
Structures	223	(8)	215
Vehicles	71	(10)	61
Furniture and fixtures	11	(3)	8
	₩ 581	₩ (26)	₩ 555

	December 31, 2017			
	January 1, 2017	Increase	Decrease	December 31, 2017
Buildings	₩ 260	₩ 26	₩ (10)	₩ 276
Structures	240	-	(17)	223
Machinery	2	-	(2)	-
Vehicles	26	56	(11)	71
Furniture and fixtures	18	-	(7)	11
	₩ 546	₩ 82	₩ (47)	₩ 581

18. Share capital

The number of authorized shares of the Group as at June 30, 2018 and December 31, 2017 is 3,500,000,000 shares, and the number of shares issued as at June 30, 2018 and December 31, 2017 is 3,318,604,473 shares and 3,228,524,473 shares, respectively, with par value of ₩10,000. Share capital as at June 30, 2018 and December 31, 2017 is as follows (Korean won in millions):

	June 30, 2018		December 31, 2017	
	Government	Non-government	Current	Non-current
Common stock	₩ 28,592,645	₩ 4,593,400	₩ 27,691,845	₩ 4,593,400

Changes in the number of shares for the six-month periods ended June 30, 2018 and 2017, are as follows (In shares):

	June 30, 2018	June 30, 2017
Beginning number of shares	3,228,524,473	3,092,464,873
Issuance of stock	90,080,000	104,265,000
Ending number of shares	3,318,604,473	3,196,729,873

19. Retained earnings and dividends

Composition of retained earnings as at June 30, 2018 and December 31, 2017, is as follows (Korean won in millions):

	June 30, 2018	December 31, 2017
Legal reserve	₩ 415,204	₩ ₩ 388,105
Other legal reserve	858,747	805,968
Unappropriated retained earnings	68,817	117,415
	₩ 1,342,768	₩ ₩ 1,311,488

(*) The *Korea Expressway Corporation Act* requires the Company to appropriate, as a legal reserve, at least 20% of net income for each period, until the reserve equals 50% of the outstanding capital stock. The legal reserve may not be utilized for cash dividends but may be used to offset a future deficit, if any, or may be transferred to capital stock.

Composition of other legal reserve as at June 30, 2018 and December 31, 2017, is as follows (Korean won in millions):

	June 30, 2018	December 31, 2017
Reserve for business expansion	₩ 858,747	₩ 805,968

Changes in retained earnings for the six-month period ended June 30, 2018, and for the year ended December 31, 2017, are as follows (Korean won in millions):

	June 30, 2018	December 31, 2017
Beginning balance	₩ 1,311,488	₩ 1,247,679
Changes in accounting policies (KIFRS 1109)	12,770	-
Net income attributable to controlling interests	63,709	135,497
Dividends	(45,199)	(37,110)
Remeasurement	-	(10,419)
Amortization of share discount	-	(24,159)
Ending balance	₩ 1,342,768	₩ 1,311,488

19. Retained earnings and dividends (Cont'd)

Dividend declared and paid by the Company is as follows (Korean won in millions, except dividend per share):

	June 30, 2018	June 30, 2017
Dividend paid (₩14 and ₩12 per share in 2018 and 2017, respectively)	₩ 45,199	₩ 37,110

20. Other equity components

Composition of other equity components as at June 30, 2018 and December 31, 2017, is as follows (Korean won in millions):

	June 30, 2018	December 31, 2017
Accumulated other comprehensive income (loss):		
Gain on valuation of AFS financial assets	₩ -	₩ 13,584
Gain on valuation of financial assets at FVOCI	814	-
Loss on valuation of cash flow hedge	(80,492)	(6,992)
Gain on valuation of investments in associates and joint venture	3,630	3,647
	(76,048)	10,239
Others	(3)	(3)
	₩ (76,051)	₩ 10,236

21. Revenue

Details of revenue from continuing operations, except other income and finance income, for the six-month periods ended June 30, 2018 and 2017, are as follows (Korean won in millions):

	June 30, 2018	June 30, 2017
Revenue from product sales:		
Sales of oil	₩ 108,078	₩ 85,511
	108,078	85,511
Revenue from services:		
Operation of toll expressways	1,934,573	2,001,847
Operation of other expressways	1,917	1,332
Rental income from service areas	86,830	82,843
Rental income from gas station	29,642	30,535
Others incidental business	9,388	9,569
Management of privately funded expressways	19,932	15,265
Indemnity for loss on land	-	472
Operation of information center	4,535	3,820
Others	9,608	11,078
	2,096,425	2,156,761
Construction contract revenue:		
Construction business	1,092,021	1,298,844
	1,092,021	1,298,844
Revenue from consignment:		
Supporting business	5,874	26,140
Consignment business	34,787	42,750
	40,661	68,890
	₩ 3,337,185	₩ 3,610,006

22. Finance income

Details of finance income for the six-month period ended June 30, 2018 and 2017, are as follows (Korean won in millions):

		2018		2017
Interest income	₩	3,770	₩	3,795
Dividends income		36		391
Gain on disposal of financial assets		1,790		1,744
Gain on valuation of financial assets at FVTPL		2,284		15,248
Gain on valuation of derivative instruments		87,523		34,410
Gain on transaction of derivative instruments		22,575		-
Gain on foreign currencies translations		5,114		118,778
Gain on foreign currencies transactions		-		40,335
	₩	123,092	₩	214,701

Details of interest income included in finance income for the six-month period ended June 30, 2018 and 2017, are as follows (Korean won in millions):

		2018		2017
Cash and cash equivalents	₩	2,560	₩	2,284
Loans and receivables		556		571
Trade and other receivables		654		940
	₩	3,770	₩	3,795

23. Finance costs

Details of finance costs for the six-month periods ended June 30, 2018 and 2017, are as follows (Korean won in millions):

		2018		2017
Interest expense	₩	385,329	₩	316,763
Loss on disposal of financial assets		1,237		1,300
Loss on valuation of financial assets at FVTPL		17,683		988
Loss on valuation of derivative instruments		5,035		118,752
Loss on transaction of derivative instruments		-		40,331
Loss on hedged item related to fair value hedge		1,485		2,161
Loss on foreign currencies translations		110,102		34,519
	₩	520,871	₩	514,814

Details of interest expenses included in finance costs for the six-month periods ended June 30, 2018 and 2017, are as follows (Korean won in millions):

		2018		2017
Trade and other payables	₩	7,006	₩	6,884
Financial liabilities at FVTPL		761		1,377
Short-term borrowings		1,409		1,114
Long-term borrowings		7,936		4,550
Bonds		424,291		452,906
Other financial liabilities		-		482
Others		99		129
		441,502		467,442
Less: capitalization of borrowing costs		(56,173)		(150,679)
	₩	385,329	₩	316,763

24. Income tax expense

The components of income tax expense for the six-month period ended June 30, 2018 and 2017, are as follows (Korean won in millions):

		2018		2017
Current income tax expense	₩	27,366	₩	23,634
Current adjustments for prior periods		-		10,359
Total income tax expense	₩	27,366	₩	33,993

A reconciliation between income before income tax expense and income tax expense for the six-month period ended June 30, 2018 and 2017, is as follows (Korean won in millions):

		2018		2017
Income before income tax expense	₩	91,076	₩	116,538
Tax rates		24.2%		24.2%
Income tax using the Group's statutory tax rates		22,040		28,202
Adjustment:				
Effect of step-up tax rates		(462)		(462)
Current adjustments for prior periods		-		10,359
Non-deductible expense and non-taxable revenue		483		431
Change effect on deferred income taxes of prior temporary differences and other		5,305		(4,537)
		5,326		5,791
Income tax expense	₩	27,366	₩	33,993
Average effective tax rate		30.05%		29.17%

As at June 30, 2018 and December 31, 2017, the Group has not recognized the deferred tax assets of net deductible temporary differences and tax deficiencies, as it is not probable that taxable profit will be available against which the temporary differences and tax deficiencies can be utilized.

25. Nature of expenses

Details of nature of expenses for the six-month period ended June 30, 2018 and 2017, are as follows (Korean won in millions):

	Change in inventories		Selling, general and administrative expenses		Cost		Total	
	2018	2017	2018	2017	2018	2017	2018	2017
Changes in inventories	₩ (1,285)	₩ 1,595	₩ -	₩ -	₩ -	₩ -	₩ (1,285)	₩ 1,595
Used inventories	151,019	184,108	-	-	-	-	151,019	184,108
Salaries	-	-	38,811	35,154	113,638	108,043	152,449	143,197
Retirement and severance benefit	-	-	4,146	3,972	11,530	10,875	15,676	14,847
Compensation for removal	-	-	1,059	240	724	476	1,783	716
Welfare	-	-	8,523	7,771	17,877	16,999	26,400	24,770
Insurance	-	-	78	21	112	107	190	128
Depreciation	-	-	12,541	9,348	64,734	61,752	77,275	71,100
Amortization	-	-	5,988	5,581	928,252	1,164,022	934,240	1,169,603
Recovery of doubtful accounts	-	-	(6)	(6)	-	-	(6)	(6)
Service fees	-	-	3,898	3,532	193,806	187,717	197,704	191,249
Advertisement	-	-	1,941	702	5,010	4,818	6,951	5,520
Training	-	-	2,817	2,447	738	844	3,555	3,291
Vehicles maintenance	-	-	299	267	11,683	10,118	11,982	10,385
Publication	-	-	256	186	363	211	619	397
Business promotion	-	-	75	65	105	115	180	180
Rent	-	-	1,170	1,111	1,302	605	2,472	1,716
Communication	-	-	498	463	1,340	1,209	1,838	1,672
Taxes and dues	-	-	344	319	1,427	908	1,771	1,227
Supplies	-	-	540	595	1,433	1,413	1,973	2,008
Utilities	-	-	1,132	1,131	35,896	32,404	37,028	33,535
Repairs	-	-	2,240	2,562	104,099	84,023	106,339	86,585
Development expenses	-	-	1,806	1,453	723	582	2,529	2,035
Travel	-	-	841	862	1,331	1,335	2,172	2,197
Clothes	-	-	67	36	116	91	183	127
Survey and analysis	-	-	347	239	134	104	481	343
Sales promotion expenses	-	-	-	-	554	431	554	431
Other selling and administrative expenses	-	-	12,523	15,650	-	-	12,523	15,650
Other cost of sales	-	-	-	-	1,126,616	1,294,360	1,126,616	1,294,360
	₩ 149,734	₩ 185,703	₩ 101,934	₩ 93,701	₩ 2,623,543	₩ 2,983,562	₩ 2,875,211	₩ 3,262,966

26. Earnings per share

There are no dilutive securities, and the Group's earnings per share for the six-month periods ended June 30, 2018 and 2017, are as follows (Korean won):

	2018	2017
Income attributable to owners of the parent	₩ 63,709,649,669	₩ 82,544,994,071
Weighted-average number of common shares outstanding (shares)	3,261,621,138	3,127,082,027
Basic earnings per share	₩ 20	₩ 26

27. Financial Instruments and risk management

27.1 Financial instruments

Financial assets and liabilities by category as at June 30, 2018 and December 31, 2017, are as follows (Ko rean won in millions):

	June 30, 2018				
	Financial assets at FVTPL	Financial assets at amortized cost	Financial assets at FVOCI	Fair value hedge financial assets	Total
Current financial assets					
Cash and cash equivalents	₩ -	₩ 332,681	₩ -	₩ -	₩ 332,681
Derivative assets	-	-	-	220	220
Loans and receivables	-	1,991	-	-	1,991
Others	-	25,643	-	-	25,643
	-	360,315	-	220	360,535
Trade and other receivables	-	186,085	-	-	186,085
	₩ -	₩ 546,400	₩ -	₩ 220	₩ 546,620

	June 30, 2018				
	Financial assets at FVTPL	Financial assets at amortized cost	Financial assets at FVOCI	Fair value hedge financial assets	Total
Non-current financial assets					
Derivative assets	₩ -	₩ -	₩ -	₩ 24,518	₩ 24,518
Financial assets at fair value through profit or loss	77,872	-	-	-	77,872
Financial assets at fair value through other	-	-	21,585	-	21,585
Loans and receivables	-	29,162	-	-	29,162
	77,872	29,162	21,585	24,518	153,137
Trade and other receivables	-	80,916	-	-	80,916
	₩ -	₩ 110,078	₩ 99,458	₩ 24,518	₩ 234,054

27. Financial instruments and risk management (cont'd)

	June 30, 2018			
	Financial liabilities at FVTPL	Financial liabilities at amortized cost	Fair value hedge financial liabilities	Total
Current financial liabilities				
Current long-term borrowings	₩ -	₩ 100,000	₩ -	₩ 100,000
Bonds	-	2,733,666	-	2,733,666
Derivative liabilities	-	-	18,943	18,943
	-	2,833,666	18,943	2,852,609
Trade and other payables	-	496,477	-	496,477
	₩ -	₩ 3,330,143	₩ 18,943	₩ 3,349,086

	June 30, 2018			
	Financial liabilities at FVTPL	Financial liabilities at amortized cost	Fair value hedge financial liabilities	Total
Non-current financial liabilities				
Financial liabilities at FVTPL	₩ 159,370	₩ -	₩ -	₩ 159,370
Long-term borrowings	-	800,000	-	800,000
Bonds	-	21,827,971	-	21,827,971
Derivative liabilities	-	-	131,559	131,559
	159,370	22,627,971	131,559	22,918,899
Trade and other payables	-	541,668	-	541,668
	₩ 159,370	₩ 23,169,639	₩ 131,559	₩ 23,460,567

	December 31, 2017					
	Financial assets at FVTPL					
	Held for trading	Loans and receivables	AFS financial assets	Held-to-maturity investments	Derivatives designated as hedge	Total
Current financial assets						
Cash and cash equivalents	₩ -	₩ 500,018	₩ -	₩ -	₩ -	₩ 500,018
Loans and receivables	-	2,081	-	-	-	2,081
Others	-	5,011	-	-	-	5,011
	-	507,110	-	-	-	507,110
Trade and other receivables	-	204,706	-	-	-	204,706
	₩ -	₩ 711,816	₩ -	₩ -	₩ -	₩ 711,816

27. Financial instruments and risk management (cont'd)

	December 31, 2017					
	Financial assets at FVTPL					
	Held for trading	Loans and receivables	AFS financial assets	Held-to-maturity investments	Derivatives designated as hedge	Total
Non-current financial assets						
Financial assets at FVTPL	₩ 886	₩ -	₩ -	₩ -	₩ -	₩ 886
Derivative assets	-	-	-	-	32,721	32,721
AFS assets	-	-	95,886	-	-	95,886
Loans and receivables	-	28,475	-	-	-	28,475
	886	28,475	95,886	-	32,721	157,968
Trade and other receivables	-	80,099	-	-	-	80,099
	₩ 886	₩ 108,574	₩ 95,886	₩ -	₩ 32,721	₩ 238,067

	December 31, 2017				
	Financial liabilities at FVTPL				
	Held for trading	Designated as at FVTPL	Financial liabilities measured at amortized cost	Derivatives designated as hedge	Total
current financial liabilities					
Bonds	₩ -	₩ -	₩ 2,801,102	₩ -	₩ 2,801,102
Derivative liabilities	-	-	-	36,476	36,476
	-	-	2,801,102	36,476	2,837,578
Trade and other payables	-	-	696,643	-	696,643
	₩ -	₩ -	₩ 3,497,745	₩ 36,476	₩ 3,534,221

	December 31, 2017				
	Financial liabilities at FVTPL				
	Held for trading	Designated as at FVTPL	Financial liabilities measured at amortized cost	Derivatives designated as hedge	Total
Non-current financial liabilities					
Financial liabilities at FVTPL	₩ 29,292	₩ 115,562	₩ -	₩ -	₩ 144,854
Long-term borrowings	-	-	600,000	-	600,000
Bonds	-	-	22,026,360	-	22,026,360
Derivative liabilities	-	-	-	152,109	152,109
	29,292	115,562	22,626,360	152,109	22,923,323
Trade and other payables	-	-	595,815	-	595,815
	₩ 29,292	₩ 115,562	₩ 23,222,175	₩ 152,109	₩ 23,519,138

27. Financial instruments and risk management (cont'd)

Gain and loss of financial instruments by category for the six-month period ended June 30, 2018 and 2017, are as follows (Korean won in millions):

	2018	2017
Cash and cash equivalents		
Interest income	₩ -	₩ 2,285
Financial assets at fair value through profit or loss:		
Gain (loss) on valuation, net	-	(988)
Dividends	36	-
Loans and receivables:		
Interest income	-	1,510
AFS financial assets:		
Dividends	-	391
Comprehensive income	-	41
Derivatives designated as hedge:		
Loss on transaction, net	-	(40,331)
Gain (loss) on valuation, net	8,575	(30,346)
Comprehensive loss	4	(7,241)
Financial liabilities at fair value through profit or loss:		
Interest expenses (*)	(763)	(1,377)
Gain(loss) on disposal, net	553	444
Gain (loss) on valuation, net	(15,399)	15,248
Other financial liabilities measured at amortized cost:		
Interest expense (*)	(384,566)	(315,386)
Gain on foreign currencies transaction, net	(22,575)	40,335
Gain (loss) on foreign currencies translation, net	(82,41	84,259
Derivative liabilities designated as hedge:		
Gain (loss) on transaction, net	22,575	-
Gain (loss) on valuation, net	72,429	(56,157)
Comprehensive income (loss)	(73,504)	44,769

(*) Amount before deducting the capitalization of borrowing costs.

27. Financial instruments and risk management (cont'd)

27.2 Financial risk management

The Group's financial risk management purpose and policies for 2018 are the same as those for the year ended December 31, 2017.

27.3 Fair value measurements

The fair value of financial instruments traded in active markets is calculated based on the notified market price as at June 30, 2018 and December 31, 2017. Published market prices of financial assets that the Company retains are bid prices.
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The fair value of financial instruments that are not traded in an active market is determined using valuation techniques. The Company uses a variety of assessment techniques and establishes a hypothesis based on current market conditions as at June 30, 2018 and December 31, 2017.

The Company's fair value assessment techniques are using recent transactions between independent parties that have reasonable judgement and willingness to deal with, referring the other financial instrument's present value that is substantially equal, discounting estimated cash flow method, option-pricing model, etc. For example, the fair value of interest rate swaps is calculated as the present value of estimated future cash flows, and the fair value of foreign exchange forward contracts is calculated by applying notice forward rate for the year ended June 30, 2018.

The fair value of unlisted shares is measured using cash flow discount model in order to estimate the future cash flows business plans and sales growth based on the industry situation and pretax operating margin using assumptions that are not based on observable market price or percentage of such weighted-average cost of capital assumption or estimations. The weighted-average cost of capital used to discount the future cash flow was estimated by utilizing the data of similar listed companies applying the capital asset pricing model. The Company has determined that as major assumptions and estimates mentioned above have a significant the impact on the fair value of unlisted shares, the Company classifies the fair value measurement of unlisted shares in the three-level fair value hierarchy.

27. Financial instruments and risk management (cont'd)

27.3.1 Fair values versus carrying amount

The fair values of financial assets and liabilities, and their book values presented in the interim condensed consolidated statements of financial position as at June 30, 2018 and December 31, 2017, are as follows (Korean won in millions):

	As at June 30, 2018		As of December 31, 2017	
	Carrying amount	Fair value	Carrying amount	Fair value
Assets carried at fair value:				
Current derivative financial assets	₩ 220	₩ 220	₩ -	₩ -
Non-current financial assets at FVTPL	77,872	77,872	885	885
Non-Current derivative financial assets	24,518	24,518	32,721	32,721
Non-current financial assets at FVOCI	21,586	21,586	-	-
AFS assets	-	-	95,886	95,886
	₩ 124,196	₩ 124,196	₩ 129,493	₩ 129,493
Assets carried at amortized cost:				
Cash and cash equivalents	₩ 332,681	₩ 332,681	₩ 500,018	₩ 500,018
Short-term loans and receivables	1,991	1,991	2,081	2,081
Current other financial assets	25,643	25,643	5,011	5,011
Trade and other receivables	186,085	186,085	204,706	204,706
Long-term loans and receivables	29,162	29,162	28,475	28,475
Long-term trade and other receivables	80,916	80,916	80,099	80,099
	₩ 656,478	₩ 656,478	₩ 820,390	₩ 820,390
Liabilities carried at fair value:				
Current derivative financial liabilities	₩ 18,943	₩ 18,943	₩ 36,476	₩ 36,476
Non-current financial liabilities at FVTPL	159,370	159,370	144,854	144,854
Non-current derivative financial liabilities	131,559	131,559	152,109	152,109
	₩ 309,872	₩ 309,872	₩ 333,439	₩ 333,439
Liabilities carried at amortized cost:				
Trade and other payables	₩ 496,477	₩ 496,477	₩ 696,643	₩ 696,643
Current portion of borrowings	100,000	100,000	-	-
Current portion of bonds	2,733,666	2,733,666	2,801,102	2,801,102
Long-term trade and other payables	541,668	541,668	595,815	595,815
Long-term borrowings	800,000	800,000	600,000	600,000
Bonds	21,827,970	21,827,970	22,026,360	22,026,360
	₩ 26,499,782	₩ 26,499,782	₩ 26,719,920	₩ 26,719,920

27. Financial instruments and risk management (cont'd)

27.3.2 Fair value hierarchy

The different levels of fair values of financial assets and liabilities have been defined as follows:

- ✓ Level 1: quoted prices (unadjusted) in active markets for identical assets or liabilities.
- ✓ Level 2: inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly (i.e., as prices) or indirectly (i.e., derived from prices).
- ✓ Level 3: inputs for the asset or liability that are not based on observable market data (unobservable inputs).

Financial instruments that are measured subsequent to initial recognition at fair value, by fair value hierarchy levels as at June 30, 2018 and December 31, 2017, are as follows (Korean won in millions):

	June 30, 2018			
	Level 1	Level 2	Level 3	Total
Non-current financial assets at FVOCI	₩ -	₩ -	₩ 46,294	₩ 46,294
Current derivative financial assets	-	220	-	220
Non-current derivative financial assets	-	24,518	-	24,518
Non-current financial liabilities at FVTPL	-	159,370	-	159,370
Current derivative financial liabilities	-	18,943	-	18,943
Non-current derivative financial liabilities	-	131,559	-	131,559

	December 31, 2017			
	Level 1	Level 2	Level 3	Total
Non-current financial assets at FVTPL	₩ -	₩ 886	₩ -	₩ 886
Non-current AFS financial assets	-	-	46,294	46,294
Non-current derivative financial assets	-	32,721	-	32,721
Current derivative financial liabilities	-	36,476	-	36,476
Non-current financial liabilities at FVTPL	-	144,854	-	144,854
Non-current derivative financial liabilities	-	152,109	-	152,109

The method used for the valuation of financial assets at FVOCI measured at fair value is as follows:

	Valuation method	Discount rate	Other information
Seoul-Choonchun Highway	Discounted cash flow method	6.2%	Estimated corporate surplus cash flow
DREAMLINE Corporation	Discounted cash flow method	6.2%	Estimated corporate surplus cash flow

28. Related-party transactions

Details of the Group's related parties as at June 30, 2018, are as follows:

	Name
Ultimate controlling party	Ministry of Land, Infrastructure and Transport
Associates	Korea Construction Management Corporation, Expressway Solar Power Co., Ltd. and Highwaysolar Co., Ltd.
Joint venture	Busan-Ulsan Expressway Co., Ltd.

Transactions between the Group and related parties are as follows (Korean won in millions):

Related-parties	Transactions	2018	2017
Busan-Ulsan Expressway Co., Ltd.	Sales	₩ 19,810	₩ 9,441
Korea Construction Management Corporation	Sales	1	1
	Cost of sales	756	675
Expressway Solar Power Co., Ltd.	Sales	763	760
Highway Solar Co., Ltd.	Sales	392	389

Outstanding balances of receivables and payables with related parties as at June 30, 2018, and December 31, 2017, are as follows (Korean won in millions):

Related-parties	Transactions	2018	2017
Busan-Ulsan Expressway Co., Ltd.	Other accounts receivable	₩ 10	₩ 6
	Other accounts payable	94	194
Korea Construction Management Corporation	Other accounts payable	-	135
Expressway Solar Power Co., Ltd.	Other accounts receivable	28	28
Highway Solar Co., Ltd.	Other accounts receivable	13	13

Ministry of Land, Infrastructure and Transport participated in the capital increase of ₩900,800 million and ₩1,042,650 million for the six-month period ended June 30, 2018 and 2017, respectively.

The remuneration of directors and executive officers, who are the key management personnel of the Group, for the six-month period ended June 30, 2018 and 2017, is as follows (Korean won in millions):

	June 30, 2018	June 30, 2017
Salaries	₩ 259	₩ 304

29. Condensed consolidated statements of cash flows

The main non-cash-generating investing activities and financing activities for the six-month period ended June 30, 2018, are as follows (Korean won in millions):

		For the six-month period ended June 30, 2018	For the six-month period ended June 30, 2017
Reclassification of bonds to current portion	₩	1,554,227	1,655,309
Reclassification of construction in progress (property and equipment)		290	2
Reclassification of construction in progress (investment property)		15,578	19,985
Reclassification of intangible assets under development		1,847,167	2,526,035
Increase of long-term accrued expenses due to acquisition of intangible assets under development		3,198	75,724

Changes in liabilities arising from financing activities for the six-month period ended June 30, 2018, are as follows (Korean won in millions):

					Non-cash-generating changes							
		January 1, 2018		Cash flows		Reclassification		Effects of exchange rate changes		Others		June 30, 2018
Short-term borrowings	₩	-	₩	-	₩	100,000	₩	-	₩	-	₩	100,000
Current portion of bonds		2,801,102		(1,628,025)		1,554,227		6,362		-		2,733,666
Other financial liabilities		77		-		-		-		-		77
Long-term borrowings		600,000		300,000		(100,000)		-		-		800,000
Bonds		22,026,360		1,278,992		(1,554,227)		76,051		795		21,827,971
	₩	25,427,539	₩	(49,033)	₩	-	₩	82,413	₩	795	₩	25,461,714

30. Contingencies

Details of the Group's major pending lawsuits as a defendant as at June 30, 2018, are as follows (Korean won in millions):

Court	Details		Litigation price	Progress
Seoul Central District Court	Claims for payment	₩	117,600	Trial court
Seoul Central District Court	Claims for payment		18,325	Trial court
Seoul Central District Court	Claims for reimbursement		15,925	Trial court
Seoul Western District Court	Claims for payment		10,306	Trial court
Supreme Court	Claim for reimbursement		10,887	Trial court
		₩	173,043	

Including above lawsuits, the Group is involved in 337 lawsuits amounting to ₩499,822 million as a defendant, with a recognized provision for litigation of ₩38,651 million. Except for this, no other provision was recognized as the Group was not able to reasonably estimate the results of the lawsuits and their impacts on the condensed consolidated financial statements as at June 30, 2018.

Details of commitments held by the Group as at March 31, 2018, are as follows (Korean won in millions):

Financial institutions	Commitments		Limits		Amounts
KEB Hana Bank	Working capital loan	KRW	200,000	KRW	-
	Bill acceptance		800,000		800,000
BTMU	Loan		100,000		100,000

As at June 30, 2018, Seoul Guarantee Insurance provides performance guarantees of ₩118,731 million to the Group.

30. Contingencies (cont'd)

As at June 30, 2018, except for providing a portion of financial assets at FVOCI and investments in associates and joint ventures as collaterals (described in Notes 8 and 10), the Group has not provided any guarantees to the third parties.

Deloitte.

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Independent Accountants' Review Report

English Translation of Independent Accountants' Review Report Originally Issued in Korean on September 7, 2017

To the Shareholders and the Board of Directors of
Korea Expressway Corporation:

We have reviewed the accompanying condensed consolidated financial statements of Korea Expressway Corporation (the "Company") and its subsidiaries. The condensed consolidated financial statements consist of the condensed consolidated statement of financial position as of June 30, 2017, and the related condensed consolidated statements of comprehensive income, the condensed consolidated statements of changes in equity and the condensed consolidated statements of cash flows, all expressed in Korean won, for the six months ended June 30, 2017 and 2016, and a summary of significant accounting policies and other explanatory information.

Management's Responsibility for the Condensed Consolidated Financial Statements

Management is responsible for the preparation and fair presentation of the accompanying condensed consolidated financial statements in accordance with Korean Government-owned and Quasi-government Accounting Regulations and Standards, and for such internal control as management determines is necessary to enable the preparation of condensed consolidated financial statements that are free from material misstatement, whether due to fraud or error.

Independent Accountants' Responsibility

Our responsibility is to express a conclusion on the accompanying condensed consolidated financial statements based on our reviews.

We conducted our reviews in accordance with standards for review of interim financial statements in the Republic of Korea. A review is limited primarily to inquiries of Company personnel and analytical procedures applied to financial data, and this provides less assurance than an audit. We have not performed an audit, and accordingly, we do not express an audit opinion.

Review Conclusion

Based on our reviews, nothing has come to our attention that causes us to believe that the accompanying condensed consolidated financial statements of the Company and its subsidiaries are not presented fairly, in all material respects, in accordance with Korean Government-owned and Quasi-government Accounting Regulations and Standards.

Emphasis of Matter

As discussed in Note 2, the condensed consolidated financial statements have been prepared in accordance with the Korean Government-owned and Quasi-government Accounting Regulations and Standards, and as prescribed by these Regulations, except as otherwise provided in these Regulations and Standards, Korean International Financial Reporting Standards ("K-IFRSs") has been applied for the preparation of condensed consolidated financial statements. Our opinion is not qualified in respect of this matter.

Deloitte.

Others

We audited the consolidated statement of financial position as of December 31, 2016, and the related consolidated statement of comprehensive income, consolidated statement of changes in equity and consolidated statement of cash flows (not presented herein), all expressed in Korean won, for the year ended December 31, 2016, in accordance with auditing standards generally accepted in the Republic of Korea. We expressed an unqualified opinion in our independent auditors' report dated March 24, 2017. The condensed consolidated statement of financial position as of December 31, 2016, presented for comparative purpose in the accompanying condensed consolidated financial statements, does not differ, in all material respects, from the audited consolidated statement of financial position as of December 31, 2016.

Deloitte Anjin LLC.

September 7, 2017

Notice to Readers

This report is effective as of September 7, 2017, the independent accountants' review report date. Certain subsequent events or circumstances may have occurred between the independent accountants' review report date and the time the independent accountants' review report is read. Such events or circumstances could significantly affect the accompanying condensed consolidated financial statements and may result in modifications to the independent accountants's review report.

KOREA EXPRESSWAY CORPORATION AND ITS SUBSIDIARIES

CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
AS OF JUNE 30, 2017, AND DECEMBER 31, 2016, AND
FOR THE SIX MONTHS ENDED JUNE 30, 2017 AND 2016

The accompanying condensed consolidated financial statements, including all footnote disclosures, were prepared by, and are the responsibility of, KOREA EXPRESSWAY CORPORATION.

Shin, Jae-Sang
Acting Chief Executive Officer
KOREA EXPRESSWAY CORPORATION

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KOREA EXPRESSWAY CORPORATION AND ITS SUBSIDIARIES

CONDENSED CONSOLIDATED STATEMENTS OF FINANCIAL POSITION

AS OF JUNE 30, 2017, AND DECEMBER 31, 2016

	Note	June 30, 2017	December 31, 2016
ASSETS		(Korean won in thousands)	
CURRENT ASSETS:			
Cash and cash equivalents	5,28	₩ 625,575,414	₩ 632,759,858
Financial assets at fair value through profit or loss (“FVTPL”)	6,28	524,455	1,512,746
Short-term loans and receivables	9,28	2,057,060	2,309,917
Derivatives	6,28	21,242,955	121,412,501
Other financial assets	28	4,688,631	4,111,104
Trade and other receivables	7,28,29	146,548,722	162,705,232
Inventories		15,277,701	16,872,657
Other non-financial assets		670,565,951	4,537,836
		1,486,480,889	946,221,851
NON-CURRENT ASSETS:			
Available-for-sale (“AFS”) financial assets	8,28	91,003,234	87,908,149
Derivatives	6,28	44,309,420	65,976,297
Long-term loans and receivables	9,28	28,859,683	29,250,928
Long-term financial instruments	6,28	3,000	3,000
Trade and other receivables		79,963,346	69,462,316
Property and equipment	11,18	924,246,648	956,453,942
Investment property	12	1,167,409,694	1,141,591,048
Intangible assets	13	56,547,540,624	56,267,392,325
Investments in associates and joint venture	10	8,622,772	8,996,825
Other non-financial assets		8,997,687	9,305,377
		58,900,956,108	58,636,340,207
Total assets		₩ 60,387,436,997	₩ 59,582,562,058

(Continued)

KOREA EXPRESSWAY CORPORATION AND ITS SUBSIDIARIES

CONDENSED CONSOLIDATED STATEMENTS OF FINANCIAL POSITION (CONTINUED)

AS OF JUNE 30, 2017, AND DECEMBER 31, 2016

	Note	June 30, 2017	December 31, 2016
LIABILITIES		(Korean won in thousands)	
CURRENT LIABILITIES:			
Trade and other payables	28,29	₩ 562,036,630	₩ 954,781,735
Short-term borrowings	14,28	150,000,000	-
Current portion of bonds, net	14,28	3,032,599,649	3,428,619,887
Derivatives	6,28	5,241,778	14,978,420
Other financial liabilities	14,15,28,29	6,000,000	28,000,000
Current tax liability		33,639,739	72,884,258
Provision for short-term employee benefits	17	63,317,375	82,920,279
Other non-financial liabilities		161,947,949	71,347,504
		4,014,783,120	4,653,532,083
NON-CURRENT LIABILITIES:			
Financial liabilities at FVTPL	6,14,28	142,115,051	157,340,810
Trade and other payables	28	496,975,420	401,282,533
Long-term borrowings	14,28	600,000,000	400,000,000
Bonds, net	14,28	21,622,852,720	21,605,279,855
Derivatives	6,28	86,690,967	79,014,272
Other non-financial liabilities		66,584,187	68,498,525
Employee benefits	16	150,580,317	141,050,519
Provisions	17	11,063,284	6,460,805
		23,176,861,946	22,858,927,319
Total liabilities		27,191,645,066	27,512,459,402
EQUITY			
Equity attributable to the owners of the Company:			
Share capital	19	31,967,298,730	30,924,648,730
Share discount		-	(24,159,376)
Retained earnings	20	1,268,954,984	1,247,678,944
Other equity component	21	(40,471,783)	(77,868,510)
		33,195,781,931	32,070,299,788
Non-controlling interests		10,000	(197,132)
Total equity		33,195,791,931	32,070,102,656
Total liabilities and equity		₩ 60,387,436,997	₩ 59,582,562,058

(Concluded)

See accompanying notes to the condensed consolidated financial statements.

KOREA EXPRESSWAY CORPORATION AND ITS SUBSIDIARIES

CONDENSED CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME

FOR THE SIX MONTHS ENDED JUNE 30, 2017 AND 2016

	Note	Six months ended June 30, 2017	Six months ended June 30, 2016
		(Korean won in thousands, except for earnings per share)	
Sales	4,22,29	₩ 3,610,005,543	₩ 3,309,364,877
Cost of sales	26,29	3,169,264,504	2,749,734,177
Gross profit		440,741,039	559,630,700
Selling and administrative expenses	7,26	93,701,444	91,033,403
Operating profit	4	347,039,595	468,597,297
Other income	7,17	83,624,666	36,985,992
Other expenses	7,17	21,209,575	13,847,976
Other profit (loss)		7,604,501	(3,823,096)
Finance income	6,23,28,29	214,701,013	38,750,874
Finance costs	6,24,28,29	514,814,382	442,152,802
Share of income (loss) of investment associates and joint venture		(408,106)	93,410
Income before income tax expense		116,537,712	84,603,699
Income tax expense	25	33,992,787	25,894,407
Net income		82,544,925	58,709,292
Other comprehensive income (loss), net of income tax:			
Items subsequently reclassified to profit or loss:			
Net change in unrealized fair value of AFS financial assets		41,132	105,509
Net changes in unrealized fair value of cash flow hedges	6	37,528,625	(25,904,576)
Change in equity of investments in associates and joint venture	10	34,052	45,543
Items not subsequently reclassified to profit or loss:		-	-
		37,603,809	(25,753,524)
Total comprehensive income		₩ 120,148,734	₩ 32,955,768
Income (loss) attributable to:			
Owners of the Company		₩ 82,544,994	₩ 58,709,321
Non-controlling interests		(69)	(29)
		₩ 82,544,925	₩ 58,709,292
Total comprehensive income attributable to:			
Owners of the Company		₩ 119,941,721	₩ 31,575,593
Non-controlling interests		207,013	1,380,175
		₩ 120,148,734	₩ 32,955,768
Net earnings per share:			
Basic earnings per share	27	₩ 26	₩ 19
Diluted earnings per share	27	26	19

See accompanying notes to the condensed consolidated financial statements.

KOREA EXPRESSWAY CORPORATION AND ITS SUBSIDIARIES

CONDENSED CONSOLIDATED STATEMENTS OF CHANGES IN EQUITY

FOR THE SIX MONTHS ENDED JUNE 30, 2017 AND 2016

(Korean won in thousands)

	Equity attributable to owners of the Company					
	Share capital, net	Retained earnings	Other equity components	Total	Non-controlling interests	Total equity
Balance at January 1, 2016	₩ 29,526,022,354	₩ 1,159,026,421	₩ (34,064,536)	₩ 30,650,984,239	₩ (2,349,560)	₩ 30,648,634,679
Total comprehensive income for the period:						
Net income (loss)	-	58,709,321	-	58,709,321	(29)	58,709,292
Other comprehensive income (loss)	-	-	(27,133,699)	(27,133,699)	1,380,175	(25,753,524)
	-	58,709,321	(27,133,699)	31,575,622	1,380,146	32,955,768
Transactions with the owners of the Company, recognized directly in equity:						
Capital increase by issuing new stocks	1,058,000,000	-	-	1,058,000,000	-	1,058,000,000
Dividends to owners of the Company	-	(38,415,236)	-	(38,415,236)	-	(38,415,236)
	1,058,000,000	(38,415,236)	-	1,019,584,764	-	1,019,584,764
Balance at June 30, 2016	₩ 30,584,022,354	₩ 1,179,320,506	₩ (61,198,235)	₩ 31,702,144,625	₩ (969,414)	₩ 31,701,175,211
Balance at January 1, 2017	₩ 30,900,489,354	₩ 1,247,678,944	₩ (77,868,510)	₩ 32,070,299,788	₩ (197,132)	₩ 32,070,102,656
Total comprehensive income for the period:						
Net income (loss)	-	82,544,994	-	82,544,994	(69)	82,544,925
Other comprehensive income	-	-	37,396,727	37,396,727	207,082	37,603,809
	-	82,544,994	37,396,727	119,941,721	207,013	120,148,734
Transactions with the owners of the Company, recognized directly in equity:						
Capital increase by issuing new stocks	1,042,650,000	-	-	1,042,650,000	-	1,042,650,000
Dividends to owners of the Company	-	(37,109,578)	-	(37,109,578)	-	(37,109,578)
Others	-	-	-	-	119	119
	1,042,650,000	(37,109,578)	-	1,005,540,422	119	1,005,540,541
Reversal of share discount	24,159,376	(24,159,376)	-	-	-	-
Balance at June 30, 2017	₩ 31,967,298,730	₩ 1,268,954,984	₩ (40,471,783)	₩ 33,195,781,931	₩ 10,000	₩ 33,195,791,931

See accompanying notes to the condensed consolidated financial statements.

KOREA EXPRESSWAY CORPORATION AND ITS SUBSIDIARIES

CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS

FOR THE SIX MONTHS ENDED JUNE 30, 2017 AND 2016

	Six months ended	
	June 30, 2017	June 30, 2016
	(Korean won in thousands)	
CASH FLOWS FROM OPERATING ACTIVITIES:		
Net income	₩ 82,544,925	₩ 58,709,292
Adjustments for:		
Recovery of doubtful accounts	(5,859)	(3,200)
Other bad debt expense	1,815,582	-
Loss (gain) on valuation of financial assets at FVTPL, net	(14,260,025)	2,389,598
Gain on disposal of financial assets, net	(443,514)	(508,389)
Loss (gain) on valuation of derivative instruments, net	84,341,500	(3,082,290)
Loss on derivative instrument transactions, net	40,331,200	-
Loss (gain) on hedged item related to fair value hedge	2,161,199	(1,974,862)
Gain on disposal of property and equipment, net	(690,998)	(2,254,936)
Depreciation	71,100,496	62,895,554
Loss on disposal of investment property, net	-	62,542
Gain on disposal of intangible assets, net	(10,511,318)	(1,579,471)
Amortization	1,169,602,594	1,001,875,597
Interest expense	316,762,633	408,614,799
Income tax expense	33,992,787	25,894,407
Loss (gain) on foreign currencies translation loss, net	(84,259,335)	3,100,238
Salary	1,019,738	-
Costs for retirement and severance benefits	10,646,612	9,357,422
Share of loss (gain) of investments in associates and joint venture	408,106	(93,410)
Dividends income	(390,625)	(78,096)
Interest income	(3,794,955)	(5,059,485)
Gain on insurance settlements	(2,445)	-
Gain on assets contributed	(23,325,023)	(249,402)
Income from incidental business	(6,941,885)	(5,655,250)
Increase in provisions	10,719,660	761,158
Reversal of provisions	(6,117,181)	(308,899)
Reversal of other allowance for doubtful accounts	(1,803,631)	(3,415,623)
Other income	(73,120)	-
	1,590,282,193	1,490,688,002

(Continued)

KOREA EXPRESSWAY CORPORATION AND ITS SUBSIDIARIES

CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS (CONTINUED)

FOR THE SIX MONTHS ENDED JUNE 30, 2017 AND 2016

	Six months ended	
	June 30, 2017	June 30, 2016
	(Korean won in thousands)	
Changes in working capital:		
Short-term loans	₩ 2,450,761	₩ 2,655,953
Other current financial assets	(577,526)	(314)
Other accounts receivable	9,501,077	8,125,772
Accrued revenue	5,633	(1,248,949)
Short-term deposits	21,754,000	(11,267,273)
Inventories	1,594,956	1,947,631
Short-term advance payments	(654,559,545)	(793,316,217)
Short-term prepaid expenses	(1,016,136)	(751,052)
Other current non-financial assets	(9,957,146)	177,264
Long-term loans	(1,675,816)	(890,398)
Long-term deposits	(25,667,440)	16,935,949
Long-term prepaid expenses	(1,617,912)	(800,776)
Short-term other accounts payable	(290,495,404)	(148,344,191)
Short-term accrued expenses	(1,054,202)	3,227,892
Short-term leasehold deposits	(22,378,853)	-
Short-term other deposits	59,924	(278,076)
Short-term advances from customers	68,312,120	310,194,878
Short-term unearned revenue	(6,397)	(424,129)
Withholdings	22,512,155	5,516,843
Provision for short-term employee benefits	(19,602,903)	(18,433,956)
Long-term leasehold deposits	29,000,793	597,131
Long-term unearned revenue	(2,933,071)	3,087,759
Payments of retirement and severance benefits	(983,251)	(1,012,249)
Other long-term employee benefits	(133,564)	(4,525,267)
	(877,467,747)	(628,825,775)
Dividends received	390,625	78,096
Interest paid	(401,761,623)	(378,169,806)
Interest received	4,130,808	2,707,718
Income taxes refund received	(73,237,307)	(11,450,655)
Net cash provided by operating activities	324,881,874	533,736,872

(Continued)

KOREA EXPRESSWAY CORPORATION AND ITS SUBSIDIARIES

CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS (CONTINUED)

FOR THE SIX MONTHS ENDED JUNE 30, 2017 AND 2016

	Six months ended June 30, 2017	Six months ended June 30, 2016
	(Korean won in thousands)	
CASH FLOWS FROM INVESTING ACTIVITIES:		
Disposal of property and equipment	₩ 1,443,751	₩ 3,468,298
Disposal of AFS financial assets	151,047	47,776
Disposal of intangible assets	11,061,786	1,579,475
Dividends received from associates	-	290,509
Disposal of investments in shares of associates	-	606,080
Acquisition of non-current AFS financial assets	(3,205,000)	-
Settlement of derivatives	30,937,271	508,389
Acquisition of property and equipment	(13,559,748)	(11,994,490)
Acquisition of investment property	(21,948,243)	(15,865,819)
Acquisition of intangible assets	(1,374,577,007)	(1,107,421,556)
Net cash used in investing activities	(1,369,696,143)	(1,128,781,338)
CASH FLOWS FROM FINANCING ACTIVITIES:		
Proceeds from short-term borrowings	300,000,000	100,000,000
Proceeds from long-term borrowings	200,000,000	100,000,000
Proceeds from bonds	1,719,811,685	701,634,577
Proceeds from issuance of new stocks	1,042,650,000	1,058,000,000
Repayment of current portion of long-term borrowings	119	-
Repayments of short-term borrowings	(150,000,000)	(100,000,000)
Repayments of other non-current financial liabilities	(22,000,000)	(48,000,000)
Repayments of bonds	(2,015,722,400)	(1,090,000,000)
Dividends paid	(37,109,579)	(38,415,236)
Net cash provided by financing activities	1,037,629,825	683,219,341
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	(7,184,444)	88,174,875
CASH AND CASH EQUIVALENTS, BEGINNING OF THE PERIOD	632,759,858	271,593,456
EFFECTS OF EXCHANGE RATE CHANGES ON THE BALANCE OF CASH HELD IN FOREIGN CURRENCIES	-	-
CASH AND CASH EQUIVALENTS, END OF THE PERIOD	₩ 625,575,414	₩ 359,768,331

(Concluded)

See accompanying notes to the condensed consolidated financial statements.

1. GENERAL:

Korea Expressway Corporation

Korea Expressway Corporation (the "Company") was established on February 15, 1969, under the Korea Expressway Corporation Act. The interim condensed consolidated financial statements of the Company comprise the Company and its subsidiaries (together, the "Group" and individually, "Group entities"). The Company is engaged in the construction and operation of an expressway network in the Republic of Korea. The Company derives its revenue primarily from tolls collected from motorists for the use of the expressways managed by the Company. The Company also receives lease payments paid by operations of service areas and oil stations located at various points along the expressways and fees from certain services for the Korean Government (the "Government"), including supervision of Government construction projects in various locations adjacent to the expressways.

As of June 30, 2017, the Company's shareholders consist of the following:

Shareholder	Number of shares	Ownership (%)
Ministry of Land, Infrastructure and Transport	2,723,971,003	85.21
Ministry of Strategy and Finance	13,418,889	0.42
Korea EXIM Bank	328,714,464	10.28
Korea Development Bank	92,628,550	2.90
Industrial Bank of Korea	22,423,519	0.70
Korea Housing Finance Corporation	15,000,000	0.47
Kookmin Bank	573,448	0.02
	3,196,729,873	100.00

Consolidated subsidiaries

Details of the Company and the consolidated subsidiaries as of June 30, 2017, and December 31, 2016, are as follows (Korean won in millions):

As of June 30, 2017:

Company	Location	Business	Assets	Liabilities	Revenue	Net income
Korea Expressway Corporation	Korea	Construction and management of roads	₩60,392,363	₩27,192,158	₩ 3,610,005	₩ 82,953
Dogong the 5th Securitization Specialty Co., Ltd. (*)	Korea	Issuance and repayment of asset-backed securities	6,548	6,538	484	-

As of December 31, 2016:

Company	Location	Business	Assets	Liabilities	Revenue	Net income
Korea Expressway Corporation	Korea	Construction and management of roads	₩59,587,098	₩27,512,749	₩ 8,159,036	₩ 134,651
Dogong the 5th Securitization Specialty Co., Ltd. (*)	Korea	Issuance and repayment of asset-backed securities	28,700	28,897	2,769	-

(*) The Company does not own shares of Dogong the 5th Securitization Specialty Co., Ltd. However, as the Company operates this special-purpose entities for its business needs and is the primary beneficiary, the Company is considered to have dominant control over this entity.

2. SIGNIFICANT ACCOUNTING POLICIES:

The Company maintains its official accounting records in Korean won and prepares its condensed consolidated financial statements in conformity the Korean Government-owned and Quasi-government Accounting Regulations and Standards, in Korean language (Hangul). Accordingly, these condensed consolidated financial statements are intended for use by those who are informed about these Regulations and Standards and Korean practices. The accompanying condensed consolidated financial statements have been condensed, restructured and translated into English with certain expanded descriptions from Korean language condensed consolidated financial statements. Certain information included in Korean language condensed consolidated financial statements, but not required for a fair presentation of the Group's condensed consolidated statements of financial position, comprehensive income, changes in equity or cash flows is not presented in the accompanying condensed consolidated financial statements.

(1) Basis of Preparation

The interim condensed consolidated financial statements have been prepared in accordance with the Korean Government-owned and Quasi-government Accounting Regulations and Standards, and as prescribed by this Regulations, except for articles below in this Regulations and Standards, Korean International Financial Reporting Standards ("K-IFRSs") has been applied for the preparation of interim condensed consolidated financial statements.

The Group's condensed consolidated financial statements as of and for the six months ended June 30, 2017, are prepared in accordance with K-IFRS 1034, *Interim Financial Reporting*. The condensed consolidated financial statements should be read in conjunction with the annual consolidated financial statements as of and for the year ended December 31, 2016, which have been prepared in accordance with the Korean Government-owned and Quasi-government Accounting Regulations and Standards.

1) Application of the Korean Government-owned and Quasi-government Accounting Regulations and Standards

- Accounting Treatment for Assets Consigned

The Group recognizes assets received from Government and others for the purpose of management or disposal on behalf of consignor as a deduction to the related assets.

- Recognition of Revenue and Expenses Related to Consignment Management Services

The Group recognizes funds received from the Ministry of Land, Infrastructure and Transport and others for consignment management services as revenue and expenses or assets and liabilities as the associated project progresses. The Group does not offset each account.

- Contribution to the Employee Welfare Fund

The Group contributes to the employee welfare fund, and contributions are recognized as selling and administrative expenses in accordance with the Employee Welfare Fund Act.

The significant accounting policies used for the preparation of the interim condensed consolidated financial statements are consistent with those applied to the annual consolidated financial statements as of and for the year ended December 31, 2016, except for the adoption effect of the new and revised accounting standards and interpretations described below.

2) New and revised standards that have been applied from the period beginning on June 30, 2017, are as follows:

- Amendments to K-IFRS 1007 – *Statement of Cash Flows*

The amendments require that changes in liabilities arising from financial activities are disclosed. The amendments require that changes in liabilities arising from financial activities are disclosed. Additional disclosures as a result of the initial application of these amendments for the year ended June 30, 2017, are described in Note 30.

- Amendments to K-IFRS 1012 – *Income Taxes*

The amendments clarify that unrealized losses on fixed-rate debt instruments measured at fair value and measured at cost for tax purposes give rise to a deductible temporary difference regardless of whether the holder expects to recover the carrying amount of the debt instrument by sale or by use and that the estimate of probable future taxable profit may include the recovery of some of assets for more than their carrying amount. When the Group assesses whether there will be sufficient taxable profit, the Group should compare the deductible temporary differences with future taxable profit that excludes tax deductions resulting from the reversal of those deductible temporary differences. The application of these amendments has no material impact on the disclosures or the amounts recognized in the Group's condensed consolidated financial statements.

3) New and revised standards that have been issued, but are not yet effective as of June 30, 2017, and that have not been applied earlier by the Group are as follows:

- K-IFRS 1109 (Amendment) – *Financial Instruments*

The amendments to K-IFRS 1109 contain the requirements for the classification and measurement of financial assets and financial liabilities based on a business model whose objective is achieved both by collecting contractual cash flows and selling financial assets and based on the contractual terms that give rise on specified dates to cash flows, impairment methodology based on the expected credit losses, broadened types of instruments that qualify as hedging instruments, the types of risk components of non-financial items that are eligible for hedge accounting and change in the hedge effectiveness test. The amendments are effective for annual periods beginning on or after January 1, 2018.

- K-IFRS 1115 (Amendment) – *Revenue from Contracts with Customers*

The core principle under K-IFRS 1115 is that an entity should recognize revenue to depict the transfer of promised goods or services to customers in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods or services. The amendments introduce a five-step approach to revenue recognition and measurement: 1) Identify the contract with a customer, 2) Identify the performance obligations in the contract, 3) Determine the transaction price, 4) Allocate the transaction price to the performance obligations in the contract and 5) Recognize revenue when (or as) the entity satisfies a performance obligation. This standard will supersede K-IFRS 1011, *Construction Contracts*; K-IFRS 1018, *Revenue*; K-IFRS 2113, *Customer Loyalty Programmes*; K-IFRS 2115, *Agreements for the Construction of Real Estate*; K-IFRS 2118, *Transfers of Assets from Customers*; and K-IFRS 2031, *Revenue-Barter Transactions Involving Advertising Services*. The amendments are effective for annual periods beginning on or after January 1, 2018.

- K-IFRS 1102 (Amendment) – *Share-based Payment*

The amendments include: 1) when measuring the fair value of share-based payment, the effects of vesting and non-vesting conditions on the measurement of cash-settled share-based payment should be consistent with the measurement of equity-settled share-based payment; 2) Share-based payment transaction in which the Group settles the share-based payment arrangement net by withholding a specified portion of the equity instruments per statutory tax withholding requirements would be classified as equity settled in its entirety (it otherwise would be classified as equity settled without the net settlement feature); and 3) when a cash-settled share-based payment changes to an equity-settled share-based payment because of modifications of the terms and conditions, the original liability recognized is derecognized and the equity-settled share-based payment is recognized at the modification-date fair value. Any difference between the carrying amount of the liability at the modification date and the amount recognized in equity at the same date would be recognized in profit and loss immediately. The amendments are effective for annual periods beginning on or after January 1, 2018.

 - K-IFRS 2122 (Amendment) – *Foreign Currency Transactions and Advance Consideration*
K-IFRS 2122 requires that the date of the transaction for the purpose of determining the exchange rate to use on initial recognition of the related asset, expense or income (or part of it) is the date on which an entity initially recognizes the payment or receipt of advance consideration in a foreign currency. K-IFRS 2122 is effective for annual periods beginning on or after January 1, 2018.

 - Annual Improvements to K-IFRS 2012-2014 cycle
The annual improvements include amendments to a number of K-IFRSs. The amendments introduce specific guidance in K-IFRS 1105, Non-current Assets Held for Sale and Discontinued Operations when an entity reclassifies an asset (or disposal group) from held for sale to held for distribution to owners (or vice versa); such a change is considered as a continuation of the original plan of disposal, and not as a change to a plan of sale. Other amendments in the annual improvements include K-IFRS 1107, Financial Instruments: Disclosures, K-IFRS 1019, Employee Benefits and K-IFRS 1034, Interim Financial Reporting. The application of these amendments has no material impact on the disclosures or the amounts recognized in the Company's condensed consolidated financial statements.

The Group is evaluating the effect of the above mentioned amendments on the Group's condensed consolidated financial statements.

3. CRITICAL ACCOUNTING JUDGMENTS AND KEY SOURCE OF ESTIMATION UNCERTAINTY:

In the preparation of the Group's interim condensed consolidated financial statements, management is required to apply accounting policies and make judgements, estimation and assumptions affecting the carrying amounts of assets, liabilities, income and expenses. Actual results may differ from these estimates. The management's significant judgements about the application of the Group's accounting policies and the main resources of the uncertainty are consistent with those of the annual consolidated financial statements for the year ended December 31, 2016.

4. OPERATING SEGMENTS:

The Group divides its business into four strategic operating segments.

(1) Operating segments of the Group are as follows:

Operating segments	Description	Customers
Toll business	Highway	Highway user
Incidental business	Expressway rest stop, oil station lease and research service	Expressway rest stop operator, etc.
Supporting business	Consignment management service	Government, etc.
Construction business	Road construction	Government

(2) Information for each segment for the six months ended June 30, 2017 and 2016, is as follows (Korean won in millions):

For the six months ended June 30, 2017:

	Total revenue		Operating income	
Toll business	₩	2,003,179	₩	256,644
Incidental business		239,093		90,395
Supporting business		68,890		-
Construction business		1,298,844		-
	₩	3,610,006	₩	347,039

For the six months ended June 30, 2016:

	Total revenue		Operating income	
Toll business	₩	1,966,170	₩	390,889
Incidental business		210,429		77,708
Supporting business		107,854		-
Construction business		1,024,912		-
	₩	3,309,365	₩	468,597

(3) All of the Group's revenues are generated in Korea.

(4) Information about major customers

The Korean government is a major customer of the supporting and construction operating segments, with revenue of ₩1,367,734 million and ₩1,132,766 million for the six months ended June 30, 2017 and 2016, respectively. There are no other major customers representing more than 10% of the Group's revenue.

5. CASH AND CASH EQUIVALENTS:

Cash and cash equivalents in the condensed consolidated statements of cash flows include cash and bank deposit, net of bank overdrafts. Cash and cash equivalents as of June 30, 2017, and December 31, 2016, are as follows (Korean won in millions):

	June 30, 2017		December 31, 2016	
Cash	₩	239,637	₩	259,168
Cash equivalents		529,514		507,721
		769,151		766,889
Less: Government grants for consignment management service		(143,576)		(134,129)
	₩	625,575	₩	632,760

6. **DERIVATIVES:**

(1) Composition of derivative instruments as of June 30, 2017, and December 31, 2016, is as follows (Korean won in millions):

	June 30, 2017		December 31, 2016	
	Current	Non-current	Current	Non-current
Financial asset at FVTPL:				
Interest rate swap	₩ 524	₩ -	₩ 1,513	₩ -
	₩ 524	₩ -	₩ 1,513	₩ -
Derivative instruments assets:				
Currency swap	₩ 21,243	₩ 20,302	₩ 121,413	₩ 41,886
Interest rate swap	-	24,007	-	24,090
	₩ 21,243	₩ 44,309	₩ 121,413	₩ 65,976
Financial liability at FVTPL:				
Non-derivative financial liability (*)	₩ -	₩ 118,935	₩ -	₩ 121,074
Interest rate swap	-	23,180	-	36,267
	₩ -	₩ 142,115	₩ -	₩ 157,341
Derivative instruments liabilities:				
Currency swaps	₩ 5,242	₩ 53,736	₩ 14,141	₩ 35,302
Interest rate swap	-	32,955	837	43,712
	₩ 5,242	₩ 86,691	₩ 14,978	₩ 79,014

(*) As the Group has entered into an interest rate swap contract to hedge the risk of changes in the fair value of bonds due to changes in interest rate of bonds, the Group has classified these bonds as financial liabilities at FVTPL.

(2) Details of currency swaps as of June 30, 2017, are as follows (In millions of Korean won, EUR, USD, JPY, HKD, CHF, CNY, SEK and CAD):

	Bank	Contract period	Contract amount: Selling amount		Contract amount: Buying amount	Contract interest rate: Sell	Contract interest rate: Buy	Contract exchange rate
Cash flow hedge	Woori Bank	2012.03.02–2022.03.02	HDK	452	₩ 65,856	4.00%	3.96%	145.70
Cash flow hedge	Deutsche Bank Group	2012.05.07–2024.05.07	EUR	45	67,733	3.88%	3.98%	1,505.17
Cash flow hedge	Deutsche Bank Group	2012.05.07–2027.05.07	EUR	23	34,619	4.00%	4.06%	1,505.17
Cash flow hedge	JP.Morgan Chase & Co.	2012.10.22–2017.10.22	USD	150	166,650	1.88%	2.83%	1,111.00
Cash flow hedge	Deutsche Bank Group	2012.10.22–2017.10.22	USD	100	111,100	1.88%	2.83%	1,111.00
Cash flow hedge	Bank of America	2012.10.22–2017.10.22	USD	100	111,100	1.88%	2.83%	1,111.00
Cash flow hedge	Societe Generale	2012.10.22–2017.10.22	USD	100	111,100	1.88%	2.83%	1,111.00
Cash flow hedge	Societe Generale	2012.10.22–2017.10.22	USD	50	55,550	1.88%	2.83%	1,111.00
Cash flow hedge	Nomura Securities Co.	2013.08.05–2018.08.05	USD	100	111,000	2.78%	3.27%	1,110.00
Cash flow hedge	Nomura Securities Co.	2013.09.13–2018.09.13	EUR	75	107,870	2.23%	3.47%	1,438.26
Cash flow hedge	HSBC	2014.12.15–2018.03.15	CHF	20	23,000	Three months CHF London inter-bank offered rate+0.47%	2.08%	1,150.00
Cash flow hedge	HSBC	2014.12.15–2018.03.15	CHF	200	230,000	Three months CHF London inter-bank offered rate+0.47%	2.17%	1,150.00
Cash flow hedge	Nomura Securities Co.	2015.03.18–2018.03.18	CNY	900	157,698	4.45%	1.90%	175.22
Cash flow hedge	NH Investment & Securities Co., Ltd.	2015.03.18–2027.03.18	USD	50	56,150	3.02%	2.42%	1,123.00
Cash flow hedge	The Export-Import Bank of Korea	2015.11.30–2030.11.30	USD	50	58,000	3.21%	2.41%	1,160.00
Cash flow hedge	Nomura Securities Co.	2015.12.08–2026.06.08	USD	100	115,000	3.10%	2.33%	1,150.00
Cash flow hedge	Nomura Securities Co.	2016.04.26–2026.10.26	USD	200	232,000	2.70%	1.84%	1,160.00
Cash flow hedge	The Export-Import Bank of Korea	2016.07.05–2031.07.05	USD	100	116,000	2.57%	1.71%	1,160.00
Cash flow hedge	SC Bank	2016.10.27–2019.10.28	USD	100	112,300	Three months USD London inter-bank offered rate+0.70%	1.48%	1,123.00
Cash flow hedge	Nomura Securities Co.	2016.10.27–2019.10.18	HDK	931	134,809	1.65%	1.51%	144.80
Cash flow hedge	HSBC	2016.12.07–2019.06.07	USD	200	233,600	Three months USD London inter-bank offered rate +0.78%	1.74%	1,168.00
Cash flow hedge	Hana Bank	2017.04.20–2020.04.20	USD	150	172,350	Three months USD London inter-bank offered rate +0.70%	1.77%	1,149.00
Cash flow hedge	The Export-Import Bank of Korea	2017.04.20–2020.04.20	USD	150	172,350	Three months USD London inter-bank offered rate +0.70%	1.77%	1,149.00
Cash flow hedge	Kookmin bank	2017.04.20–2020.04.20	USD	100	114,900	Three months USD London inter-bank offered	1.77%	1,149.00

	Bank	Contract period	Contract amount				Contract interest rate		Contract exchange rate
			Selling amount		Buying amount		Sell	Buy	
							rate +0.70%		
Cash flow hedge	Nomura Securities Co.	2017.04.28–2032.04.28	SEK	720	₩	92,304	2.31%	2.32%	128.20
Cash flow hedge	The Export-Import Bank of Korea	2017.05.11–2032.05.11	CAD	135		111,725	3.03%	2.32%	835.00
Cash flow hedge	Korea Development Bank	2017.06.07–2024.06.07	CHF	100		112,200	0.25%	2.24%	1,122.00
Cash flow hedge	Industrial Bank of Korea	2017.06.07–2024.06.07	CHF	50		56,100	0.25%	2.24%	1,122.00
Cash flow hedge	Korea Development Bank	2017.06.07–2024.06.07	CHF	80		89,760	0.25%	2.24%	1,122.00

(3) Details of interest swaps as of June 30, 2017, are as follows (Korean won in millions):

	Bank	Contract period	Notional amount		Sell	Buy
Fair value hedge	Nonghyup	2007.07.27–2022.07.27	₩	100,000	5.60%	Certificate of deposit rate 91 days +0.08%
Cash flow hedge	Nomura Securities Co.	2010.11.29–2020.11.29		100,000	32× [Absolute value(5Y Constant maturity swap rate (market value-final value) 12 months average] 0.00%(minimum), 8.5%(maximum)	4.31%
Cash flow hedge	Morgan Stanley	2010.12.10–2020.12.10		40,000	30× change 1.50%(minimum), 8.50%(maximum)	4.28%
Cash flow hedge	Societe Generale	2010.12.10–2020.12.10		40,000	30× change 1.50%(minimum), 8.50%(maximum)	4.28%
Cash flow hedge	DeutscheBank Group	2012.09.20–2022.09.20		100,000	One year: 4.00%, 2–10: 2.24% + 0.10 × (70%-Ave Securities industry and financial market association index/average USD three months London inter-bank offered rate) minimum 0%, maximum 6%	2.97%
Cash flow hedge	Nomura Securities Co.	2013.12.09–2023.12.09		30,000	4.35%× n/N, 30/360	3.81%
Cash flow hedge	Nomura Securities Co.	2014.04.04–2024.04.04		30,000	1 year–2 years: 4.25%, 30/360 3–10 year: 3 × Spread reference average spread for specified periods 0.00%(minimum), 5.50%(maximum) Spread Reference daily spread calculation: 20Y EUR Swap interest rate – 2Y EUR Swap interest rate	3.56%
Cash flow hedge	Morgan Stanley	2014.09.04–2024.09.04		100,000	1) Before switch options are exercised. One year: 4.00%, 2Y–10Y: Annual Min(4.20%, 3.00×(average spread(20 EUR Constant maturity swap - 2 EUR Constant maturity swap))×N/M), (minimum 0.00%) 2) After switch options are exercised. Annual 3.65%(Fixed rate)	3.08%
Cash flow hedge	DeutscheBank Group	2015.05.15–2030.05.15		30,000	One year: 4.50%, 2Y–: 8.0% - 0.1 × [average Securities industry and financial market association index /average three months London inter-bank offered rate] (Cap 5.50%, Floor 0.01%) or 5% fixed rate (Swap bank switch option)	2.69%
Cash flow hedge	Nomura Securities Co.	2015.08.19–2030.08.19		50,000	One year: 3.80%, 2Y–: 2.11*(USD 30Y Constant maturity swap -USD 2Y Constant maturity swap)+0.2% (Cap 5.50%, Floor 0.00%) or 2.80% fixed rate (Swap bank switch option)	2.46%
Cash flow hedge	Nomura Securities Co.	2015.09.23–2030.09.23		50,000	One year: 4.00%, 2Y–: 4.0%*(KRW 10Y Constant maturity swap -USD 1Y Constant maturity swap) (Cap 4.50%, Floor 0.25%) or 3% fixed rate (Swap bank switch option)	2.28%
Cash flow hedge	Nomura Securities Co.	2015.10.28–2030.10.28		50,000	One year: 3.90%, 2Y–: 3.3%*(KRW 10Y - USD 1Y Constant maturity swap) (Cap 4.50%, Floor 0.00%) or 2.8% fixed rate (Swap bank switch option)	2.18%

	Bank	Contract period	Notional amount	Sell	Buy
Cash flow hedge	NH Investment & Securities Co., Ltd.	2016.6.23–2031.6.23	₩ 30,000	One year: 2.80%, 2Y–: 2.3%*(EUR 30Y Constant maturity swap - EUR 5Y Constant maturity swap) (Cap 3.0%, Floor 0.0%) or 2.3% fixed rate (Swap bank switch option)	1.60%
Cash flow hedge	Hana Bank	2016.08.09–2021.08.09	100,000	Certificate of deposit rate 91 days+0.08%	1.34%
Cash flow hedge	Hana Bank	2016.12.08–2021.12.08	200,000	Certificate of deposit rate 91 days+0.36%	2.07%
Cash flow hedge	Hana Bank	2017.03.22–2022.03.22	200	Certificate of deposit rate 91 days+0.22%	2.00%
Trading	JP.Morgan Chase & Co.	2009.05.21–2022.07.27	50,000	Certificate of deposit rate 91 days+0.08%	4.08%
Trading	DeutscheBank Group	2009.05.21–2022.07.27	50,000	Certificate of deposit rate 91 days+0.08%	4.08%
Trading	Shinhan Bank	2007.09.19–2017.09.19	50,000	2.50% + 13 × ∣ Won 5Y Constant maturity swap final average – market ∣ average 6.50% more (minimum), 12% below(maximum)(1–8) only, 2.50% more(minimum), 12% below(maximum)(9–)	Certificate of deposit rate 91 days +0.25%
Trading	Societe Generale	2015.07.30–2022.10.30	70,000	5.82%	4.92%+7.85% ×(1-n/N)
Trading	Societe Generale	2015.12.17–2024.3.17	90,000	5.38%	4.48%+7.76% ×(1-n/N)
Trading	Nomura Securities Co.	2017.01.11–2022.04.11	100,000	5.30%	4.6%+ [a%× (1-n/N)]
Trading	Societe Generale	2016.12.08–2025.03.08	100,000	5.24%	4.54%+ [a% ×(1-n/N)

(4) Derivatives transaction gain (loss) for the six months ended June 30, 2017 and 2016, is as follows (Korean won in millions):

	Gain or loss				Accumulated comprehensive income (loss)	
	Gain (loss) on valuation		Gain (loss) on transaction			
	2017	2016	2017	2016	2017	2016
Derivative instruments assets or liabilities (hedging items):						
Currency swap	₩ (84,342)	₩ 3,082	₩ (40,331)	₩ -	₩ 23,856	₩ (29,387)
Interest rate swap	(2,161)	1,975	-	-	13,672	3,482
	₩ (86,503)	₩ 5,057	₩ (40,331)	₩ -	₩ 37,528	₩ (25,905)
Financial asset or liability at FVTPL:						
Currency swap	₩ -	₩ -	₩ (26)	₩ 1	₩ -	₩ -
Interest rate swap	12,099	(415)	470	507	-	-
Bonds	2,161	(1,975)	-	-	-	-
	₩ 14,260	₩ (2,390)	₩ 444	₩ 508	₩ -	₩ -

7. TRADE AND OTHER RECEIVABLES:

Changes in allowance for doubtful trade and other receivables for the six months ended June 30, 2017, and for the year ended December 31, 2016, are as follows (Korean won in millions):

	For the six months ended June 30, 2017	For the year ended December 31, 2016
Beginning balance	₩ 7,587	₩ 8,907
Impairment loss recognized	1,816	(603)
Reversal of impairment loss	(1,804)	-
Written off	(1,308)	(717)
Ending balance	₩ 6,291	₩ 7,587

8. AFS FINANCIAL ASSETS:

(1) AFS financial assets as of June 30, 2017, and December 31, 2016, are as follows (Korean won in millions):

	June 30, 2017		December 31, 2016	
	Current	Non-current	Current	Non-current
Equity securities:				
Unmarketable equity securities, etc.	₩ -	₩ 91,003	₩ -	₩ 87,908

(2) Equity securities as of June 30, 2017, and December 31, 2016, are as follows (Korean won in millions):

			Carrying amount	
	Percentage of ownership	Acquisition cost	June 30, 2017	December 31, 2016
Seoul-Choonchun Highway (*1)	10.00%	₩ 32,380	₩ 42,304	₩ 42,304
The 2nd Seoul-Incheon Linking Highway Co., Ltd. (*2)	6.23%	8,011	8,011	8,011
Seoul-north Highway (*2)	10.00%	24,380	24,380	24,380
DREAMLINE Corporation (*3)	1.6%	44,027	-	-
Beneficiary certificate	-	10,814	16,308	13,213
		₩ 119,612	₩ 91,003	₩ 87,908

(*1) AFS financial assets were pledged as collateral against the investees' debts as of June 30, 2017.
(*2) Equity securities whose price are not quoted in active market and fair values cannot be reliably measured due to the lack of reliable information are stated at acquisition cost.
(*3) As the recoverable amount is less than the acquisition cost, the total impairment loss was recognized before the current period.

9. LOANS:

Details of loans as of June 30, 2017, and December 31, 2016, are as follows (Korean won in millions):

As of June 30, 2017:

	Nominal value	Present value of discount	Carrying amount
Loans for tuition (*1)	₩ 5,949	₩ (736)	₩ 5,213
Loans for housing (*2)	31,518	(6,164)	25,354
Loans for rental housing	350	-	350
	₩ 37,817	(6,900)	₩ 30,917

As of December 31, 2016:

	Nominal value	Present value of discount	Carrying amount
Loans for tuition (*1)	₩ 6,193	₩ (833)	₩ 5,360
Loans for housing (*2)	32,115	(6,288)	25,827
Loans for rental housing	374	-	374
	₩ 38,682	₩ (7,121)	₩ 31,561

(*1) The Group provides loans to its employees, who have worked for more than a year, for the purpose of paying tuition of their children at zero interest rate. Loans are payable in four years (total of 16 installments), with a two-year grace period after the graduation.
(*2) The Group provides loans for housing to its employees who do not own house at market interest rate. Loans are payable in 20 years (installment), with a five-year grace period.

10. INVESTMENTS IN ASSOCIATES AND JOINT VENTURE:

(1) Investments in associates and joint venture as of June 30, 2017, and December 31, 2016, are as follows (Korean won in millions, except percentage of ownership):

As of June 30, 2017:

Company	Major business activity	Location of incorporation	Percentage of ownership	Acquisition cost	Carrying amount
Associates:					
Korea Construction Management Corp.	Building, civil engineering service	Korea	42.50%	₩ 9,822	₩ 5,585
Expressway Solar Power Co., Ltd.	Expressway solar power projects	Korea	29.00%	1,856	2,314
Highwaysolar Co., Ltd.	New renewable energy service	Korea	29.00%	653	724
Subtotal				12,331	8,623
Joint venture:					
Busan-Ulsan Expressway Co., Ltd. (*)	Road and facility operating service	Korea	51.00%	839	-
Subtotal				839	-
Total				₩ 13,170	₩ 8,623

(*) The Group's investment is accounted for as a joint venture because all financial and operating policies require joint approval by the Group and the other investee.

As of December 31, 2016:

Company	Major business activity	Location of incorporation	Percentage of ownership	Acquisition cost	Carrying amount
Associates:					
Korea Construction Management Corp.	Building, civil engineering service	Korea	42.50%	₩ 9,822	₩ 5,944
Expressway Solar Power Co., Ltd.	Expressway solar power projects	Korea	29.00%	1,856	2,343
Highwaysolar Co., Ltd.	New renewable energy service	Korea	29.00%	653	710
Subtotal				12,331	8,997
Joint venture:					
Busan-Ulsan Expressway Co., Ltd. (*)	Road and facility operating service	Korea	51.00%	839	-
Subtotal				839	-
Total				₩ 13,170	₩ 8,997

(*) The Group's investment is accounted for as a joint venture because all financial and operating policies require joint approval by the Group and the other investee.

(2) Changes in investments in associates and joint venture for the six months ended June 30, 2017, and the year ended December 31, 2016, are as follows (Korean won in millions):

For the six months ended June 30, 2017:

	January 1, 2017	Acquisition (disposal)	Gain (loss) on valuation	Change in equity	Dividend	June 30, 2017
Associates:						
Korea Construction Management Corp.	₩ 5,944	₩ -	(393)	₩ 34	₩ -	₩ 5,585
Expressway Solar Power Co., Ltd.	2,343	-	(29)	-	-	2,314
Highway Solar Corp.	710	-	14	-	-	724
Subtotal	8,997	-	(408)	34	-	8,623
Joint venture:						
Busan-Ulsan Expressway Co., Ltd. (*)	-	-	-	-	-	-
Subtotal	-	-	-	-	-	-
Total	₩ 8,997	₩ -	₩ (408)	₩ 34	₩ -	₩ 8,623

For the year ended December 31, 2016:

	January 1, 2016	Acquisition (disposal)	Gain (loss) on valuation	Change in equity	Dividend	December 31, 2016
Associates:						
Korea Construction Management Corp.	₩ 5,751	₩ -	₩ 453	₩ 31	₩ (291)	₩ 5,944
Expressway Solar Power Co., Ltd.	2,100	-	243	-	-	2,343
Highway Solar Corp.	1,259	(606)	50	7	-	710
Subtotal	9,110	(606)	746	38	(291)	8,997
Joint venture:						
Busan-Ulsan Expressway Co., Ltd. (*)	-	-	-	-	-	-
Subtotal	-	-	-	-	-	-
Total	₩ 9,110	₩ (606)	₩ 746	₩ 38	₩ (291)	₩ 8,997

(*) The balance of investments in joint venture of Busan-Ulsan Expressway Co., Ltd. is zero due to the cumulative losses. The Group suspended applying the equity method accordingly. As a result, the Group did not recognize the changes in equity investment amounting to ₩130,471 million and ₩122,546 million as of June 30, 2017, and December 31, 2016, respectively. The Group provided its stock as collateral for investee's debts.

(3) Financial information of associates and joint venture is as follows (Korean won in millions):

As of and for the six months ended June 30, 2017:

	Assets	Liabilities	Revenue	Net income (loss) for the period
Associates:				
Korea Construction Management Corp.	₩ 38,172	₩ 4,584	₩ 20,557	₩ (597)
Expressway Solar Power Co., Ltd.	19,406	11,429	1,447	129
Highway Solar Corp.	9,941	7,444	590	51
Joint venture:				
Busan-Ulsan Expressway Co., Ltd.	685,451	940,470	29,274	(15,540)

As of and for the year ended December 31, 2016:

	Assets	Liabilities	Revenue	Net income (loss) for the year
Associates:				
Korea Construction Management Corp.	₩ 38,304	₩ 3,656	₩ 43,852	₩ 154
Expressway Solar Power Co., Ltd.	20,790	12,710	3,395	960
Highway Solar Corp.	10,361	7,914	1,398	171
Joint venture:				
Busan-Ulsan Expressway Co., Ltd.	726,596	966,881	55,146	(30,037)

11. PROPERTY AND EQUIPMENT:

(1) Property and equipment as of June 30, 2017, and December 31, 2016, are as follows (Korean won in millions):

As of June 30, 2017:

	Acquisition cost	Government grant	Accumulated depreciation	Carrying amount
Land	₩ 89,539	₩ -	₩ -	₩ 89,539
Buildings	816,699	(182)	(229,088)	587,429
Structures	86,295	(231)	(46,769)	39,295
Machinery	92,908	(1)	(73,050)	19,857
Information technology equipment	505,768	-	(410,137)	95,631
Vehicles	112,590	(72)	(78,363)	34,155
Furniture and fixtures	88,747	(15)	(53,942)	34,790
Tools and equipment	25,766	-	(19,013)	6,753
Construction in progress	16,798	-	-	16,798
	₩ 1,835,110	₩ (501)	₩ (910,362)	₩ 924,247

As of December 31, 2016:

	Acquisition cost	Government grant	Accumulated depreciation	Carrying amount
Land	₩ 89,539	₩ -	₩ -	₩ 89,539
Buildings	815,726	(260)	(215,331)	600,135
Structures	86,030	(240)	(45,552)	40,238
Machinery	94,562	(2)	(71,408)	23,152
Information technology equipment	510,359	-	(400,647)	109,712
Vehicles	117,552	(26)	(77,559)	39,967
Furniture and fixtures	87,477	(18)	(48,722)	38,737
Tools and equipment	25,825	-	(18,082)	7,743
Construction in progress	7,231	-	-	7,231
	₩ 1,834,301	₩ (546)	₩ (877,301)	₩ 956,454

(2) Changes in property and equipment for the six months ended June 30, 2017, and the year ended December 31, 2016, are as follows (Korean won in millions):

For the six months ended June 30, 2017:

	January 1, 2017	Acquisitions	Disposals	Depreciation	Other (*)	June 30, 2017
Land	₩ 89,539	₩ -	₩ -	₩ -	₩ -	₩ 89,539
Buildings	600,395	1,902	(711)	(13,975)	-	587,611
(Government grant)	(260)	-	74	4	-	(182)
Structures	40,477	266	-	(1,217)	-	39,526
(Government grant)	(239)	-	-	8	-	(231)
Machinery	23,154	108	(38)	(3,366)	-	19,858
(Government grant)	(2)	-	-	1	-	(1)
Information technology equipment	109,712	-	-	(14,081)	-	95,631
Vehicles	39,994	-	-	(5,766)	-	34,228
(Government grant)	(27)	(53)	-	7	-	(73)
Furniture and fixtures	38,755	1,768	(1)	(5,719)	2	34,805
(Government grant)	(18)	-	-	3	-	(15)
Tools and equipment	7,743	-	-	(990)	-	6,753
Construction in progress	7,231	9,569	-	-	(2)	16,798
	₩ 956,454	₩ 13,560	₩ (676)	₩ (45,091)	₩ -	₩ 924,247

(*) Other changes are due to reclassification of construction in progress and investment property.

For the year ended December 31, 2016:

	January 1, 2016	Acquisitions	Disposals	Depreciation	Other (*)	December 31, 2016
Land	₩ 94,898	₩ -	₩ (5,359)	₩ -	₩ -	₩ 89,539
Buildings	598,568	31,393	(5,697)	(27,885)	4,016	600,395
(Government grant)	(270)	-	-	10	-	(260)
Structures	34,153	3,994	(635)	(2,380)	5,345	40,477
(Government grant)	(256)	-	-	17	-	(239)
Machinery	22,960	5,846	(57)	(6,506)	911	23,154
(Government grant)	(4)	-	-	2	-	(2)
Information technology equipment	90,273	32,775	(44)	(24,008)	10,716	109,712
Vehicles	27,552	20,868	(11)	(9,174)	759	39,994
(Government grant)	(36)	(1)	-	10	-	(27)
Furniture and fixtures	22,584	19,378	(7)	(7,838)	4,637	38,754
(Government grant)	(23)	-	-	6	-	(17)
Tools and equipment	6,480	2,959	-	(1,696)	-	7,743
Construction in progress	6,751	25,195	-	-	(24,715)	7,231
	₩ 903,630	₩ 142,407	₩ (11,810)	₩ (79,442)	₩ 1,669	₩ 956,454

(*) Other changes are due to reclassification of construction in progress.

(3) Buildings, structures and other assets are insured against fire and casualty losses by AIG Korea Inc. and others, and the Group carries general insurance of MG Non-Life Insurance Co., Ltd. for vehicles.

12. INVESTMENT PROPERTY:

(1) Investment property as of June 30, 2017, and December 31, 2016, is as follows (Korean won in millions):

As of June 30, 2017:

	Acquisition cost	Accumulated depreciation	Carrying amount
Land	₩ 148,901	₩ -	₩ 148,901
Buildings	949,879	(338,479)	611,400
Structures	484,412	(270,713)	213,699
Construction in progress	193,410	-	193,410
	₩ 1,776,602	₩ (609,192)	₩ 1,167,410

As of December 31, 2016:

	Acquisition cost	Accumulated depreciation	Carrying amount
Land	₩ 148,901	₩ -	₩ 148,901
Buildings	906,446	(322,048)	584,398
Structures	477,708	(261,135)	216,573
Construction in progress	191,719	-	191,719
	₩ 1,724,774	₩ (583,183)	₩ 1,141,591

(2) Changes in investment property for the six months ended June 30, 2017, and the year ended December 31, 2016, are as follows (Korean won in millions):

For the six months ended June 30, 2017:

	January 1, 2017	Acquisitions (*1)	Disposals	Depreciation	Other (*2)	June 30, 2017
Land	₩ 148,901	₩ -	₩ -	₩ -	₩ -	₩ 148,901
Buildings	584,398	30,154	-	(16,431)	13,279	611,400
Structures	216,573	-	-	(9,579)	6,705	213,699
Construction in progress	191,719	21,677	-	-	(19,986)	193,410
	₩ 1,141,591	₩ 51,831	₩ -	₩ (26,010)	₩ (2)	₩ 1,167,410

(*1) The amount of acquisition includes gain on assets contributed of ₩23,325 million.
(*2) Other changes are due to reclassification of construction in progress and others.

For the year ended December 31, 2016:

	January 1, 2016	Acquisitions (*1)	Disposals	Depreciation	Other (*2)	December 31, 2016
Land	₩ 147,434	₩ 1,467	₩ -	₩ -	₩ -	₩ 148,901
Buildings	566,165	27,984	-	(29,996)	20,245	584,398
Structures	208,472	18,000	(63)	(17,997)	8,161	216,573
Construction in progress	155,686	66,108	-	-	(30,075)	191,719
	₩ 1,077,757	₩ 113,559	₩ (63)	₩ (47,993)	₩ (1,669)	₩ 1,141,591

(*1) The amount of acquisition includes gain on assets contributed of ₩7,702 million.
(*2) Other changes are due to reclassification of construction in progress.

(3) The amounts recognized in income and expenses from investment property for the six months ended June 30, 2017 and 2016, are as follows (Korean won in millions):

	For the six months ended June 30, 2017	For the six months ended June 30, 2016
Rental income	₩ 111,961	₩ 99,761
Direct operating expense	(28,481)	(25,731)
	₩ 83,480	₩ 74,030

(4) There are no significant differences between the carrying amount and fair value of investment property.

(5) The Group directly owns the investment property.

13. INTANGIBLE ASSETS:

(1) Intangible assets as of June 30, 2017, and December 31, 2016, are as follows (Korean won in millions):

As of June 30, 2017:

	Acquisition cost	Government grants	Accumulated amortization	Accumulated impairment	Carrying amount
Software	₩ 141,989	₩ -	₩ (110,013)	₩ -	₩ 31,976
Industrial property rights	948	-	(309)	-	639
Development cost	386	-	(386)	-	-
Construction in progress	5,371,273	-	-	(262,588)	5,108,685
Expressway operating rights	77,749,661	-	(26,351,465)	-	51,398,196
Others	8,045	-	-	-	8,045
	₩ 83,272,302	₩ -	₩ (26,462,173)	₩ (262,588)	₩ 56,547,541

As of December 31, 2016:

	Acquisition cost	Government grants	Accumulated amortization	Accumulated impairment	Carrying amount
Software	₩ 141,259	₩ -	₩ (103,925)	₩ -	₩ 37,334
Industrial property rights	910	-	(286)	-	624
Development cost	386	-	(386)	-	-
Construction in progress	6,617,268	-	-	(262,588)	6,354,680
Expressway operating rights	75,054,683	-	(25,187,974)	-	49,866,709
Others	8,045	-	-	-	8,045
	₩ 81,822,551	₩ -	₩ (25,292,571)	₩ (262,588)	₩ 56,267,392

(2) Changes in intangible assets for the six months ended June 30, 2017, and for the year ended December 31, 2016, are as follows (Korean won in millions):

For the six months ended June 30, 2017:

	January 1, 2017	Acquisitions (*1)	Disposals	Amortization	Other (*2)	June 30, 2017
Software	₩ 37,334	₩ 730	₩ -	₩ (6,088)	₩ -	₩ 31,976
Industrial property rights	624	39	-	(24)		639
Construction in progress	6,354,680	1,280,039	-	-	(2,526,034)	5,108,685
Expressway operating rights	49,866,709	169,493	(550)	(1,163,490)	2,526,034	51,398,196
Others	8,045	-	-	-	-	8,045
	₩ 56,267,392	₩ 1,450,301	₩ (550)	₩(1,169,602)	₩ -	₩ 56,547,541

(*1) Acquisition of construction in progress includes ₩150,680 million of capitalized interest.
(*2) Other changes are due to reclassification of construction in progress.

For the year ended December 31, 2016:

	January 1, 2016	Acquisitions (*1)	Disposals	Amortization	Other (*2)	December 31, 2016
Software	₩ 26,175	₩ 9,609	₩ -	₩ (9,772)	₩ 11,322	₩ 37,334
Industrial property rights	555	1	-	(45)	113	624
Construction in progress	7,766,220	2,877,140	-	-	(4,288,680)	6,354,680
Expressway operating rights	47,018,459	652,055	-	(2,081,050)	4,277,245	49,866,709
Others	6,312	1,733	-	-	-	8,045
	₩ 54,817,721	₩ 3,540,538	₩ -	₩ (2,090,867)	₩ -	₩ 56,267,392

(*1) Acquisition of construction in progress includes ₩203,342 million of capitalized interest.
(*2) Other changes are due to reclassification of construction in progress.

(3) Major individual intangible assets as of June 30, 2017, and December 31, 2016, are as follows (Korean won in millions):

	Detail	June 30, 2017	December 31, 2016
Expressway operating rights	Right to highway management	₩ 51,398,196	₩ 49,866,709

14. BORROWINGS AND BONDS:

(1) Short-term borrowings as of June 30, 2017, and December 31, 2016, are as follows (Korean won in millions):

		June 30, 2017		December 31, 2016
Type	Lender	Interest rate	Carrying amount	Carrying amount
Short-term electronic bonds	Woori Investment Bank Co., Ltd. and other four securities	1.42%	₩ 150,000	₩ -

(2) Borrowings and bonds as of June 30, 2017, and December 31, 2016, are as follows (Korean won in millions):

	June 30, 2017	December 31, 2016
Current:		
Short-term borrowings	₩ 150,000	₩ -
Current portion of bonds	3,033,214	3,429,972
Less: discount on bonds	(614)	(1,352)
Current portion of asset backed debt (other financial liabilities)	6,000	28,000
Subtotal	3,188,600	3,456,620
Noncurrent:		
Long-term borrowings	600,000	400,000
Bonds	21,629,640	21,610,256
Less: discount on bonds	(6,788)	(4,999)
Financial liability at FVTPL	118,935	121,096
Subtotal	22,341,787	22,126,353
Total	₩ 25,530,387	₩ 25,582,973

(3) Long-term borrowings as of June 30, 2017, and December 31, 2016, are as follows (Korean won in millions):

Type	Lender	June 30, 2017 Interest rate	June 30, 2017 Carrying Amount	December 31, 2016 Carrying amount
Loan operating funds	The Bank of Tokyo Mitsubishi UFG, Ltd.	1.41%	₩ 100,000	₩ 100,000
Loan operating funds	KEB Hana Bank	1.34%	100,000	100,000
Loan operating funds	KEB Hana Bank	2.07%	200,000	200,000
Loan operating funds	KEB Hana Bank	2.00%	200,000	-
	Subtotal		600,000	400,000
	Less: current portion		-	-
	Total		₩ 600,000	₩ 400,000

(4) Details of bonds as of June 30, 2017, and December 31, 2016, are as follows (In millions of Korean won, USD, JPY, HKD, EUR, CHF, CNY, SEK and CAD):

Series	Annual interest rate (%)	Maturity	June 30, 2017 Foreign currency	June 30, 2017 Local currency	December 31, 2016 Foreign currency	December 31, 2016 Local currency
331st	6.54	2017.09.16	-	₩ 80,000	-	₩ 80,000
346th	6.35	2017.12.16	-	100,000	-	100,000
407th	5.20	2017.01.12	-	-	-	80,000
408th	5.35	2027.02.14	-	180,000	-	180,000
409th	5.16	2017.02.23	-	-	-	160,000
410th	5.29	2027.02.27	-	80,000	-	80,000
411st	5.39	2037.02.27	-	50,000	-	50,000
413rd	5.10	2017.03.21	-	-	-	100,000
414th	5.13	2017.03.28	-	-	-	150,000
416th	4.6%+[a%×(1-n/N)] (n: KRW Constant maturity swap 10y - USD Constant maturity swap 10y≥-1.25%, N: terms of interest)	2022.04.11	-	100,000	-	100,000
419th	Certificate of deposit rate 91 days +0.08%	2022.07.27	-	118,935	-	121,096
420th	5.75	2017.08.14	-	80,000	-	80,000
421st	Certificate of deposit rate 91 days +0.25%	2017.09.19	-	50,000	-	50,000
425th	4.92%+7.85% ×(1-n/N) (n: KRW Constant maturity swap 10y - 2y≥0 days, N: terms of interest)	2022.10.30	-	70,000	-	70,000
432nd	5.50	2018.02.27	-	80,000	-	80,000
434th	5.58	2018.03.12	-	120,000	-	120,000
436th	5.75	2018.03.20	-	90,000	-	90,000
438th	5.65	2018.04.04	-	60,000	-	60,000
439th	5.46	2018.04.24	-	120,000	-	120,000
443rd	6.33	2018.06.27	-	100,000	-	100,000
447th	6.87	2018.10.02	-	120,000	-	120,000
449th	7.13	2018.10.09	-	150,000	-	150,000
450th	7.17	2018.10.15	-	100,000	-	100,000
461st	5.85	2019.02.24	-	110,000	-	110,000
463th	5.23	2019.03.13	-	120,000	-	120,000
464th	4.480%+7.760%×(1-n/N) (n: USD Constant maturity swap 10y - 2y≥0 days,	2024.03.17	-	90,000	-	90,000

Series	Annual interest rate (%)	Maturity	June 30, 2017 Foreign currency	June 30, 2017 Local currency	December 31, 2016 Foreign currency	December 31, 2016 Local currency
	N: terms of interest)					
466th	5.45	2029.04.02	-	₩ 150,000	-	₩ 150,000
467th	5.17	2019.04.16	-	100,000	-	100,000
468th	5.35	2039.04.21	-	60,000	-	60,000
470th	4.99	2019.04.29	-	90,000		90,000
471st	5.32	2019.05.27	-	100,000		100,000
473rd	5.60	2019.06.12	-	190,000		190,000
474th	5.48	2019.06.23	-	120,000		120,000
476th	5.41	2019.07.07	-	70,000		70,000
479th	5.60	2019.07.23	-	190,000		190,000
480th	5.65	2019.08.06	-	150,000		150,000
483th	5.62	2019.11.04	-	80,000	-	80,000
485th	5.28	2017.02.19	-	-	-	110,000
486th	4.54%+[a%×(1-n/N)] (n: USD Constant maturity swap 30y - 2y≥0 days, N: terms of interest)	2025.03.08	-	100,000	-	100,000
487th	5.15	2017.02.19	-	120,000	-	120,000
490th	5.19	2025.03.08	-	-	-	₩ 140,000
491st	5.24	2020.05.26	-	100,000	-	100,000
492nd	5.01	2017.06.08	-	-	-	150,000
493rd	5.12	2020.06.16	-	140,000	-	140,000
494th	5.13	2020.06.28	-	150,000	-	150,000
495th	5.07	2020.07.06	-	120,000	-	120,000
496th	5.21	2025.07.13	-	140,000	-	140,000
497th	5.25	2030.07.20	-	90,000	-	90,000
498th	5.12	2025.07.27	-	100,000	-	100,000
500th	4.98	2040.08.26	-	120,000	-	120,000
501st	4.65	2020.09.07	-	120,000	-	120,000
502nd	4.36	2017.09.15	-	100,000	-	100,000
503rd	4.57	2025.09.29	-	130,000	-	130,000
505th	4.58	2025.10.25	-	130,000	-	130,000
506th	4.74	2020.11.15	-	150,000	-	150,000
507th	4.45	2017.11.22	-	200,000	-	200,000
509th	4.31	2020.11.29	-	100,000	-	100,000
511st	4.40	2018.12.07	-	50,000	-	50,000
512nd	4.28	2020.12.10	-	80,000	-	80,000
515th	4.91	2030.12.17	-	100,000	-	100,000
516th	4.75	2018.01.21	-	200,000	-	200,000
517th	4.66	2018.02.28	-	150,000	-	150,000
518th	4.64	2021.03.14	-	150,000	-	150,000
520th	4.65	2021.04.18	-	150,000	-	150,000
521st	4.49	2018.04.28	-	70,000	-	70,000
522nd	4.62	2026.05.20	-	120,000	-	120,000
523rd	4.39	2021.05.27	-	80,000	-	80,000
524th	4.39	2021.06.14	-	150,000	-	150,000
525th	4.40	2021.06.21	-	130,000	-	130,000
526th	4.52	2026.06.28	-	130,000	-	130,000
528th	4.32	2021.07.26	-	190,000	-	190,000
529th	4.08	2021.08.16	-	70,000	-	70,000
530th	4.27	2031.08.23	-	200,000	-	200,000
531st	3.92	2021.09.16	-	120,000	-	120,000
532nd	4.31	2031.09.23	-	180,000	-	180,000
534th	4.40	2026.10.25	-	100,000	-	100,000
535th	4.15	2021.11.08	-	200,000	-	200,000
536th	3.93	2018.11.24	-	200,000	-	200,000
538th	4.08	2021.11.30	-	170,000	-	170,000
539th	3.94	2018.12.06	-	100,000	-	100,000
540th	4.01	2021.12.15	-	100,000	-	100,000
541st	4.04	2022.01.18	-	100,000	-	100,000
542nd	4.13	2027.01.31	-	150,000	-	150,000
543rd	4.25	2027.03.21	-	250,000	-	250,000

Series	Annual interest rate (%)	Maturity	June 30, 2017		December 31, 2016	
			Foreign currency	Local currency	Foreign currency	Local currency
544th	4.14	2022.03.27	-	₩ 100,000	-	₩ 100,000
545th	4.01	2017.03.27	-	-	-	50,000
546th	4.00	2022.04.12	-	150,000	-	150,000
547th	3.86	2017.04.19	-	-	-	150,000
548th	3.89	2019.04.24	-	100,000	-	100,000
549th	3.99	2027.05.11	-	100,000	-	100,000
550th	3.83	2022.05.22	-	100,000	-	100,000
551st	4.05	2032.05.25	-	150,000	-	150,000
552nd	3.53	2017.06.04	-	-	-	100,000
553rd	3.90	2027.06.15	-	70,000	-	70,000
554th	4.02	2032.06.27	-	150,000	-	150,000
555th	3.25	2022.07.24	-	150,000	-	150,000
556th	3.10	2027.08.30	-	100,000	-	100,000
557th	3.12	2017.09.20	-	150,000	-	150,000
558th	2.97	2022.09.20	-	100,000	-	100,000
559th	3.14	2022.09.25	-	200,000	-	200,000
560th	3.48	2062.09.26	-	100,000	-	100,000
561st	3.11	2017.12.07	-	50,000	-	50,000
562nd	3.21	2022.12.11	-	150,000	-	150,000
563rd	3.37	2027.12.18	-	190,000	-	190,000
564th	3.22	2028.01.22	-	150,000	-	150,000
565th	3.13	2023.01.28	-	150,000	-	150,000
566th	2.96	2018.03.20	-	100,000	-	100,000
567th	3.28	2033.02.13	-	150,000	-	150,000
568th	3.17	2028.02.27	-	100,000	-	100,000
569th	3.03	2023.03.21	-	150,000	-	150,000
570th	3.16	2033.03.27	-	150,000	-	150,000
573rd	3.25	2023.06.05	-	100,000	-	100,000
574th	3.42	2025.06.13	-	100,000	-	100,000
575th	3.55	2018.06.26	-	150,000	-	150,000
576th	3.53	2020.07.25	-	150,000	-	150,000
577th	3.68	2020.08.22	-	150,000	-	150,000
578th	3.76	2023.09.05	-	100,000	-	100,000
579th	3.56	2023.09.26	-	50,000	-	50,000
580th	3.62	2023.10.02	-	60,000	-	60,000
581st	3.46	2020.10.07	-	60,000	-	60,000
582nd	3.73	2028.10.10	-	100,000	-	100,000
583rd	3.58	2020.10.16	-	140,000	-	140,000
584th	3.47	2018.11.14	-	100,000	-	100,000
586th	3.65	2019.11.29	-	100,000	-	100,000
587th	3.65	2018.12.06	-	150,000	-	150,000
588th	3.81	2023.12.09	-	30,000	-	30,000
589th	3.76	2020.12.12	-	80,000	-	80,000
590th	3.52	2019.01.19	-	100,000	-	100,000
591st	3.38	2019.02.06	-	100,000	-	100,000
592nd	3.68	2024.02.13	-	100,000	-	100,000
593rd	3.32	2019.02.20	-	100,000	-	100,000
594th	3.40	2020.02.27	-	80,000	-	80,000
595th	3.35	2019.03.07	-	100,000	-	100,000
596th	3.64	2024.03.13	-	100,000	-	100,000
597th	3.43	2021.03.20	-	100,000	-	100,000
598th	2.97	2017.03.26	-	-	-	60,000
599th	3.65	2024.03.27	-	60,000	-	60,000
600th	3.65	2024.04.02	-	50,000	-	50,000
601st	1 year–2 years: 4.25%, 30/360 3–10 years: 3×Spread Reference 0.00% (minimum), 5.50% (maximum)	2024.04.04	-	30,000	-	30,000
602nd	2.96	2017.04.10	-	-	-	120,000
603rd	3.66	2024.04.16	-	120,000	-	120,000
604th	3.41	2020.04.23	-	100,000	-	100,000
605th	3.24	2029.07.16	-	50,000	-	50,000
606th	1y: 4.00%, 2–10 years:	2024.09.04	-	100,000	-	100,000

Series	Annual interest rate (%)	Maturity	June 30, 2017 Foreign currency	June 30, 2017 Local currency	December 31, 2016 Foreign currency	December 31, 2016 Local currency
	Minimum (4.20%, 3.00×(average spread (20 EUR Constant maturity swap - 2 EUR Constant maturity swap))×N/M), (Minimum 0.00%)					
607th	2.95	2029.10.02	-	₩ 100,000	-	₩ 100,000
608th	3.00	2029.10.15	-	100,000	-	100,000
609th	2.96	2034.10.30	-	170,000	-	170,000
610th	2.69	2024.11.06	-	250,000	-	250,000
611st	2.86	2026.11.13	-	100,000	-	100,000
612nd	2.69	2022.11.20	-	100,000	-	100,000
613rd	2.53	2019.12.11	-	150,000	-	150,000
614th	2.78	2024.12.24	-	50,000	-	50,000
615th	2.46	2025.02.13	-	190,000	-	190,000
616th	2.55	2030.02.27	-	200,000	-	200,000
617th	2.45	2025.03.06	-	100,000	-	100,000
618th	2.09	2020.03.16	-	140,000	-	140,000
619th	2.33	2030.04.16	-	100,000	-	100,000
620th	2.36	2025.04.24	-	90,000	-	90,000
622nd	2.80	2030.05.14	-	170,000	-	170,000
623rd	1 year: 4.50% –2 years: structured rate or fixed rate 5% (swap bank switch option) rate: 8.0%-0.1 × (average Securities industry and financial market association index /average three months London inter-bank offered rate) (Cap 5.50%, Floor 0.01% payments per year)	2030.05.15	-	30,000	-	30,000
625th	2.56	2025.05.28	-	70,000	-	70,000
626th	2.64	2025.06.19	-	130,000	-	130,000
627th	2.57	2025.07.22	-	150,000	-	150,000
628th	2.13	2020.07.30	-	100,000	-	100,000
631st	1 year: 3.80%, –2 years: structurization rate or 2.8% fixed rate	2030.08.19	-	50,000	-	50,000
632nd	2.37	2025.08.19	-	80,000	-	80,000
633rd	2.55	2035.09.15	-	130,000	-	130,000
634th	1 year: 4.00%, –2 years: structurization rate or 3.0% fixed rate	2030.09.23	-	50,000	-	50,000
635th	2.24	2025.09.24	-	50,000	-	50,000
636th	1 year: 3.90%, –2 years: structurization rate or 2.8% fixed rate	2030.10.28	-	50,000	-	50,000
637th	2.40	2025.11.12	-	150,000	-	150,000
638th	2.12	2020.11.25	-	50,000	-	50,000
639th	2.49	2030.11.30	-	200,000	-	200,000
640th	2.09	2020.12.14	-	180,000	-	180,000
641st	2.35	2030.12.16	-	120,000	-	120,000
642nd	1.98	2036.02.18	-	190,000	-	190,000
643rd	1.74	2021.03.04	-	100,000	-	100,000
644th	2.01	2046.05.25	-	150,000	-	150,000
645th	1.60	2031.06.23	-	30,000	-	30,000

Series	Annual interest rate (%)	Maturity	June 30, 2017			December 31, 2016		
			Foreign currency		Local currency	Foreign currency		Local currency
646th	1.54	2036.07.20		-	₩ 150,000		-	₩ 150,000
647th	1.31	2019.08.19		-	150,000		-	150,000
648th	1.57	2046.08.26		-	100,000		-	100,000
649th	1.44	2019.09.29		-	190,000		-	190,000
650th	1.52	2021.10.17		-	110,000		-	110,000
651st	1.85	2046.10.24		-	130,000		-	130,000
652nd	1.90	2046.11.10		-	140,000		-	140,000
653rd	2.06	2021.11.24		-	200,000		-	200,000
654th	2.12	2021.12.08		-	160,000		-	160,000
655th	2.30	2047.02.17		-	150,000		-	-
656th	2.02	2022.02.27		-	140,000		-	-
657th	2.35	2047.03.17		-	110,000		-	-
658th	2.16	2024.03.29		-	50,000		-	-
659th	2.24	2027.03.29		-	20,000		-	-
660th	2.03	2022.04.18		-	100,000		-	-
661st	2.38	2037.04.19		-	110,000		-	-
661nd	2.31	2047.06.21		-	120,000		-	-
7th foreign bond	4.00	2022.03.02	HKD	452	65,987	HKD	452	70,435
8th foreign bond	1.03	2017.03.13		-	-	JPY	4,000	41,472
9th foreign bond	3.88	2024.05.07	EUR	45	58,680	EUR	45	57,042
10th foreign bond	4.00	2027.05.07	EUR	23	29,992	EUR	23	29,155
11st foreign bond	1.88	2017.10.23	USD	500	569,800	USD	500	604,250
12nd foreign bond	2.78	2018.08.05	USD	100	113,960	USD	100	120,850
13rd foreign bond	2.23	2018.09.13	EUR	75	97,799	EUR	75	95,070
14th foreign bond	1.63	2017.04.28		-	-	USD	500	604,250
16th foreign bond	Three months CHF London inter-bank offered rate + 0.47%	2018.03.15	CHF	220	262,403	CHF	220	259,893
17th foreign bond	4.45	2018.03.18	CNY	900	151,011	CNY	900	155,934
18th foreign bond	3.02	2027.03.18	USD	50	56,980	USD	50	60,425
19th foreign bond	3.21	2030.11.30	USD	50	56,980	USD	50	60,425
20th foreign bond	3.10	2026.06.08	USD	100	113,960	USD	100	120,850
21st foreign bond	2.70	2026.10.26	USD	200	227,920	USD	200	241,700
22nd foreign bond	2.57	2031.07.05	USD	100	113,960	USD	100	120,850
23rd foreign bond	Three months USD London inter-bank offered rate + 0.70%	2019.10.28	USD	100	113,960	USD	100	120,850
24th foreign bond	1.65	2019.10.18	HKD	931	135,917	HKD	931	145,078
25th foreign bond	Three months USD London inter-bank offered rate + 0.78%	2019.06.07	USD	200	227,920	USD	200	241,700
26th foreign bond	Three months USD London inter-bank offered rate + 0.70%	2020.04.20	USD	400	455,840		-	-
27th foreign bond	2.31	2032.04.28	SEK	720	97,034		-	-
28th foreign	3.03	2032.05.11	CAD	135	118,421		-	-

Series	Annual interest rate (%)	Maturity	June 30, 2017 Foreign currency		June 30, 2017 Local currency		December 31, 2016 Foreign currency	December 31, 2016 Local currency	
bond									
29th foreign bond	0.25	2024.06.07	CHF	230	₩	274,330	-	₩	-
						24,781,789			25,161,325
Less: discount on bonds						(7,401)			(6,352)
Total bonds						24,774,388			25,154,973
Less: current portion of bonds						(3,033,214)			(3,429,972)
Less: current portion of discount on bonds						614			1,353
Less: financial liabilities at FVTPL						(118,935)			(121,096)
Less: current portion of discount on bonds						-			22
					₩	21,622,853		₩	21,605,280

(5) The repayment schedule of borrowings and bonds as of June 30, 2017, and December 31, 2016, is as follows (Korean won in millions):

As of June 30, 2017:

	Borrowings		Bonds		Total	
Within 1 year	₩	-	₩	3,033,214	₩	3,033,214
1 year–5 years		600,000		9,871,384		10,471,384
More than 5 years		-		11,877,191		11,877,191
	₩	600,000	₩	24,781,789	₩	25,381,789

As of December 31, 2016:

	Borrowings		Bonds		Total	
Within 1 year	₩	-	₩	3,429,973	₩	3,429,973
1 year–5 years		400,000		10,249,374		10,649,374
More than 5 years		-		11,481,978		11,481,978
	₩	400,000	₩	25,161,325	₩	25,561,325

15. OTHER FINANCIAL LIABILITIES:

Other financial liabilities as of June 30, 2017, and December 31, 2016, are as follows (Korean won in millions):

	June 30, 2017 Current		June 30, 2017 Non-current		December 31, 2016 Current		December 31, 2016 Non-current	
Asset-backed debt	₩	6,000	₩	-	₩	28,000	₩	-

16. EMPLOYEE BENEFITS:

(1) Defined contribution plans

The Group operates defined contribution plans. According to these plans, the Group's sole obligation is to pay contributions as much as calculated under the plan's benefit formula by a certain percentage of salaries. For the six months ended June 30, 2017 and 2016, the Group contributed ₩7,174 million and ₩7,334 million, respectively.

(2) Defined benefit plans

The Group operates defined contribution plans. The most recent actuarial valuation of defined benefit obligation and plan assets was carried out by DLOG, a actuarial consulting firm, on January 11, 2017, and related current service cost and past service cost are measured using the projected unit credit method.

1) The component of employee benefits liabilities as of June 30, 2017, and December 31, 2016, is as follows (Korean won in millions):

	June 30, 2017		December 31, 2016	
Present value of defined benefit obligation	₩	128,074	₩	118,918
Fair value of plan assets		(63,579)		(64,087)
Net defined benefit liabilities		64,495	₩	54,831

2) Changes in present value of defined benefit obligation for the six months ended June 30, 2017, and for the year ended December 31, 2016, are as follows (Korean won in millions):

	For the six months ended June 30, 2017		For the year ended December 31, 2016	
Beginning balance	₩	118,918	₩	94,004
Current service costs		9,930		17,591
Interest expense (*)		1,555		2,393
Remeasurements		-		8,108
Benefits paid		(2,329)		(3,178)
Ending balance	₩	128,074	₩	118,918

(*) Interest rate applied for defined benefit liabilities is the return on corporate bonds that are rated AAA.

3) Changes in fair value of plan assets for the six months ended June 30, 2017, and for the year ended December 31, 2016, are as follows (Korean won in millions):

	For the six months ended June 30, 2017		For the year ended December 31, 2016	
Beginning balance	₩	64,087	₩	49,711
Interest income (*)		838		1,146
Remeasurements		-		68
Benefits paid by the plan		(1,346)		(2,838)
Contributions into the plan		-		16,000
Ending balance	₩	63,579	₩	64,087

(*) Interest rate applied for plan assets is the return on corporate bonds that are rated AAA.

4) Expenses recognized in profit or loss for the six months ended June 30, 2017 and 2016, are as follows (Korean won in millions):

	2017		2016	
Current service costs	₩	9,930	₩	8,796
Interest expense on liabilities		1,555		1,196
Interest income on plan assets		(838)		(635)
Ending balance	₩	10,647	₩	9,357

Expenses presented above were recognized in the condensed consolidated financial statements as follows (Korean won in millions):

	2017		2016	
Cost of sales	₩	6,194	₩	5,486
Construction in progress and others		1,251		1,120
Selling and administrative expenses (retirement benefit)		2,772		2,367
Selling and administrative expenses (others)		430		384
	₩	10,647	₩	9,357

5) Remeasurements recognized in other comprehensive income for the six months ended June 30, 2017, and for the year ended December 31, 2016, are as follows (Korean won in millions):

	For the six months ended June 30, 2017		For the year ended December 31, 2016	
Actuarial losses	₩	-	₩	(8,108)
Return on plan assets		-		68
	₩	-	₩	(8,040)

6) The Group plans to contribute ₩15,000 million to defined benefit plan in the second half of 2017.

17. PROVISIONS:

(1) Provisions as of June 30, 2017, and December 31, 2016, are as follows (Korean won in millions):

	June 30, 2017				December 31, 2016			
	Current		Non-current		Current		Non-current	
Provisions for litigation	₩	-	₩	11,063	₩	-	₩	6,461
Provisions for short-term employee benefits		63,317		-		82,920		
	₩	63,317	₩	11,063	₩	82,920	₩	6,461

(2) Changes in provisions for the six months ended June 30, 2017, and for the year ended December 31, 2016, are as follows (Korean won in millions):

	For the six months ended June 30, 2017				For the year ended December 31, 2016			
	Provisions for litigation		Provisions for short-term employee benefits		Provisions for litigation		Provisions for short-term employee benefits	
Beginning balance	₩	6,461	₩	82,920	₩	4,608	₩	79,512
Increase		10,720		-		2,464		82,920
Utilization		-		(19,603)		-		(79,512)
Reversal		(6,118)		-		(611)		-
Ending balance	₩	11,063	₩	63,317	₩	6,461	₩	82,920

18. GOVERNMENT GRANTS:

(1) Accounting for government grants

Government grants whose primary condition is that the Group purchases; constructs; or, otherwise, acquires assets are deducted in calculating the carrying amount of the asset.

(2) Government grants as of June 30, 2017, and December 31, 2016, are as follows (Korean won in millions):

	June 30, 2017	December 31, 2016
Buildings	₩ 182	₩ 260
Structures	231	240
Machinery	1	2
Vehicles	72	27
Furniture and fixtures	15	17
	₩ 501	₩ 546

(3) Changes in government grants for the six months ended June 30, 2017, and for the year ended December 31, 2016, are as follows (Korean won in millions):

For the six months ended June 30, 2017:

	January 1, 2017	Increase	Decrease	June 30, 2017
Buildings	₩ 260	₩ -	₩ (78)	₩ 182
Structures	240	-	(9)	231
Machinery	2	-	(1)	1
Vehicles	26	53	(7)	72
Furniture and fixtures	18	-	(3)	15
	₩ 546	₩ 53	₩ (98)	₩ 501

For the year ended December 31, 2016:

	January 1, 2016	Increase	Decrease	December 31, 2016
Buildings	₩ 270	₩ -	₩ (10)	₩ 260
Structures	256	-	(16)	240
Machinery	4	-	(2)	2
Vehicles	36	1	(11)	26
Furniture and fixtures	24	-	(6)	18
	₩ 590	₩ 1	₩ (45)	₩ 546

19. SHARE CAPITAL:

(1) The number of authorized shares of the Group as of June 30, 2017, and December 31, 2016, is 3,500,000,000 shares, and the number of shares issued as of June 30, 2017, and December 31, 2016, is 3,196,729,873 shares and 3,092,464,873 shares, respectively, with the par value of ₩10,000. Share capital as of June 30, 2017, and December 31, 2016, is as follows (Korean won in millions):

	June 30, 2017		December 31, 2016	
	Government	Non-government	Government	Non-government
Common stock	₩ 27,373,899	₩ 4,593,400	₩ 26,331,249	₩ 4,593,400

(2) Changes in the number of shares for the six months ended June 30, 2017 and 2016, are as follows (In shares):

	For the six months ended June 30, 2017		For the six months ended June 30, 2016	
Beginning number of shares	₩	3,092,464,873	₩	2,955,018,173
Issuance of stock		104,265,000		105,800,000
Ending number of shares	₩	3,196,729,873	₩	3,060,818,173

20. RETAINED EARNINGS AND DIVIDENDS:

(1) Composition of retained earnings as of June 30, 2017, and December 31, 2016, is as follows (Korean won in millions):

	June 30, 2017		December 31, 2016	
Legal reserve	₩	388,105	₩	361,174
Other legal reserve		805,968		767,556
Unappropriated retained earnings		74,882		118,949
	₩	1,268,955	₩	1,247,679

(*) The Korea Expressway Corporation Act requires the Company to appropriate, as a legal reserve, at least 20% of net income for each period, until the reserve equals 50% of outstanding capital stock. The legal reserve may not be utilized for cash dividends, but may be used to offset a future deficit, if any, or may be transferred to capital stock.

(2) Composition of other legal reserve as of June 30, 2017, and December 31, 2016, is as follows (Korean won in millions):

	June 30, 2017		December 31, 2016	
Reserve for business expansion	₩	805,968	₩	767,556

(3) Changes in retained earnings for the six months ended June 30, 2017, and for the year ended December 31, 2016, are as follows (Korean won in millions):

	For the six months ended June 30, 2017		For the year ended December 31, 2016	
Beginning balance	₩	1,247,679	₩	1,159,026
Net income attributable to controlling interests		82,545		135,108
Dividends		(37,110)		(38,415)
Remeasurement		-		(8,040)
Amortization of share discount		(24,159)		-
Ending balance	₩	1,268,955	₩	1,247,679

(4) Dividend declared and paid by the Company is as follows (Korean won in millions, except dividend per share):

	For the six months ended June 30, 2017		For the six months ended June 30, 2016	
Dividend paid (₩12 and ₩13 per share in 2017 and 2016, respectively)	₩	37,110	₩	38,415

(5) Changes in remeasurement of defined benefit plan for the six-month period ended June 30, 2017, and for the year ended December 31, 2016, are as follows (Korean won in millions):

	For the six months ended June 30, 2017		For the year ended December 31, 2016	
Beginning balance	₩	(60,653)	₩	(52,613)
Changes		-		(8,040)
Ending balance	₩	(60,653)	₩	(60,653)

21. OTHER EQUITY COMPONENTS:

(1) Composition of other equity components as of June 30, 2017, and December 31, 2016, is as follows (Korean won in millions):

	June 30, 2017		December 31, 2016	
Accumulated other comprehensive income (loss):				
Gain on valuation of AFS financial assets	₩	10,229	₩	10,187
Loss on valuation of cash flow hedge		(54,346)		(91,667)
Gain on valuation of investments in associates and joint venture		3,648		3,614
Subtotal		(40,469)		(77,866)
Others		(3)		(3)
Total	₩	(40,472)	₩	(77,869)

(2) Changes in accumulated other comprehensive income (loss) for the six months ended June 30, 2017 and 2016, are as follows (Korean won in millions):

	For the six months ended June 30, 2017		For the six months ended June 30, 2016	
Beginning balance	₩	(77,866)	₩	(34,062)
Gain on valuation of AFS financial assets		41		105
Gain (loss) on valuation of cash flow hedge		37,322		(27,285)
Gain on valuation of investments in associates and joint venture		34		46
Ending balance	₩	(40,469)	₩	(61,196)

22. REVENUE:

Details of revenue from continuing operations, except other income and finance income, for the six months ended June 30, 2017 and 2016, are as follows (Korean won in millions):

	For the six months ended June 30, 2017		For the six months ended June 30, 2016	
Revenue from product sales:				
Sales of oil	₩	85,511	₩	70,131
Subtotal		85,511		70,131
Revenue from services:				
Operation of toll expressways		2,001,847		1,961,954
Operation of other expressways		1,332		4,216
Rental income from service areas		82,843		81,435
Rental income from gas station		30,535		19,634
Others incidental business		9,569		7,823
Management of privately funded expressways		15,265		19,641
Indemnity for loss on land		472		258
Operation of information center		3,820		3,416
Others		11,078		8,091
Subtotal		2,156,761		2,106,468
Construction contract revenue:				
Incidental business		-		-
Construction business		1,298,844		1,024,912
Subtotal		1,298,844		1,024,912
Revenue from consignment:				
Supporting business		26,140		80,240
Consignment business		42,750		27,614
Subtotal		68,890		107,854
Total	₩	3,610,006	₩	3,309,365

23. FINANCE INCOME:

(1) Details of finance income for the six months ended June 30, 2017 and 2016, are as follows (Korean won in millions):

	2017	2016
Interest income	₩ 3,795	₩ 5,059
Dividends income	391	78
Gain on disposal of financial assets	1,744	1,710
Gain on valuation of financial assets at FVTPL	15,248	-
Gain on valuation of derivative instruments	34,410	16,503
Gain on hedged item related to fair value hedge	-	1,975
Gain on foreign currencies translations	118,778	13,426
Gain on foreign currencies transactions	40,335	-
	₩ 214,701	₩ 38,751

(2) Details of interest income included in finance income for the six months ended June 30, 2017 and 2016, are as follows (Korean won in millions):

	2017	2016
Cash and cash equivalents	₩ 2,284	₩ 3,150
Loans and receivables	571	706
Trade and other receivables	940	1,203
	₩ 3,795	₩ 5,059

24. FINANCE COSTS:

(1) Details of finance costs for the six months ended June 30, 2017 and 2016, are as follows (Korean won in millions):

	2017	2016
Interest expense	₩ 316,763	₩ 408,615
Loss on disposal of financial assets	1,300	1,201
Loss on valuation of financial assets at FVTPL	988	2,390
Loss on valuation of derivative instruments	118,752	13,421
Loss on transaction of derivative instruments	40,331	-
Loss on hedged item related to fair value hedge	2,161	-
Loss on foreign currencies translations	34,519	16,526
	₩ 514,814	₩ 442,153

(2) Details of interest expense included in finance costs for the six months ended June 30, 2017 and 2016, are as follows (Korean won in millions):

	2017	2016
Trade and other payables	₩ 6,884	₩ 5,244
Financial liabilities at FVTPL	1,377	840
Short-term borrowings	1,114	87
Long-term borrowings	4,550	99
Bonds	452,906	500,999
Other financial liabilities	482	2,565
Others	129	152
	467,442	509,986
Less: capitalization of borrowing costs	(150,679)	(101,371)
	₩ 316,763	₩ 408,615

25. INCOME TAX EXPENSE:

(1) The components of income tax expense for the six months ended June 30, 2017 and 2016, are as follows (Korean won in millions):

	2017	2016
Current tax expense	₩ 23,634	₩ 17,305
Current adjustments for prior periods	10,359	8,589
Total income tax expense	₩ 33,993	₩ 25,894

(2) Relation between income before income tax expense and income tax expense for the six months ended June 30, 2017 and 2016, is as follows (Korean won in millions):

	2017	2016
Income before income tax expense	₩ 116,538	₩ 84,604
Tax rate	24.2%	24.2%
Income tax using the Group's statutory tax rate	28,202	20,474
Adjustment:		
Effect of step-up tax rate	(462)	(462)
Current adjustments for prior periods	10,359	8,589
Non-deductible expense and non-taxable revenue	431	455
Change effect on deferred income taxes of prior temporary differences and other	(4,537)	(3,162)
Subtotal	5,791	5,420
Income tax expense	₩ 33,993	₩ 25,894
Average effective tax rate	29.17%	30.61%

(3) As of June 30, 2017, and December 31, 2016, the Group has not recognized the deferred tax assets of net deductible temporary differences and tax deficiencies, as it is not probable that taxable profit will be available against which the temporary differences and tax deficiencies can be utilized.

26. NATURE OF EXPENSES:

Details of nature of expenses for the six months ended June 30, 2017 and 2016, are as follows (Korean won in millions):

	Change in inventories		Selling, general and administrative expenses		Cost		Total	
	2017	2016	2017	2016	2017	2016	2017	2016
Change in inventories	₩ 1,595	₩ 7,948	₩ -	₩ -	₩ -	₩ -	₩ 1,595	₩ 7,948
Used inventories	184,108	147,801	-	-	-	-	184,108	147,801
Salaries	-	-	35,154	36,005	108,043	107,071	143,197	143,076
Retirement and severance benefit	-	-	3,972	3,655	10,875	10,478	14,847	14,133
Compensation for removal	-	-	240	-	476	5	716	5
Welfare	-	-	7,771	9,442	16,999	20,075	24,770	29,517
Insurance	-	-	21	79	107	84	128	163
Depreciation	-	-	9,348	8,190	61,752	54,706	71,100	62,896
Amortization	-	-	5,581	4,191	1,164,022	997,685	1,169,603	1,001,876
Recovery of doubtful accounts	-	-	(6)	(3)	-	-	(6)	(3)
Service fees	-	-	3,532	3,270	187,717	188,898	191,249	192,168
Advertisement	-	-	702	592	4,818	4,404	5,520	4,996
Training	-	-	2,447	2,208	844	693	3,291	2,901
Vehicles maintenance	-	-	267	275	10,118	9,034	10,385	9,309
Publication	-	-	186	156	211	542	397	698
Business promotion	-	-	65	64	115	148	180	212
Rent	-	-	1,111	1,162	605	507	1,716	1,669
Communication	-	-	463	401	1,209	1,254	1,672	1,655
Taxes and dues	-	-	319	282	908	972	1,227	1,254
Supplies	-	-	595	521	1,413	1,236	2,008	1,757
Utilities	-	-	1,131	1,168	32,404	27,138	33,535	28,306
Repairs	-	-	2,562	2,164	84,023	87,109	86,585	89,273
Development expenses	-	-	1,453	1,371	582	519	2,035	1,890
Travel	-	-	862	1,006	1,335	1,256	2,197	2,262
Clothes	-	-	36	36	91	12	127	48
Survey and analysis	-	-	239	219	104	155	343	374
Sales promotion expenses	-	-	-	-	431	382	431	382
Other selling and administrative expenses	-	-	15,650	14,579	-	-	15,650	14,579
Other cost of sales	-	-	-	-	1,294,360	1,079,623	1,294,360	1,079,623
	₩ 185,703	₩ 155,749	₩ 93,701	₩ 91,033	₩2,983,562	₩ 2,593,986	₩ 3,262,966	₩ 2,840,768

27. EARNINGS PER SHARE:

There are no dilutive securities, and earnings per share for the six months ended June 30, 2017 and 2016, are as follows (Korean won):

	2017	2016
Income attributable to owners of the Company	₩ 82,544,994,071	₩ 58,709,321,511
Weighted-average number of common shares outstanding (shares)	3,127,082,027	3,013,650,989
Basic earnings per share	₩ 26	₩ 19

28. FINANCIAL INSTRUMENTS AND RISK MANAGEMENT:

(1) Financial assets and liabilities by categories as of June 30, 2017, and December 31, 2016, are as follows (Korean won in millions):

As of June 30, 2017:

Current financial assets	Financial assets at FVTPL Held for trading	Loans and receivables	AFS financial assets	Held-to-maturity investments	Derivatives designated as hedge	Total
Cash and cash equivalents	₩ -	₩ 625,575	₩ -	₩ -	₩ -	₩ 625,575
Assets at FVTPL	524	-	-	-	-	524
Derivative assets	-	-	-	-	21,243	21,243
Loans and receivables	-	2,057	-	-	-	2,057
Others	-	4,689	-	-	-	4,689
Subtotal	524	632,321	-	-	21,243	654,088
Trade and other receivables	-	146,549	-	-	-	146,549
Total	₩ 524	₩ 778,870	₩ -	₩ -	₩ 21,243	₩ 800,637

Non-current financial assets	Financial assets at FVTPL Held for trading	Loans and receivables	AFS financial assets	Held-to-maturity investments	Derivatives designated as hedge	Total
Derivative assets	₩ -	₩ -	₩ -	₩ -	₩ 44,309	₩ 44,309
AFS assets	-	-	91,003	-	-	91,003
Long-term financial instruments	-	3	-	-	-	3
Loans and receivables	-	28,860	-	-	-	28,860
Subtotal	-	28,863	91,003	-	44,309	164,175
Trade and other receivables	-	79,963	-	-	-	79,963
Total	₩ -	₩ 108,826	₩ 91,003	₩ -	₩ 44,309	₩ 244,138

Current financial liabilities	Financial liabilities at FVTPL		Financial liabilities measured at amortized cost	Derivatives designated as hedge	Total
	Held for trading	Designated as at FVTPL			
Short-term borrowings	₩ -	₩ -	₩ 150,000	₩ -	₩ 150,000
Bonds			3,032,600		3,032,600
Derivative liabilities			-	5,242	5,242
Others	-	-	6,000	-	6,000
Subtotal	-	-	3,188,600	5,242	3,193,842
Trade and other payables	-	-	562,036	-	562,036
Total	₩ -	₩ -	₩ 3,750,636	₩ 5,242	₩ 3,755,878

Non-current financial liabilities	Financial liabilities at FVTPL		Financial liabilities measured at amortized cost	Derivatives designated as hedge	Total
	Held for trading	Designated as at FVTPL			
Financial liabilities at FVTPL	₩ 23,180	₩ 118,935	₩ -	₩ -	₩ 142,115
Long-term borrowings	-	-	600,000	-	600,000
Bonds	-	-	21,622,853	-	21,622,853
Derivative liabilities	-	-	-	86,691	86,691
Subtotal	23,180	118,935	22,222,853	86,691	22,451,659
Trade and other payables	-	-	496,975	-	496,975
Total	₩ 23,180	₩ 118,935	₩ 22,719,828	₩ 86,691	₩ 22,948,634

As of December 31, 2016:

Current financial assets	Financial assets at FVTPL Held for trading	Loans and receivables	AFS financial assets	Held-to-maturity investments	Derivatives designated as hedge	Total
Cash and cash equivalents	₩ -	₩ 632,760	₩ -	₩ -	₩ -	₩ 632,760
Assets at FVTPL	1,513	-	-	-	-	1,513
Derivative assets	-	-	-	-	121,412	121,412
Loans and receivables	-	2,310	-	-	-	2,310
Others	-	4,111	-	-	-	4,111
Subtotal	1,513	639,181	-	-	121,412	762,106
Trade and other receivables	-	162,705	-	-	-	162,705
Total	₩ 1,513	₩ 801,886	₩ -	₩ -	₩ 121,412	₩ 924,811

Non-current financial assets	Financial assets at FVTPL Held for trading	Loans and receivables	AFS financial assets	Held-to-maturity investments	Derivatives designated as hedge	Total
Derivative assets	₩ -	₩ -	₩ -	₩ -	₩ 65,976	₩ 65,976
AFS assets	-	-	87,908	-	-	87,908
Long-term financial instruments	-	3	-	-	-	3
Loans and receivables	-	29,251	-	-	-	29,251
Subtotal	-	29,254	87,908	-	65,976	183,138
Trade and other receivables	-	69,462	-	-	-	69,462
Total	₩ -	₩ 98,716	₩ 87,908	₩ -	₩ 65,976	₩ 252,600

Current financial liabilities	Financial liabilities at FVTPL		Financial liabilities measured at amortized cost	Derivatives designated as hedge	Total
	Held for trading	Designated as at FVTPL			
Bonds	₩ -	₩ -	₩ 3,428,620	₩ -	₩ 3,428,620
Derivative liabilities			-	14,978	14,978
Others	-	-	28,000	-	28,000
Subtotal	-	-	3,456,620	14,978	3,471,598
Trade and other payables	-	-	954,782	-	954,782
Total	₩ -	₩ -	₩ 4,411,402	₩ 14,978	₩ 4,426,380

Non-current financial liabilities	Financial liabilities at FVTPL		Financial liabilities measured at amortized cost	Derivatives designated as hedge	Total
	Held for trading	Designated as at FVTPL			
Financial liabilities at FVTPL	₩ 36,267	₩ 121,074	₩ -	₩ -	₩ 157,341
Long-term borrowings	-	-	400,000	-	400,000
Bonds	-	-	21,605,280	-	21,605,280
Derivative liabilities	-	-	-	79,014	79,014
Subtotal	36,267	121,074	22,005,280	79,014	22,241,635
Trade and other payables	-	-	401,282	-	401,282
Total	₩ 36,267	₩ 121,074	₩ 22,406,562	₩ 79,014	₩ 22,642,917

(2) Gain and loss of financial instruments by categories for the six months ended June 30, 2017 and 2016, are as follows (Korean won in millions):

	2017	2016
Cash and cash equivalents		
Interest income	₩ 2,285	₩ 3,151
Financial assets at FVTPL:		
Gain on disposal, net	-	1,303
Gain (loss) on valuation, net	(988)	583
Loans and receivables:		
Interest income	1,510	1,908
AFS financial assets:		
Dividends	391	78
Comprehensive income	41	106
Derivatives designated as hedge:		
Loss on transaction, net	(40,331)	-
Gain (loss) on valuation, net	(30,346)	597
Comprehensive loss	(7,241)	(7,862)
Financial liabilities at FVTPL:		
Interest expenses (*)	(1,377)	(840)
Gain (loss) on transaction, net	444	(794)
Gain (loss) on valuation, net	15,248	(2,972)
Other financial liabilities measured at amortized cost:		
Interest expense (*)	(315,386)	(407,796)
Gain on foreign currencies transaction, net	40,335	-
Gain (loss) on foreign currencies translation, net	84,259	(3,100)
Derivative liabilities designated as hedge:		
Gain (loss) on valuation, net	(56,157)	4,461
Comprehensive income (loss)	44,769	(18,043)

(*) Amount before deducting the capitalization of borrowing costs.

(3) Financial risk management

The Group's financial risk management purpose and policies for 2017 are the same as those for the year ended December 31, 2016.

(4) Fair value measurements

1) Fair values versus carrying amounts

The fair values of financial assets and liabilities, together with the carrying amounts shown in the condensed consolidated statement of financial position, as of June 30, 2017, and December 31, 2016, are as follows (Korean won in millions):

	As of June 30, 2017		As of December 31, 2016	
	Carrying amount	Fair value	Carrying amount	Fair value
Assets carried at fair value:				
Current financial assets at FVTPL	₩ 525	₩ 525	₩ 1,513	₩ 1,513
Current derivative financial assets	21,243	21,243	121,413	121,413
Non-current AFS financial assets	91,003	91,003	87,908	87,908
Non-current derivative financial assets	44,309	44,309	65,976	65,976
	₩ 157,080	₩ 157,080	₩ 276,810	₩ 276,810
Assets carried at amortized cost:				
Cash and cash equivalents	₩ 625,575	₩ 625,575	₩ 632,760	₩ 632,760
Short-term loans and receivables	2,057	2,057	2,310	2,310
Current other financial assets	4,689	4,689	4,111	4,111
Trade and other receivables	146,549	146,549	162,705	162,705
Long-term financial instruments	3	3	3	3
Long-term loans and receivables	28,860	28,860	29,251	29,251
Long-term trade and other receivables	79,963	79,963	69,462	69,462
	₩ 887,696	₩ 887,696	₩ 900,602	₩ 900,602

	As of June 30, 2017				As of December 31, 2016			
	Carrying amount		Fair value		Carrying amount		Fair value	
Liabilities carried at fair value:								
Current derivative financial liabilities	₩	5,242	₩	5,242	₩	14,978	₩	14,978
Non-current financial liabilities at FVTPL		142,115		142,115		157,341		157,341
Non-current derivative financial liabilities		86,691		86,691		79,014		79,014
	₩	234,048	₩	234,048	₩	251,333	₩	251,333
Liabilities carried at amortized cost:								
Trade and other payables	₩	562,036	₩	562,036	₩	954,782	₩	954,782
Short-term borrowings		150,000		150,000		-		-
Current portion of bonds		3,032,600		3,032,600		3,428,620		3,428,620
Current other financial liabilities		6,000		6,000		28,000		28,000
Long-term trade and other payables		496,975		496,975		401,282		401,282
Long-term borrowings		600,000		600,000		400,000		400,000
Bonds		21,622,853		21,622,853		21,605,280		21,605,280
	₩	26,470,464	₩	26,470,464	₩	26,817,964	₩	26,817,964

2) Fair value hierarchy

The different levels of fair values of financial assets and liabilities have been defined as follows:

- ✓ Level 1: quoted prices (unadjusted) in active markets for identical assets or liabilities.
- ✓ Level 2: inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly (i.e., as prices) or indirectly (i.e., derived from prices).
- ✓ Level 3: inputs for the asset or liability that are not based on observable market data (unobservable inputs).

Financial instruments that are measured subsequent to initial recognition at fair value, by fair value hierarchy levels, as of June 30, 2017, and December 31, 2016, are as follows (Korean won in thousands):

	Level 1		Level 2		Level 3		Total	
As of June 30, 2017:								
Non-current financial assets at FVTPL	₩	-	₩	524	₩	-	₩	524
Non-current AFS financial assets		-		-		42,304		42,304
Current derivative financial assets		-		21,243		-		21,243
Non-current derivative financial assets		-		44,309		-		44,309
Non-current financial liabilities at FVTPL		-		142,115		-		142,115
Current derivative financial liabilities		-		5,242		-		5,242
Non-current derivative financial liabilities		-		86,691		-		86,691
As of December 31, 2016:								
Non-current financial assets at FVTPL	₩	-	₩	1,513	₩	-	₩	1,513
Non-current AFS financial assets		-		-		42,304		42,304
Current derivative financial assets		-		121,413		-		121,413
Non-current derivative financial assets		-		65,976		-		65,976
Current derivative financial liabilities		-		14,978		-		14,978
Non-current financial liabilities at FVTPL		-		157,341		-		157,341
Non-current derivative financial liabilities		-		79,014		-		79,014

The method used for the valuation of AFS financial assets measured at fair value is as follows:

Valuation method	Discount rate
Discounted cash flow method	Weighted-Average Cost of Capital (6.2%)

29. RELATED-PARTY TRANSACTIONS:

(1) Details of the Group's related parties as of June 30, 2017, are as follows:

	Name
Ultimate controlling party	Ministry of Land, Infrastructure and Transport
Associates	Korea Construction Management Corporation, Expressway Solar Power Co., Ltd. and Highwaysolar Co., Ltd.
Joint venture	Busan-Ulsan Expressway Co., Ltd.

(2) Transactions between the Group and related parties are as follows:

1) Revenue and expenses transactions with related parties for the six months ended June 30, 2017 and 2016, are as follows (Korean won in millions):

Company	Transactions	2017	2016
Busan-Ulsan Expressway Co., Ltd.	Sales	₩ 9,441	₩ 9,263
Korea Construction Management Corporation	Sales	1	-
	Cost of sales	675	771
Expressway Solar Power Co., Ltd.	Sales	760	756
Highway Solar Co., Ltd.	Sales	389	387

2) Receivables and payables with related parties as of June 30, 2017, and December 31, 2016, are as follows (Korean won in millions):

Company	Receivables and payables	June 30, 2017	December 31, 2016
Busan-Ulsan Expressway Co., Ltd.	Other accounts receivable	₩ -	₩ 6
	Other accounts payable	79	194
Korea Construction Management Corporation	Other accounts payable	-	135
Expressway Solar Power Co., Ltd.	Other accounts receivable	-	28
Highway Solar Co., Ltd.	Other accounts receivable	13	13

3) Ministry of Land, Infrastructure and Transport participated in the capital increase of ₩1,042,650 million and ₩1,058,000 million for the six months ended June 30, 2017 and 2016, respectively.

4) The remuneration of directors and executive officers, who are the key management personnel of the Group, for the six months ended June 30, 2017 and 2016, is as follows (Korean won in millions):

	For the six months ended June 30, 2017	For the six months ended June 30, 2016
Salaries	₩ 304	₩ 330

30. CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS:

(1) The main non-cash-generating investing activities and financing activities for the six months ended June 30, 2017, are as follows (Korean won in millions):

		For the six months ended June 30, 2017
Reclassification of bonds to current portion	₩	1,655,309
Reclassification of construction in progress (property and equipment)		2
Reclassification of construction in progress (investment property)		19,986
Reclassification of intangible assets under development		2,526,035
Increase of long-term accrued expenses due to acquisition of intangible assets under development		75,724

(2) Changes in liabilities arising from financing activities for the six months ended June 30, 2017, are as follows (Korean won in millions):

			Non-cash-generating changes			
Liabilities	January 1, 2017	Cash flows	Reclassification	Effects of exchange rate changes	Others	June 30, 2017
Short-term borrowings	₩ -	₩ 150,000	₩ -	₩ -	₩ -	₩ 150,000
Current portion of bonds	3,428,620	(2,015,722)	1,655,309	(36,843)	1,235	3,032,599
Other financial liabilities	28,300	(22,000)	-	-	-	6,300
Long-term borrowings	400,000	200,000	-	-	-	600,000
Bonds	21,605,280	1,719,811	(1,655,309)	(47,416)	487	21,622,853
Total	₩ 25,462,200	₩ 32,089	₩ -	₩ (84,259)	₩ 1,722	₩ 25,411,752

31. CONTINGENCIES:

(1) Details of major pending lawsuits as a defendant as of June 30, 2017, are as follows (Korean won in millions):

Court	Details	Litigation price	Progress
Seoul Central District Court	Claims for payment	₩ 13,507	Trial court
Seoul Central District Court	Claims for payment	15,926	Trial court
Seoul Central District Court	Claims for reimbursement	10,887	Trial court
Seoul Western District Court	Claims for payment	10,306	Trial court
		₩ 50,626	

Including above lawsuits, the Group is involved in 351 lawsuits amounting to ₩152,039 million as a defendant, with a recognized provision for litigation of ₩11,063 million. Except for this, no other provision was recognized as the Group was not able to predict reasonably any impact on the condensed consolidated financial statements as of June 30, 2017.

(2) As of June 30, 2017, Seoul Guarantee Insurance provides performance guarantees of ₩115,446 million.

(3) As of June 30, 2017, except for providing a portion of AFS financial assets and investments in associates and joint venture as collateral (described in Notes 8 and 10), the Group has not provided any guarantees to the third parties.

Deloitte.

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Independent Auditors' Report

English Translation of Independent Auditors' Report Originally Issued in Korean on March 21, 2018

To the Shareholders and the Board of Directors of
Korea Expressway Corporation:

We have audited the accompanying financial statements of Korea Expressway Corporation (the "Company"). The financial statements consist of the statement of financial position as of December 31, 2017 and 2016, respectively, and the related statements of comprehensive income, statements of changes in equity and statements of cash flows, all expressed in Korean won, for the years ended December 31, 2017 and 2016, respectively, and a summary of significant accounting policies and other explanatory information.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of the accompanying financial statements in accordance with Korean Government-owned and Quasi-government Accounting Regulations and Standards, and for such internal control as management determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditors' Responsibility

Our responsibility is to express a conclusion on the accompanying financial statements based on our audits. We conducted our audits in accordance with Korean Standards on Auditing. Those standards require that we comply with ethical requirements and plan and perform the audits to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the financial statements present fairly, in all material respects, the financial position of the Company as of December 31, 2017 and 2016, respectively, and its financial performance and its cash flows for the years ended December 31, 2017 and 2016, respectively, in accordance with Korean Government-owned and Quasi-government Accounting Regulations and Standards.

Deloitte.

Emphasis of Matter

(1) Priority of application of the Korean Government-owned and Quasi-government Accounting Regulations and Standards
As discussed in Note 2, the financial statements have been prepared in accordance with the Korean Government-owned and Quasi-government Accounting Regulations and Standards, and as prescribed by these Regulations, except as otherwise provided in these Regulations and Standards, Korean International Financial Reporting Standards ("K-IFRSs") has been applied for the preparation of financial statements. Our opinion is not qualified in respect of this matter.

(2) Audited financial statements
As discussed in Note 2, Korea Expressway does not have any subsidiary to be consolidated as of December 31, 2017, due to the liquidation of a subsidiary for the year ended December 31, 2017. The current financial statements are based on the equity method of accounting for associates and joint ventures, and the comparative financial statements as of December 31, 2016, and for the year then ended are consolidated financial statements. Our opinion is not qualified in respect of this matter.

Deloitte Anjin LLC

March 21, 2018

Notice to Readers

This report is effective as of March 21, 2018, the auditors' report date. Certain subsequent events or circumstances may have occurred between the auditors' report date and the time the auditors' report is read. Such events or circumstances could significantly affect the financial statements and may result in modifications to the auditors' report.

KOREA EXPRESSWAY CORPORATION

FINANCIAL STATEMENTS
AS OF AND FOR THE YEARS ENDED
DECEMBER 31, 2017 AND 2016

The accompanying financial statements, including all footnote disclosures, were prepared by, and are the responsibility of, KOREA EXPRESSWAY CORPORATION.

Lee, Gang-Rae
Chief Executive Officer
KOREA EXPRESSWAY CORPORATION

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(Telephone) +82-1588-2504

KOREA EXPRESSWAY CORPORATION

STATEMENTS OF FINANCIAL POSITION

AS OF DECEMBER 31, 2017 AND 2016

	Note	December 31, 2017	December 31, 2016
ASSETS		(Korean won in thousands)	
CURRENT ASSETS:			
Cash and cash equivalents	5,37,38	₩ 500,017,512	₩ 632,759,858
Financial assets at FVTPL	6,37,38	-	1,512,746
Short-term loans and receivables	9,37,38	2,081,367	2,309,917
Derivatives	6,37,38	-	121,412,501
Other financial assets	37,38	5,011,378	4,111,104
Trade and other receivables	7,37,38	204,705,641	162,705,232
Inventories	10	17,689,820	16,872,657
Other non-financial assets	11	5,130,339	4,537,836
		734,636,057	946,221,851
NON-CURRENT ASSETS:			
Financial assets at FVTPL	6,37,38	885,595	-
AFS financial assets	8,37,38	95,886,544	87,908,149
Derivatives	6,37,38	32,720,836	65,976,297
Long-term loans and receivables	9,37,38	28,474,669	29,250,928
Long-term financial instruments		-	3,000
Trade and other receivables	7,37,38	80,099,332	69,462,316
Property and equipment	13,21	998,420,569	956,453,942
Investment property	14	1,293,941,039	1,141,591,048
Intangible assets	15	57,807,680,377	56,267,392,325
Investments in associates and joint venture	12	8,167,919	8,996,825
Other non-financial assets	11	8,834,861	9,305,377
		60,355,111,741	58,636,340,207
Total assets		₩ 61,089,747,798	₩ 59,582,562,058

(Continued)

KOREA EXPRESSWAY CORPORATION

STATEMENTS OF FINANCIAL POSITION (CONTINUED)

AS OF DECEMBER 31, 2017 AND 2016

	Note	December 31, 2017	December 31, 2016
LIABILITIES		(Korean won in thousands)	
CURRENT LIABILITIES:			
Trade and other payables	16,37,38	₩ 696,643,496	₩ 954,781,735
Current portion of bonds, net	17,37,38	2,801,101,752	3,428,619,887
Derivatives	6,37,38	36,475,608	14,978,420
Other financial liabilities	17,18,37,38	-	28,000,000
Current tax liability		38,703,839	72,884,258
Provision for short-term employee benefits	20	83,641,757	82,920,279
Other non-financial liabilities	22	82,970,630	71,347,504
		3,739,537,082	4,653,532,083
NON-CURRENT LIABILITIES:			
Financial liabilities at FVTPL	6,17,37,38	144,854,321	157,340,810
Trade and other payables	16,37,38	595,814,833	401,282,533
Long-term borrowings	17,37,38	600,000,000	400,000,000
Bonds, net	17,37,38	22,026,360,131	21,605,279,855
Derivatives	6,37,38	152,109,314	79,014,272
Other non-financial liabilities	22	64,238,962	68,498,525
Employee benefits	19	124,899,602	141,050,519
Provisions	20	34,965,476	6,460,805
		23,743,242,639	22,858,927,319
Total liabilities		27,482,779,721	27,512,459,402
EQUITY			
Equity attributable to the owners of the Company:			
Share capital	24	32,285,244,730	30,924,648,730
Share discount		-	(24,159,376)
Retained earnings	25	1,311,487,753	1,247,678,944
Other equity component	27	10,235,594	(77,868,510)
		33,606,968,077	32,070,299,788
Non-controlling interests		-	(197,132)
Total equity		33,606,968,077	32,070,102,656
Total liabilities and equity		₩ 61,089,747,798	₩ 59,582,562,058

(Concluded)

See accompanying notes to financial statements.

KOREA EXPRESSWAY CORPORATION

STATEMENTS OF COMPREHENSIVE INCOME

FOR THE YEARS ENDED DECEMBER 31, 2017 AND 2016

	Note	2017	2016
		(Korean won in thousands, except for earnings per share in won)	
Sales	4,23,28	₩ 8,059,818,661	₩ 8,159,035,729
Cost of sales	23,35	6,847,351,363	7,204,881,685
Gross profit		1,212,467,298	954,154,044
Selling and administrative expenses	29,35	240,875,774	228,665,229
Operating profit	4	971,591,524	725,488,815
Other income	30	112,713,987	73,204,843
Other expenses	30	94,660,616	73,617,802
Other profit (loss)	31	(11,034,661)	299,023,697
Finance income	32,37	328,343,894	136,207,238
Finance costs	33,37	1,109,451,656	947,622,279
Share of income of investment associates and joint venture	12	(862,106)	746,557
Income before income tax expense		196,640,366	213,431,069
Income tax expense	34	61,143,731	78,323,455
Net income		135,496,635	135,107,614
Other comprehensive income (loss), net of income tax:			
Items not subsequently reclassified to profit or loss:			
Remeasurements of defined benefit plan	19	(10,418,872)	(8,039,762)
Items subsequently reclassified to profit or loss:			
Net change in unrealized fair value of AFS financial assets	27	3,396,185	5,864,964
Net changes in unrealized fair value of cash flow hedges	27	84,674,718	(48,107,736)
Change in equity of investments in associates and joint venture		33,201	37,224
		88,104,104	(42,205,548)
Total comprehensive income		₩ 213,181,867	₩ 84,862,304
Income attributable to:			
Owners of the Company		₩ 135,496,635	₩ 135,107,521
Non-controlling interests		-	93
		₩ 135,496,635	₩ 135,107,614
Total comprehensive income attributable to:			
Owners of the Company		₩ 213,181,867	₩ 83,263,785
Non-controlling interests		-	1,598,519
		₩ 213,181,867	₩ 84,862,304
Net earnings per share:			
Basic earnings per share	36	₩ 43	₩ 45
Diluted earnings per share	36	43	45

See accompanying notes to financial statements.

KOREA EXPRESSWAY CORPORATION

STATEMENTS OF CHANGES IN EQUITY

FOR THE YEARS ENDED DECEMBER 31, 2017 AND 2016

(Korean won in thousands)

	Equity attributable to owners of the Company					
	Share capital, net	Retained earnings	Other equity components	Total	Non-controlling interests	Total equity
Balance at January 1, 2016	₩ 29,526,022,354	₩ 1,159,026,421	₩ (34,064,536)	₩ 30,650,984,239	₩ (2,349,560)	₩ 30,648,634,679
Total comprehensive income for the year:						
Net income	-	135,107,521	-	135,107,521	93	135,107,614
Other comprehensive income (loss)	-	(8,039,762)	(43,803,974)	(51,843,736)	1,598,426	(50,245,310)
	-	127,067,759	(43,803,974)	83,263,785	1,598,519	84,862,304
Transactions with the owners of the Company, recognized directly in equity:						
Capital increase by issuing new stocks	1,374,467,000	-	-	1,374,467,000	-	1,374,467,000
Dividends to owners of the Company	-	(38,415,236)	-	(38,415,236)	-	(38,415,236)
Changes in scope of consolidation	-	-	-	-	553,909	553,909
	1,374,467,000	(38,415,236)	-	1,336,051,764	553,909	1,336,605,673
Balance at December 31, 2016	₩ 30,900,489,354	₩ 1,247,678,944	₩ (77,868,510)	₩ 32,070,299,788	₩ (197,132)	₩ 32,070,102,656
Balance at January 1, 2017	₩ 30,900,489,354	₩ 1,247,678,944	₩ (77,868,510)	₩ 32,070,299,788	₩ (197,132)	₩ 32,070,102,656
Total comprehensive income for the year:						
Net income	-	135,496,635	-	135,496,635	-	135,496,635
Other comprehensive income (loss)	-	(10,418,872)	88,104,104	77,685,232	-	77,685,232
	-	125,077,763	88,104,104	213,181,867	-	213,181,867
Transactions with the owners of the Company, recognized directly in equity:						
Capital increase by issuing new stocks	1,360,596,000	-	-	1,360,596,000	-	1,360,596,000
Dividends to owners of the Company	-	(37,109,578)	-	(37,109,578)	-	(37,109,578)
Changes in scope of consolidation	-	-	-	-	197,132	197,132
Amortization of share discount	24,159,376	(24,159,376)	-	-	-	-
	1,384,755,376	(61,268,954)	-	1,323,486,422	197,132	1,323,683,554
Balance at December 31, 2017	₩ 32,285,244,730	₩ 1,311,487,753	₩ 10,235,594	₩ 33,606,968,077	₩ -	₩ 33,606,968,077

See accompanying notes to financial statements.

KOREA EXPRESSWAY CORPORATION

STATEMENTS OF CASH FLOWS

FOR THE YEARS ENDED DECEMBER 31, 2017 AND 2016

	2017	2016
	(Korean won in thousands)	
CASH FLOWS FROM OPERATING ACTIVITIES:		
Net income	₩ 135,496,635	₩ 135,107,614
Adjustments for:		
Bad debt expense	1,556,945	831,004
Other bad debt expense	2,600,155	11,160
Loss on valuation of financial assets at FVTPL, net	(13,375,985)	17,607,258
Loss (gain) on disposal of financial assets, net	756,025	(1,114,270)
Loss (gain) on valuation of derivative instruments, net	209,100,673	(86,158,980)
Loss on derivative instrument transactions, net	78,431,200	20,729,500
Loss on hedged item related to fair value hedge	5,515,013	2,662,792
Gain on disposal of property and equipment, net	(1,407,583)	(292,904,554)
Depreciation	140,241,863	127,435,028
Loss on disposal of investment property, net	98,891	62,544
Gain on disposal of intangible assets, net	(24,355,238)	(36,069,775)
Amortization	1,794,524,050	2,090,867,309
Interest expense	798,367,841	799,075,419
Income tax expense	61,143,731	78,323,455
Loss (gain) on foreign currencies translation loss, net	(208,848,329)	86,078,165
Costs for retirement and severance benefits	21,492,913	18,837,673
Share of loss(gain) of investments in associates and joint venture	862,106	(746,557)
Dividends income	(756,470)	(391,440)
Interest income	(9,647,496)	(11,332,317)
Gain on insurance settlements	-	(259,176)
Gain on assets contributed	(31,242,384)	(7,713,442)
Reversal of other allowance for doubtful accounts	(1,788,409)	(1,433,827)
Increase in provisions	34,789,028	2,464,669
Reversal of provisions	(6,284,356)	(611,458)
Income from incidental business	(32,505,696)	(23,978,095)
Salaries	1,911,119	2,576,443
	2,821,179,607	2,784,848,528

(Continued)

KOREA EXPRESSWAY CORPORATION

STATEMENTS OF CASH FLOWS (CONTINUED)

FOR THE YEARS ENDED DECEMBER 31, 2017 AND 2016

	2017	2016
	(Korean won in thousands)	
Changes in working capital:		
Short-term loans	₩ 2,691,705	₩ 2,655,953
Other current financial assets	(900,274)	(167)
Other accounts receivable	(50,114,491)	(30,866,970)
Accrued revenue	(173,577)	(1,649,433)
Short-term deposits	69,832,000	29,725,000
Inventories	(817,163)	3,334,390
Short-term prepaid expenses	(2,503,622)	(2,414,938)
Other non-current financial assets	-	799
Long-term loans	(1,270,380)	377,096
Long-term deposits	(74,382,712)	(23,310,813)
Long-term prepaid expenses	2,283,757	2,480,599
Short-term other accounts payable	(73,806,295)	132,756,895
Short-term accrued expenses	3,245,888	5,664,393
Short-term leasehold deposits	78,545,773	22,796,481
Short-term other deposits	1,824,364	85,364
Short-term advances from customers	7,842,593	(6,099,922)
Short-term unearned revenue	17,870	(925,730)
Withholdings	1,914,732	5,464,210
Provision for short-term employee benefits	721,478	3,408,075
Long-term leasehold deposits	(64,272,399)	(841,138)
Long-term unearned revenue	30,094,063	23,025,028
Payments of retirement and severance benefits	(1,138,581)	(339,228)
Plan assets	(44,000,000)	(16,000,000)
Other long-term employee benefits	(2,924,120)	10,046,055
Increase in government grants for consignment management service	169,344,130	143,854,076
Decrease in government grants for consignment management service	(157,787,733)	(94,369,263)
	(105,732,994)	208,856,812
Dividends received	756,470	681,949
Interest paid	(933,642,161)	(843,382,080)
Interest received	7,250,403	8,028,994
Income taxes paid	(95,324,150)	(20,720,765)
Net cash provided by operating activities	1,829,983,810	2,273,421,052

(Continued)

KOREA EXPRESSWAY CORPORATION

STATEMENTS OF CASH FLOWS (CONTINUED)

FOR THE YEARS ENDED DECEMBER 31, 2017 AND 2016

	2017	2016
	(Korean won in thousands)	
CASH FLOWS FROM INVESTING ACTIVITIES:		
Settlement of derivatives	₩ 41,644,746	₩ 14,620,715
Disposal of long-term financial instruments	3,000	3,000
Disposal of non-current AFS financial assets	-	116,355
Disposal of property and equipment	2,893,823	304,973,571
Disposal of investment property	4,656,887	-
Disposal of intangible assets	27,602,082	36,069,779
Disposal of investments in associates	-	606,080
Change in subsidiaries	197,132	553,909
Acquisition of non-current AFS financial assets	(4,582,210)	(2,252,000)
Acquisition of property and equipment	(101,244,372)	(142,395,252)
Acquisition of investment property	(152,373,303)	(105,856,913)
Acquisition of intangible assets	(3,264,805,276)	(3,337,197,294)
Net cash used in investing activities	(3,446,007,491)	(3,230,758,050)
CASH FLOWS FROM FINANCING ACTIVITIES:		
Borrowing of short-term borrowings	300,000,000	-
Proceeds from bonds	3,429,323,710	2,627,417,949
Proceeds from issuance of new stocks	1,360,596,000	1,374,467,000
Borrowing of long-term borrowings	200,000,000	400,000,000
Repayments of short-term borrowings	(300,000,000)	-
Repayments of bonds	(3,429,972,400)	(2,901,481,500)
Repayments of other current financial liabilities	(28,000,000)	(94,000,000)
Dividends paid	(37,109,578)	(38,415,236)
Net cash provided by financing activities	1,494,837,732	1,367,988,213
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	(121,185,949)	410,651,215
CASH AND CASH EQUIVALENTS, BEGINNING OF YEAR	766,889,417	356,238,202
EFFECTS OF EXCHANGE RATE CHANGES ON THE BALANCE OF CASH HELD IN FOREIGN CURRENCIES	-	-
CASH AND CASH EQUIVALENTS, END OF YEAR	645,703,468	766,889,417
LESS: GOVERNMENT GRANTS FOR CONSIGNMENT MANAGEMENT SERVICE	(145,685,956)	(134,129,559)
NET, CASH AND CASH EQUIVALENTS, END OF YEAR	₩ 500,017,512	₩ 632,759,858

See accompanying notes to financial statements.

KOREA EXPRESSWAY CORPORATION

NOTES TO FINANCIAL STATEMENTS

AS OF AND FOR THE YEARS ENDED DECEMBER 31, 2017 AND 2016

1. GENERAL:

Korea Expressway Corporation

Korea Expressway Corporation (the "Company") was established on February 15, 1969, under the Korea Expressway Corporation Act. The Company is engaged in the construction and operation of an expressway network in the Republic of Korea. The Company derives its revenue primarily from tolls collected from motorists for the use of the expressways managed by the Company. The Company also receives lease payments paid by operations of service areas and oil stations located at various points along the expressways and fees from certain services for the Korean Government (the "Government"), including supervision of Government construction projects in various locations adjacent to the expressways.

As of December 31, 2017, the Company's shareholders consist of the following:

Shareholder	Number of shares	Ownership (%)
Ministry of Land, Infrastructure and Transport	2,755,765,603	85.36
Ministry of Strategy and Finance	13,418,889	0.42
Korea EXIM Bank	328,714,464	10.18
Korea Development Bank	92,628,550	2.87
Industrial Bank of Korea	22,423,519	0.69
Korea Housing Finance Corporation	15,000,000	0.46
Kookmin Bank	573,448	0.02
	3,228,524,473	100.00

Consolidated subsidiaries

During the current period, the liquidation of the subsidiary company, Dogong the 5th Securitization Specialty Co., Ltd., was completed. As a result, the Company has no subsidiary for consolidation as of December 31, 2017.

Details of the Company and the consolidated subsidiary as of December 31, 2016, are as follows (Korean won in millions):

As of December 31, 2016:

Company	Location	Business	Assets	Liabilities	Revenue	Net income
Korea Expressway Corporation	Korea	Construction and management of roads	₩59,587,098	₩27,512,749	₩ 8,159,036	₩ 134,651
Dogong the 5th Securitization Specialty Co., Ltd. (*1,*2)	Korea	Issuance and repayment of asset-backed securities	28,700	28,897	2,769	-

(*1) The Company does not own shares of Dogong the 5th Securitization Specialty Co., Ltd. However, as the Company operates these special-purpose entities for its business needs and is the primary beneficiary, the Company is considered to have dominant control over these entities.

(*2) Dogong the 5th Securitization Specialty Co., Ltd. was liquidated during the current period.

2. SIGNIFICANT ACCOUNTING POLICIES:

The Company maintains its official accounting records in Korean won and prepares its financial statements in conformity the Korean Government-owned and Quasi-government Accounting Regulations and Standards, in Korean language (Hangul). Accordingly, these financial statements are intended for use by those who are informed about these regulations and standards, and Korean practices. The accompanying financial statements have been restructured and translated into English with certain expanded descriptions from Korean language financial statements. Certain information included in Korean language financial statements, but not required for a fair presentation of the Company statements of financial position, comprehensive income, changes in equity or cash flows is not presented in the accompanying financial statements.

(1) Basis of Preparation

The financial statements have been prepared in accordance with the Korean Government-owned and Quasi-government Accounting Regulations and Standards, and as prescribed by these regulations, except for articles below in these regulations and standards, Korean International Financial Reporting Standards ("K-IFRSs") has been applied for the preparation of condensed interim financial statements. The Company adopted the K-IFRS for the reporting period beginning as of January 1, 2011, and in accordance with K-IFRS 1101, *First-time Adoption of Korean International Financial Reporting Standards*, the date of transition to K-IFRS was January 1, 2010.

As the Company does not have any subsidiary to be consolidated as of December 31, 2017, due to the liquidation of its subsidiary, the Company's current financial statements are based on the equity method of accounting for associates and joint ventures, and the comparative financial statements as of December 31, 2016, and for the year then ended are consolidated financial statements.

1) Application of the Korean Government-owned and Quasi-government Accounting Regulations and Standards

- Accounting Treatment for Assets Consigned

The Company recognizes assets received from the Government and others for the purpose of management or disposal on behalf of consignor as a deduction to the related assets.

- Recognition of Revenue and Expenses Related to Consignment Management

The Company recognizes funds received from the Ministry of Land, Infrastructure and Transport and others for consignment management services as revenue and expenses or assets and liabilities as the associated project progresses. The Company does not offset each account.

- Contribution to the Employee Welfare Fund

The Company contributes to the employee welfare fund and contributions are recognized as selling and administrative expenses in accordance with the Employee Welfare Fund Act.

The significant accounting policies used for the preparation of the financial statements are consistent with those applied to the financial statements for the year ended December 31, 2016, except for the adoption effect of the new and revised accounting standards and interpretations described below.

2) New and revised standards that have been applied from the period beginning on January 1, 2017, are as follows:

- Amendments to K-IFRS 1007, *Statement of Cash Flows*
The amendments require an entity to provide disclosures that enable users of financial statements to evaluate changes in liabilities arising from financing activities, including both cash and non-cash changes. Additional disclosure required related to the first-time application of these amendments in the current year are in Note 40. Consistent with the transition provisions of the amendments, the Company has not disclosed comparative information for the prior period. Apart from the additional disclosure in Note 40, the application of these amendments has no material impact on the disclosures or the amounts recognized in the Company's financial statements.

- Amendments to K-IFRS 1012, *Income Taxes*
The amendments clarify that in evaluating the deferred tax assets arising from deductible temporary difference of debt instruments measured at fair value, the carrying amount of an asset does not limit the estimation of probable future taxable profits. The application of these amendments has no material impact on the disclosures or the amounts recognized in the Company's financial statements.

- Annual Improvements to K-IFRS 2014-2016 Cycle
The Company has applied the amendments to K-IFRS 1112, *Share-based Payment* included in the Annual Improvements to K-IFRS 2014-2016 Cycle for the first time in the current year. The other amendments included in this package are not yet mandatorily effective and they have not been early adopted by the Company. The amendments state that an entity need not provide summarized financial information for interests in subsidiaries, associates or joint ventures that are classified (or included in a disposal group that is classified) as held for sale. The amendments clarify that this is the only concession from the disclosure requirements for K-IFRS 1112.

3) New and revised K-IFRSs in issue, but not yet effective

The Company has not applied the following new and revised K-IFRSs that have been issued, but are not yet effective.

- Amendments to K-IFRS 1109, *Financial Instruments*
The amendments to K-IFRS 1109 contain the requirements for the classification and measurement of financial assets and financial liabilities based on a business model whose objective is achieved both by collecting contractual cash flows and selling financial assets and based on the contractual terms that give rise on specified dates to cash flows, impairment methodology based on the expected credit losses, broadened types of instruments that qualify as hedging instruments, the types of risk components of non-financial items that are eligible for hedge accounting and change in the hedge effectiveness test. This standard will supersede K-IFRS 1039, *Financial Instruments*, and the amendments are effective for annual periods beginning on or after January 1, 2018.

Related to adoption of K-IFRS 1109, the Company has not begun the improvement of internal management process and the accounting system for reporting of financial instruments, and the Company has not conducted financial impact analysis of K-IFRS 1109 yet.

- Amendments to K-IFRS 1115 - Revenue from Contracts with Customers
The core principle under K-IFRS 1115 is that an entity should recognize revenue to depict the transfer of promised goods or services to customers in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods or services. The amendments introduce a five-step approach to revenue recognition and measurement: 1) Identify the contract with a customer, 2) Identify the performance obligations in the contract, 3) Determine the transaction price, 4) Allocate the transaction price to the performance obligations in the contract and 5) Recognize revenue when (or as) the entity satisfies a performance obligation. This standard will supersede K-IFRS 1011, *Construction Contracts*; K-IFRS 1018, *Revenue*; K-IFRS 2113, *Customer Loyalty Programmes*; K-IFRS 2115, *Agreements for the Construction of Real Estate*; K-IFRS 2118, *Transfers of Assets from Customers*; and K-IFRS 2031, *Revenue-Barter Transactions Involving Advertising Services*. The amendments are effective for annual periods beginning on or after January 1, 2018.

Related to adoption of K-IFRS 1115, the Company has not begun the improvement of relevant internal controls and the accounting system, and the Company have not conducted financial impact analysis of K-IFRS 1115 yet.

- Amendments to K-IFRS 1116, *Leases*

IFRS 16 introduces a comprehensive model for the identification of lease arrangements and accounting treatments for both lessors and lessees. IFRS 16 will supersede the current lease guidance including K-IFRS 1017, *Leases* and the related interpretations when it becomes effective.

K-IFRS 1116 distinguishes leases and service contracts on the basis of whether an identified asset is controlled by a customer. Distinctions of operating leases and finance leases are removed for lessee accounting, and is replaced by a model where a right-of-use asset and corresponding liability have to be recognized for all leases by lessees except for short-term leases and leases of low-value assets.

The right-of-use asset is initially measured at cost and subsequently measured at cost (subject to certain exceptions) less accumulated depreciation and impairment losses, adjusted for any remeasurement of the lease liability. The lease liability is initially measured at the present value of the lease payments that are not paid at that date. Subsequently, the lease liability is adjusted for interest and lease payments, as well as the impact of lease modifications, among others. Furthermore, the classification of cash flows will also be affected as operating lease payments under K-IFRS 1017 are presented as operating cash flows, whereas under the K-IFRS 1116 model, the lease payments will be split into a principal and an interest portion which will be presented as financing and operating cash flows, respectively.

In contrast to lessee accounting, K-IFRS 1116 substantially carries forward the lessor accounting requirements in K-IFRS 1017, and continues to require a lessor to classify a lease either as an operating lease or a finance lease. Furthermore, extensive disclosures are required by K-IFRS 1116.

- Amendments to K-IFRS 1102, *Share-based Payment*

The amendments include: 1) when measuring the fair value of share-based payment, the effects of vesting and non-vesting conditions on the measurement of cash-settled share-based payment should be consistent with the measurement of equity-settled share-based payment, 2) Share-based payment transaction in which the Company settles the share-based payment arrangement net by withholding a specified portion of the equity instruments per statutory tax withholding requirements would be classified as equity settled in its entirety, if otherwise would be classified as equity settled without the net settlement feature, and 3) when a cash-settled share-based payment changes to an equity-settled share-based payment because of modifications of the terms and conditions, the original liability recognized is derecognized and the equity-settled share-based payment is recognized at the modification-date fair value. Any difference between the carrying amount of the liability at the modification date and the amount recognized in equity at the same date would be recognized in profit and loss immediately. The amendments are effective for annual periods beginning on or after January 1, 2018.

- Amendments to K-IFRS 1040, *Investment Property*

The amendments clarify that a transfer to, or from, investment property necessitates an assessment of whether a property meets, or has ceased to meet, the definition of investment property, supported by observable evidence that a change in use has occurred. The amendments further clarify that situations other than the ones listed in K-IFRS 1040 may evidence a change in use, and that a change in use is possible for properties under construction (i.e., a change in use is not limited to completed properties).

The amendments are effective for annual periods beginning on or after January 1, 2018, with earlier application permitted. Entities can apply the amendments either retrospectively (if this is possible without the use of hindsight) or prospectively.

- K-IFRS 2122, *Foreign Currency Transactions and Advance Consideration*

The interpretation addresses how to determine the 'date of transaction' for the purpose of determining the exchange rate to use on initial recognition of an asset, expense or income, when consideration for that item has been paid or received in advance in a foreign currency, which resulted in the recognition of a non-monetary asset or non-monetary liability (e.g., a non-refundable deposit or deferred revenue).

The interpretation specifies that the date of transaction is the date on which the entity initially recognizes the non-monetary asset on non-monetary liability arising from the payment or receipt of advance consideration. If there are multiple payments or receipts in advance, the interpretation requires an entity to determine the date of transaction for each payment or receipt of advance consideration.

The interpretation is effective for annual periods beginning on or after January 1, 2018, with earlier application permitted. Entities can apply the interpretation either retrospectively or prospectively. Specific transition provisions apply to prospective application.

The Company does not anticipate that the application of the enactment in the future will have an impact on the Company's financial statements because the Company already accounts for transactions involving the payment or receipt of advance consideration in a foreign currency in a way that is consistent with the enactment.

- Annual Improvements to K-IFRS 2014-2016 Cycle

The annual improvements include amendments to K-IFRS 1101, *First-time Adoption* and K-IFRS 1028, *Investment in Associates and Joint Ventures*. The amendments to K-IFRS 1028 clarify that the option for a venture capital organization and other similar entities to measure investments in associates and joint ventures at fair value through profit or loss ("FVTPL") is available separately for each associate or joint venture, and that election should be made at initial recognition of the associate or joint venture. In respect of the option for an entity that is not an investment entity (IE) to retain the fair value measurement applied by its associates and joint ventures that are IEs when applying the equity method, the amendments make a similar clarification that this choice is available for each IE associate or IE joint venture. The amendments apply retrospectively with earlier application permitted.

Both the amendments to K-IFRS 1101 and 1028 are effective for annual periods beginning on or after January 1, 2018. The Company does not anticipate that the application of the amendments in the future will have any impact on the Company's financial statements as the Company is neither a first-time adopter of IFRS nor a venture capital organization.

The Company is currently reviewing the effect of the amendments to the financial statements.

The financial statements are prepared on the basis of historical cost except for certain non-current assets and financial assets measured at revalued amount or fair value at the end of each reporting period. Historical costs are generally measured at the fair value of payment for acquisition of assets.

(2) Financial Assets

Financial assets and financial liabilities are recognized when a Company becomes a party to the contractual provisions of the instruments. Financial assets and financial liabilities are initially measured at fair value. Transaction costs that are directly attributable to the acquisition or issue of financial assets and financial liabilities are added to or deducted from the fair value of the financial assets or financial liabilities, as appropriate, on initial recognition. Transaction costs directly attributable to the acquisition of financial assets or financial liabilities at FVTPL are recognized immediately in profit or loss.

All regular-way purchases or sales of financial assets are recognized and derecognized on a trade date basis. Regular-way purchases or sales are purchases or sales of financial assets that require delivery of assets within the time frame established by regulation or convention in the marketplace.

Financial assets are classified into the following specified categories: 'financial assets at FVTPL,' 'held-to-maturity investments,' 'available-for-sale ("AFS") financial assets' and 'loans and receivables.' The classification depends on the nature and purpose of the financial assets and is determined at the time of initial recognition.

1) Effective interest method

The effective interest method is a method of calculating the amortized cost of a debt instrument and of allocating interest income over the relevant period. The effective interest rate is the rate that exactly discounts estimated future cash receipts (including all fees and points paid or received that form an integral part of the effective interest rate, transaction costs and other premiums or discounts) through the expected life of the debt instrument, or (where appropriate) a shorter period, to the net carrying amount on initial recognition.

Income is recognized on an effective interest basis for debt instruments other than those financial assets classified as at FVTPL.

2) Financial assets at FVTPL

Financial assets are classified as at FVTPL when the financial asset is contingent consideration that may be paid by an acquirer as part of business combination to which K-IFRS 1103 applies.

A financial asset is classified as held for trading if:

• It has been acquired principally for the purpose of selling in the near term,
• On initial recognition, it is part of a portfolio of identified financial instruments that the Company manages together and has a recent actual pattern of short-term profit taking, or

• It is a derivative that is not designated and effective as a hedging instrument.

A financial asset other than a financial asset held for trading or contingent consideration that may be paid by an acquirer as part of a business combination may be designated as at FVTPL upon initial recognition if:

• Such designation eliminates or significantly reduces a measurement or recognition inconsistency that would otherwise arise;
• The financial asset forms part of a group of financial assets or financial liabilities, or both, which is managed, and its performance is evaluated on a fair value basis, in accordance with the Company's documented risk management or investment strategy, and information about the grouping is provided internally on that basis; or
• It forms part of a contract containing one or more embedded derivatives, and K-IFRS 1039 permits the entire combined contract (asset or liability) to be designated as at FVTPL.

Financial assets at FVTPL are stated at fair value, with any gains or losses arising on remeasurement recognized in profit or loss. The net gain or loss recognized in profit or loss incorporates any dividend or interest earned on the financial asset and is included in the 'finance income and costs' line item in the statement of comprehensive income.

3) Held-to-maturity investments

Non-derivatives financial assets with fixed or determinable payments and fixed maturity dates that the Company has the positive intent and ability to hold to maturity are classified as held-to-maturity investments. Held-to-maturity investments are measured at amortized cost using the effective interest method, less any impairment, with revenue recognized on an effective yield basis.

4) AFS financial assets

AFS financial assets are non-derivatives that are either designated as AFS or are not classified as (a) loans and receivables, (b) held-to-maturity investments or (c) financial assets at FVTPL.

They are subsequently measured at fair value at the end of each reporting period. Changes in the carrying amount of AFS monetary financial assets relating to changes in foreign currency rates (see below), interest income calculated using the effective interest method and dividends on AFS equity investments are recognized in profit or loss. Other changes in the carrying amount of AFS financial assets are recognized in other comprehensive income (as investments revaluation reserve). When the investment is disposed of or is determined to be impaired, the cumulative gain or loss previously accumulated in other comprehensive income is reclassified to profit or loss.

Dividends on AFS equity instruments are recognized in profit or loss when the Company’s right to receive the dividends is established.
The fair value of AFS monetary financial assets denominated in a foreign currency is determined in that foreign currency and translated at the spot rate prevailing at the end of the reporting period. The foreign exchange gains and losses that are recognized in profit or loss are determined based on the amortized cost of the monetary asset. Other foreign exchange gains and losses are recognized in other comprehensive income.

AFS equity investments that do not have a quoted market price in an active market and whose fair value cannot be reliably measured and derivatives that are linked to and must be settled by delivery of such unquoted equity investments are measured at cost, less any identified impairment losses at the end of each reporting period.

5) Loans and receivables

Trade receivables, loans and other receivables that have fixed or determinable payments that are not quoted in an active market are classified as ‘loans and receivables.’ Loans and receivables are measured at amortized cost using the effective interest method, less any impairment. Interest income is recognized by applying the effective interest rate, except for short-term receivables when the effect of discounting is immaterial.

6) Impairment of financial assets

Financial assets, other than those at FVTPL, are assessed for indicators of impairment at the end of each reporting period. Financial assets are considered to be impaired when there is objective evidence that as a result of more events that occurred after the initial recognition of the financial asset, the estimated future cash flows of the investment have been affected.

For AFS equity investments, a significant or prolonged decline in the fair value of the security below its cost is considered to be objective evidence of impairment.

For all other financial assets, objective evidence of impairment includes:

• Significant financial difficulty of the issuer or counterparty,
• Default or delinquency in interest or principal payments,
• It becoming probable that the borrower will enter bankruptcy or financial reorganization or
• The disappearance of an active market for that financial asset because of financial difficulties.

For certain categories of financial asset, such as trade receivables, assets that are assessed not to be impaired individually are, in addition, assessed for impairment on a collective basis. Objective evidence of impairment for a portfolio of receivables could include the Company's past experience of collecting payments, an increase in the number of delayed payments in the portfolio past the average credit period, as well as observable changes in national or local economic conditions that correlate with default on receivables.

For financial assets carried at amortized cost, the amount of the impairment loss recognized is the difference between the asset's carrying amount and the present value of estimated future cash flows, discounted at the financial asset's original effective interest rate.

For financial assets that are carried at cost, the amount of the impairment loss recognized is the difference between the asset's carrying amount and the present value of estimated future cash flows, discounted at the current market rate of return for a similar financial asset. Such impairment loss will not be reversed in subsequent periods.

The carrying amount of the financial asset is reduced by the impairment loss directly for all financial assets, with the exception of trade receivables where the carrying amount is reduced through the use of an allowance account. When a trade receivable is considered uncollectible, it is written off against the allowance account. Subsequent recoveries of amounts previously written off are credited against the allowance account. Changes in the carrying amount of the allowance account are recognized in profit or loss.

When an AFS financial asset is considered to be impaired, cumulative gains or losses previously recognized in other comprehensive income are reclassified to profit or loss in the period.

For financial assets measured at amortized cost, if, in a subsequent period, the amount of the impairment loss decreases and the decrease can be related objectively to an event occurring after the impairment was recognized, the previously recognized impairment loss is reversed through profit or loss to the extent that the carrying amount of the investment at the date the impairment is reversed does not exceed what the amortized cost would have been had the impairment not been recognized.

In respect of AFS equity securities, impairment losses previously recognized in profit or loss are not reversed through profit or loss. Any increase in fair value subsequent to an impairment loss is recognized in other comprehensive income. In respect of AFS debt securities, impairment losses are subsequently reversed through profit or loss if an increase in the fair value of the investment can be objectively related to an event occurring after the recognition of the impairment loss.

7) Derecognition of financial assets

The Company derecognizes a financial asset only when the contractual rights to the cash flows from the asset expire, or when it transfers the financial asset and substantially all the risks and rewards of ownership of the asset to another entity. If the Company neither transfers nor retains substantially all the risks and rewards of ownership and continues to control the transferred asset, the Company recognizes its retained interest in the asset and an associated liability for amounts it may have to pay. If the Company retains substantially all the risks and rewards of ownership of a transferred financial asset, the Company continues to recognize the financial asset and also recognize a collateralized borrowing for the proceeds received.

On derecognition of a financial asset in its entirety, the difference between the asset's carrying amount and the sum of the consideration received and receivable and the cumulated gain or loss that had been recognized in other comprehensive income and accumulated in equity is recognized in profit or loss.

On derecognition of a financial assets other than in its entirety (e.g., when the Company retains an option to repurchase part of a transferred asset, or it retains a residual interest and such an retained interest indicates that the transferor has neither transferred nor retained substantially all the risks and rewards of ownership and has retained control of the transferred asset), the Company allocates the previous carrying amount of the financial asset between the part it continues to recognize under continuing involvement and the part it no longer recognizes on the basis of the relative fair value of those parts on the date of the transfer. The difference between the carrying amount allocated to the part that is no longer recognized and the sum of the consideration received for the part that is no longer recognized and any cumulative gain or loss allocated to it that had been recognized in other comprehensive income is recognized in profit or loss. A cumulative gain or loss that had been recognized in other comprehensive income is allocated between the part that continues to be recognized and the part that is no longer recognized on the basis of the relative fair value of those parts.

(3) Inventories

Inventories are stated at the lower of cost or net realizable value. Cost of inventories, except for those in transit, are measured under the weighted-average method and consists of the purchase price, cost of conversion and other costs incurred in bringing the inventories to their present location and condition. Net realizable value represents the estimated selling price for inventories, less all estimated costs of completion and costs necessary to make the sale.

When inventories are sold, the carrying amount of those inventories is recognized as an expense (cost of sales) in the period in which the related revenue is recognized. The amount of any write-down of inventories to net realizable value and all losses of inventories is recognized as an expense in the period the write-down or loss occurs. The amount of any reversal of any write-down of inventories, arising from an increase in net realizable value, is recognized as a reduction in the amount of inventories recognized as an expense in the period in which the reversal occurs.

(4) Property, plant and equipment

Property and equipment are initially measured at cost and, after initial recognition, are carried at cost, less accumulated depreciation and accumulated impairment losses. The cost of property and equipment includes expenditures arising directly from the construction or acquisition of the asset, any costs directly attributable to bringing the asset to the location and condition necessary for it to be capable of operating in the manner intended by management and the initial estimate of the costs of dismantling and removing the item and restoring the site on which it is located.

Subsequent to initial recognition, an item of property and equipment shall be carried at its cost, less any accumulated depreciation and any accumulated impairment losses.

Subsequent costs are recognized in the carrying amount of property and equipment at cost or, if appropriate, as separate items if it is probable that future economic benefits associated with the item will flow to the Company and the cost of the item can be measured reliably. The carrying amount of the replaced part is derecognized. The costs of the day-to-day servicing are recognized in profit or loss as incurred.

The Company does not depreciate land. Depreciation expense is computed using the straight-line method based on the estimated useful lives of the assets as follows:

	Estimated useful lives (years)
Buildings	8–30
Structures	8–30
Machineries	4–10
Information technology equipments	4–10
Vehicles	4–6
Others	4–8

If each part of an item of property, plant and equipment has a cost that is significant in relation to the total cost of the item, it is depreciated separately.

Depreciation methods, useful lives and residual values are reviewed at the end of each reporting date and adjusted, if appropriate. The change is accounted for as a change in an accounting estimate.

An item of property, plant and equipment is derecognized upon disposal or when no future economic benefits are expected to arise from the continued use of the asset. Any gain or loss arising on derecognition of the property (calculated as the difference between the net disposal proceeds and the carrying amount of the asset) is included in profit or loss in the period in which the property is derecognized.

(5) Investment property

Investment properties are properties held to earn rentals and/or for capital appreciation (including property under construction for such purposes). Investment properties are measured initially at cost, including transaction costs.

Subsequent to initial recognition, investment properties are reported at cost less accumulated depreciation and accumulated impairment losses.

Subsequent costs are recognized in carrying amount of an asset or as a separate asset if it is probable that future economic benefits associated with the assets will flow into the Company and the cost of an asset can be measured reliably. Routine maintenance and repairs are expensed as incurred.

While land is not depreciated, all other investment property is depreciated based on the respective assets' estimated useful lives ranging from 8–30 years using the straight-line method.

The estimated useful lives, residual values and depreciation method are reviewed at the end of each reporting period, with the effect of any changes in estimate accounted for on a prospective basis.

An investment property is derecognized upon disposal or when the investment property is permanently withdrawn from use and no future economic benefits are expected from the disposal. Any gain or loss arising on derecognition of the property (calculated as the difference between the net disposal proceeds and the carrying amount of the asset) is included in profit or loss in the period in which the property is derecognized.

(6) Intangible assets

1) Intangible assets acquired separately

Intangible assets with finite useful lives that are acquired separately are carried at cost, less accumulated amortization and accumulated impairment losses. Amortization is recognized on a straight-line basis over their estimated useful lives. The estimated useful life and amortization method are reviewed at the end of each reporting period, with the effect of any changes in estimate being accounted for on a prospective basis. Intangible assets with indefinite useful lives that are acquired separately are carried at cost less accumulated impairment losses.

Amortization expense is computed on the estimated useful lives of the assets as follows:

	Estimated useful lives (years)	Amortization
Industrial property rights	5–50	Straight-line method
Software	4–5	Straight-line method
Development costs	5	Straight-line method
Expressway operating rights	-	(*)

(*) The Company transfers the ownership of facilities to the government upon completion of construction. In return, the government awards the Company an exclusive right to operate and collect tolls on the operating facilities. Therefore, upon completion and transfer of the facility, the Company reclassifies the construction in-progress balance for the facility-to-facility operating rights. The Company has the right to collect tolls from users of its facilities, which set forth the Company's ability to recover not only the costs associated with construction of the facilities, including costs for design, construction, land acquisition and improvements, but also expenditures for operation and maintenance of the facilities. The amount of amortization expense for a particular year is determined so that the difference between the Company's total toll-related revenue for such year and the total toll-related expenses in the same year is zero. Therefore, all of the Company's net income is derived from its non-toll-related businesses.

2) Internally generated intangible assets - research and development expenditure

Expenditure on research activities is recognized as an expense in the period in which it is incurred.

Expenditure arising from development (or from the development phase of an internal project) is recognized as an intangible asset if, and only if, the development project is designed to produce new or substantially improved products, and the Company can demonstrate the technical and economic feasibility and measure reliably the resources attributable to the intangible asset during its development.

The amount initially recognized for internally generated intangible assets is the sum of the expenditure incurred from the date when the intangible asset first meets the recognition criteria. Where no internally generated intangible asset can be recognized, development expenditure is recognized in profit or loss in the period in which it is incurred.

Subsequent to initial recognition, internally generated intangible assets are reported at cost, less accumulated amortization and accumulated impairment losses, on the same basis as intangible assets that are acquired separately.

3) Intangible assets acquired in a business combination

Intangible assets that are acquired in a business combination are recognized separately from goodwill and are initially recognized at their fair value at the acquisition date (which is regarded as their cost). Subsequent to initial recognition, intangible assets acquired in a business combination are reported at cost less accumulated amortization and accumulated impairment losses, on the same basis as intangible assets that are acquired separately.

4) Derecognition of intangible assets

An intangible asset is derecognized on disposal or when no future economic benefits are expected from its use. Gains or losses arising from derecognition of an intangible asset, measured as the difference between the net disposal proceeds and the carrying amount of the asset, are recognized in profit or loss when the asset is derecognized.

(7) Impairment of tangible and intangible assets other than goodwill

At the end of each reporting period, the Company reviews the carrying amounts of its tangible and intangible assets to determine whether there is any indication that those assets have suffered an impairment loss. If any such indication exists, the recoverable amount of the asset is estimated in order to determine the extent of the impairment loss (if any). When it is not possible to estimate the recoverable amount of an individual asset, the Company estimates the recoverable amount of the cash-generating unit to which the asset belongs. Where a reasonable and consistent basis of allocation can be identified, corporate assets are also allocated to individual cash-generating units, or otherwise they are allocated to the smallest group of cash-generating units for which a reasonable and consistent allocation basis can be identified.

Intangible assets with indefinite useful lives and intangible assets not yet available for use are tested for impairment at least annually, and whenever there is an indication that the asset may be impaired.

Recoverable amount is the higher of fair value less costs to sell or value in use. If the recoverable amount of an asset (or a cash-generating unit) is estimated to be less than its carrying amount, the carrying amount of the asset (or the cash-generating unit) is reduced to its recoverable amount and the reduced amount is recognized in profit or loss.

Where an impairment loss subsequently reverses, the carrying amount of the asset (or a cash-generating unit) is increased to the revised estimate of its recoverable amount, so that the increased carrying amount does not exceed the carrying amount that would have been determined had no impairment loss been recognized for the asset (or the cash-generating unit) in prior years. A reversal of an impairment loss is recognized immediately in profit or loss.

(8) Borrowing costs

Borrowing costs directly attributable to the acquisition, construction or production of qualifying assets, which are assets that necessarily take a substantial period of time to get ready for their intended use or sale, are added to the cost of those assets, until such time as the assets are substantially ready for their intended use or sale.

Investment income earned on the temporary investment of specific borrowings, pending their expenditure on qualifying assets, is deducted from the borrowing costs eligible for capitalization.

All other borrowing costs are recognized in profit or loss in the period in which they are incurred.

(9) Government grants

Government grants are not recognized, unless there is reasonable assurance that the Company will comply with the grant assets and that the grant will be received.

Government grants, whose primary condition is that the Company purchase, construct or otherwise acquire long-term assets, are deducted in calculating the carrying amount of the asset. The grant is recognized in profit or loss over the life of a depreciable asset as a reduced depreciation expense.

Government grants are intended to compensate the Company for expenses incurred and shall be recognized as other income or deduction to related expenses in profit or loss over the periods in which the Company recognizes the related costs as expenses.

Government grants that are intended to give immediate financial support to the Company with no future related costs are recognized as government grant income in profit or loss.

(10) Investments in associates

An associate is an entity over which the Company has significant influence. Significant influence is the power to participate in the financial and operating policy decisions of the investee, but is not control or joint control over those policies.

The existence of significant influence by an entity is usually evidenced in one or more of the following ways:

① representation on the board of directors or equivalent governing body of the investee;
② participation in policy-making processes, including participation in decisions about dividends or other distributions;
③ material transactions between the entity and its investee;
④ interchange of managerial personnel; or
⑤ provision of essential technical information.

The results of operations and assets and liabilities of associates are incorporated in these financial statements using the equity method of accounting, except when the investment is classified as held for sale, in which case it is accounted for in accordance with K-IFRS 1105. Under the equity method, an investment in an associate is initially recognized in the statement of financial position at cost and adjusted thereafter to recognize the Company's share of the profit or loss and other comprehensive income of the associate. When the Company's share of losses from an associate exceeds the Company's interest in that associate (which includes any long-term interests that, in substance, form part of the Company's net investment in the associate), the Company discontinues recognizing its share of further losses. Additional losses are recognized only to the extent that the Company has incurred legal or constructive obligations or made payments on behalf of the associate.

Any excess of the cost of acquisition over the Company's share of the net fair value of the identifiable assets, liabilities and contingent liabilities of an associate recognized at the date of acquisition is recognized as goodwill, which is included within the carrying amount of the investment. Any excess of the Company's share of the net fair value of the identifiable assets, liabilities and contingent liabilities over the cost of acquisition, after reassessment, is recognized immediately in profit or loss.

The requirements of K-IFRS 1039 are applied to determine whether it is necessary to recognize any impairment loss with respect to the Company's investment in an associate. When necessary, the entire carrying amount of the investment (including goodwill) is tested for impairment in accordance with K-IFRS 1036 *'Impairment of Assets'* by comparing its recoverable amount (higher of value in use or fair value, less costs to sell) with its carrying amount; any impairment loss recognized forms part of the carrying amount of the investment. Any reversal of that impairment loss is recognized in accordance with K-IFRS 1036 *'Impairment of Assets'* to the extent that the recoverable amount of the investment subsequently increases.

When a Company entity transacts with an associate of the Company, profits and losses resulting from the transactions with the associate are recognized in the Company's financial statements only to the extent of interests in the associate that are not related to the Company.

(11) Investments in joint ventures

A joint venture is a joint arrangement whereby the parties that have joint control of the arrangement have rights to the net assets of the joint arrangement. Joint control is the contractually agreed sharing of control of an arrangement, which exists only when decisions about the relevant activities require unanimous consent of the parties sharing control.

A joint operation is a joint arrangement whereby the parties that have joint control of the arrangement have rights to the assets, and obligations for the liabilities, relating to the arrangement. Joint control is the contractually agreed sharing of control of an arrangement, which exists only when decisions about the relevant activities require unanimous consent of the parties sharing control.

When a Company entity undertakes its activities under joint operations, the Company as a joint operator recognizes in relation to its interest in a joint operation:

- its assets, including its share of any assets held jointly;
- its liabilities, including its share of any liabilities incurred jointly;
- its revenue from the sale of its share of the output arising from the joint operation;
- its share of the revenue from the sale of the output by the joint operation; and
- its expenses, including its share of any expenses incurred jointly.

The results of operations and assets and liabilities of joint ventures are incorporated in these financial statements using the equity method of accounting, except when the investment is classified as held for sale, in which case it is accounted for in accordance with K-IFRS 1105.

Any excess of the cost of acquisition over the Company's share of the net fair value of the identifiable assets, liabilities and contingent liabilities of a joint venture recognized at the date of acquisition is recognized as goodwill, which is included within the carrying amount of the investment. Any excess of the Company's share of the net fair value of the identifiable assets, liabilities and contingent liabilities over the cost of acquisition, after reassessment, is recognized immediately in profit or loss.

When the Company transacts with a joint venture of the Company, profits and losses resulting from the transactions with the joint venture are recognized in the Company's financial statements only to the extent of interests in the joint venture that are not related to the Company.

(12) Financial liabilities and equity instruments

1) Classification as debt or equity

Debt and equity instruments are classified as either financial liabilities or as equity in accordance with the substance of the contractual arrangement and the definitions of financial liability and an equity instrument.

2) Equity instruments

An equity instrument is any contract that evidences a residual interest in the assets of an entity after deducting all of its liabilities. Equity instruments issued by the Company are recognized as the proceeds are received, net of direct issue costs.

Repurchase of the Company's own equity instruments is recognized and deducted directly in equity. No gain or loss is recognized in profit or loss on the purchase, sale, issue or cancellation of the Company's own equity instruments.

3) Compound instruments

The component parts of compound instruments (convertible bonds) issued by the Company are classified separately as financial liabilities and equity in accordance with the substance of the contractual arrangements and the definitions of a financial liability and equity instrument. Conversion option that will be settled by the exchange of a fixed amount of cash or another financial asset for a fixed number of the Company's own equity instruments is an equity instrument.

At the date of issue, the fair value of the liability component is estimated using the prevailing market interest rate for a similar non-convertible instrument. This amount is recorded as a liability on an amortized cost basis using the effective interest method, until extinguished upon conversion or at the instrument's maturity date.

The conversion option classified as equity is determined by deducting the amount of the liability component from the fair value of the compound instrument as a whole. This is recognized and included in equity, net of income tax effects, and is not subsequently remeasured. In addition, the conversion option classified as equity will remain in equity until the conversion option is exercised, in which case the balance recognized in equity will be transferred to share premium. No gain or loss is recognized in profit or loss upon conversion or expiration of the conversion option.

Transaction costs that relate to the issue of the convertible notes are allocated to liability and equity components in proportion to the allocation of the gross proceeds. Transaction costs relating to equity component are recognized directly in equity. Transaction costs relating to the liability component are included in the carrying amount of the liability component, and are amortized over the lives of the convertible notes using the effective interest method.

4) Financial liabilities

Financial liabilities are recognized when the Company becomes a party to the contractual provisions of the instruments. Financial liabilities are initially measured at fair value. Transaction cost that is directly attributable to the issue of financial liabilities is deducted from the fair value of the financial liabilities on initial recognition. Transaction costs directly attributable to acquisition of financial liabilities at FVTPL are recognized immediately in profit or loss.

Financial liabilities are classified as either financial liabilities at FVTPL or other financial liabilities.

5) Financial liabilities at FVTPL

Financial liabilities are classified as at FVTPL when the financial liability is contingent consideration that may be paid by an acquirer as part of a business combination to which K-IFRS 1103 applies, held for trading or it is designated as at FVTPL.

A financial liability is classified as held for trading if:

- it has been acquired principally for the purpose of repurchasing in the near term;
- on initial recognition, it is part of a portfolio of identified financial instruments that the Company manages together and has a recent actual pattern of short-term profit taking; or
- it is a derivative that is not designated and effective as a hedging instrument.

A financial liability, other than a financial liability held for trading or contingent consideration that may be paid by an acquirer as part of a business combination may be designated as at FVTPL upon initial recognition if:

- such designation eliminates or significantly reduces a measurement or recognition inconsistency that would otherwise arise;
- the financial liability forms part of a group of financial assets or financial liabilities, or both, which is managed, and its performance is evaluated on a fair value basis, in accordance with the Company's documented risk management or investment strategy, and information about the grouping is provided internally on that basis; or
- it forms part of a contract containing one or more embedded derivatives, and K-IFRS 1039 permits the entire combined contract (asset or liability) to be designated as at FVTPL.

Financial liabilities at FVTPL are stated at fair value, with any gains or losses arising on remeasurement recognized in profit or loss. The net gain or loss recognized in profit or loss incorporates any interest paid on the financial liability, and is included in the ‘other gains and losses’ line item in the statement of comprehensive income.

6) Other financial liabilities

Other financial liabilities are subsequently measured at amortized cost using the effective interest method, with interest expense recognized on an effective yield basis.

The effective interest method is a method of calculating the amortized cost of a financial liability and of allocating interest expense over the relevant period. The effective interest rate is the rate that exactly discounts estimated future cash payments, including all fees and points paid or received (that form an integral part of the effective interest rate) and transaction costs and other premiums or discounts through the expected life of the financial liability, or (where appropriate) a shorter period, to the net carrying amount on initial recognition.

7) Financial guarantee contracts

A financial guarantee contract is a contract that requires the issuer to make specified payments to reimburse the holder for a loss it incurs because a specified debtor fails to make payments when due in accordance with the terms of a debt instruments.

Financial guarantee contract liabilities are initially measured at their fair values and, if not designated as at FVTPL, are subsequently measured at the higher of:

- the amount of the obligation under the contract, as determined in accordance with K-IFRS 1037, and
- the amount initially recognized, less cumulative amortization recognized in accordance with the K-IFRS 1018

8) Derecognition of financial liabilities

The Company derecognizes financial liabilities when the Company’s obligations are discharged, canceled or expired. The difference between the carrying amount of the financial liability derecognized and the consideration paid and payable is recognized in profit or loss.

(13) Derivative financial instruments

The Company enters into a variety of derivative financial instruments to manage its exposure to interest rate and foreign exchange rate risk, including foreign exchange forward contracts, interest rate swaps and cross-currency swaps.

Derivatives are initially recognized at fair value at the date the derivative contract is entered into and are subsequently remeasured to their fair value at the end of each reporting period. The resulting gain or loss is recognized in profit or loss immediately, unless the derivative is designated and effective as a hedging instrument, in which case the timing of the recognition in profit or loss depends on the nature of the hedge relationship.

A derivative with a positive fair value is recognized as a financial asset; a derivative with a negative fair value is recognized as a financial liability. A derivative is presented as a non-current asset or a non-current liability if the remaining maturity of the instrument is more than 12 months and it is not expected to be realized or settled within 12 months. Other derivatives are presented as current assets or current liabilities.

1) Embedded derivatives

Derivatives embedded in non-derivative host contracts are treated as separate derivatives when they meet the definition of a derivative, their risks and characteristics are closely related to those of the host contracts and the contracts are not measured at FVTPL.

An embedded derivative is presented as a non-current asset or a non-current liability if the remaining maturity of the hybrid instrument to which the embedded derivative relates is more than 12 months and it is not expected to be realized or settled within 12 months. Other embedded derivatives are presented as current assets or current liabilities.

2) Hedge accounting

The Company designates certain hedging instruments, which include derivatives, embedded derivatives and non-derivatives in respect of foreign currency risk, as either fair value hedges, cash flow hedges or hedges of net investments in foreign operations. Hedges of foreign exchange risk on firm commitments are accounted for as cash flow hedges.

At the inception of the hedge relationship, the entity documents the relationship between the hedging instrument and the hedged item, along with its risk management objectives and its strategy for undertaking various hedge transactions. Furthermore, at the inception of the hedge and on an ongoing basis, the Company documents whether the hedging instrument is highly effective in offsetting changes in fair values or cash flows of the hedged item.

3) Fair value hedges

Changes in the fair value of derivatives that are designated and qualify as fair value hedges are recognized in profit or loss immediately, together with any changes in the fair value of the hedged asset or liability that are attributable to the hedged risk. The change in the fair value of the hedging instrument and the change in the hedged item attributable to the hedged risk are recognized in the line of the statement of comprehensive income relating to the hedged item.

Hedge accounting is discontinued when the Company revokes the hedging relationship; when the hedging instrument expires or is sold, terminated or exercised; or when it no longer qualifies for hedge accounting. The fair value adjustment to the carrying amount of the hedged item arising from the hedged risk is amortized to profit or loss from that date.

4) Cash flow hedges

The effective portion of changes in the fair value of derivatives that are designated and qualify as cash flow hedges is recognized in other comprehensive income. The gain or loss relating to the ineffective portion is recognized immediately in profit or loss, and is included in the ‘other gains and losses’ line item.

Amounts previously recognized in other comprehensive income and accumulated in equity are reclassified to profit or loss in the periods when the hedged item is recognized in profit or loss in the same line of the statement of comprehensive income as the recognized hedged item. However, when the forecast transaction that is hedged results in the recognition of a non-financial asset or a non-financial liability, the gains and losses previously accumulated in equity are transferred from equity and included in the initial measurement of the cost of the non-financial asset or non-financial liability.

Hedge accounting is discontinued when the Company revokes the hedging relationship; when the hedging instrument expires or is sold, terminated or exercised; or when it no longer qualifies for hedge accounting. Any gain or loss accumulated in equity at that time remains in equity, and is recognized when the forecast transaction is ultimately recognized in profit or loss. When a forecast transaction is no longer expected to occur, the gain or loss accumulated in equity is recognized immediately in profit or loss.

(14) Provisions

Provisions are recognized when the Company has a present legal or constructive obligation as a result of a past event, it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation and a reliable estimate can be made of the amount of the obligation.

The amount recognized as a provision is the best estimate of the consideration required to settle the present obligation at the end of the reporting period, taking into account the risks and uncertainties surrounding the obligation. When a provision is measured using the cash flows estimated to settle the present obligation, its carrying amount is the present value of those cash flows (where the effect of the time value of money is material). The discount rate used is a pretax rate that reflects current market assessments of the time value of money and the risks specific to the liability. Where discounting is used, the increase in the provision due to the passage is recognized in profit or loss as finance costs.

When some or all of the economic benefits required to settle a provision are expected to be recovered from a third party, a receivable is recognized as an asset if it is virtually certain that reimbursement will be received and the amount of the receivable can be measured reliably.

At the end of each reporting period, the remaining provision balance is reviewed and assessed to determine if the current best estimate is being recognized. If the existence of an obligation to transfer economic benefit is no longer probable, the related provision is reversed during the period.

(15) Revenue recognition

Revenue is measured at the fair value of the consideration received or receivable. Revenue is reduced for estimated customer returns, rebates and other similar allowances. The Company recognizes revenue when the amount of revenue can be reliably measured; when it is probable that future economic benefits will flow to the entity; and when specific criteria have been met for each of the Company's activities, as described below.

1) Sale of goods

Revenue from the sale of goods is recognized when the Company has transferred to the buyer the significant risks and rewards of ownership of the goods.

2) Rendering of services

Revenue from a contract to provide services is recognized by reference to the stage of completion of the contract. Depending on the nature of the transaction, the Company determines the stage of completion by reference to surveys of work performed; services performed to date as a percentage of total services to be performed; or the proportion that costs incurred to date bear to the estimated total costs of the transaction, as applicable. In addition, toll revenue and incidental business revenue are recognized only if the amount of revenue can be measured reliably and the economic benefits associated with the transaction will flow into the Company is probable.

3) Dividend and interest income

Dividend income from investments is recognized when the shareholder's right to receive payment has been established (provided it is probable that the economic benefits will flow to the Company and the amount of income can be measured reliably).

Interest income from a financial asset is recognized when it is probable that the economic benefits will flow to the Company and the amount of income can be measured reliably. Interest income is accrued on a time basis, by reference to the principal outstanding and at the effective interest rate applicable, which is the rate that exactly discounts estimated future cash receipts through the expected life of the financial asset to that asset's net carrying amount on initial recognition

4) Rental income

The Company's policy for recognition of revenue from operating leases is described in Note 2 (18).

(16) Lease

Leases are classified as finance leases whenever the terms of the lease transfer substantially all the risks and rewards of ownership to the lessee. All other leases are classified as operating leases.

1) The Company as lessor

Amounts due from lessees under finance leases are recognized as receivables at the amount of the Company's net investment in the leases. Finance lease income is allocated to accounting periods so as to reflect a constant periodic rate of return on the Company's net investment outstanding in respect of the leases.

Rental income from operating leases is recognized on a straight-line basis over the term of the relevant lease. Initial direct costs incurred in negotiating and arranging an operating lease are added to the carrying amount of the leased asset and recognized on a straight-line basis over the lease term.

2) The Company as lessee

Assets held under finance leases are initially recognized as assets of the Company at their fair value at the inception of the lease or, if lower, at the present value of the minimum lease payments. The corresponding liability to the lessor is included in the statement of financial position as a finance lease obligation.

Lease payments are apportioned between finance expenses and reduction of the lease obligation so as to achieve a constant rate of interest on the remaining balance of the liability. Finance expenses are recognized immediately in profit or loss, unless they are directly attributable to qualifying assets, in which case they are capitalized in accordance with the Company's general policy on borrowing costs (see Note 2. (8)). Contingent rentals are recognized as expenses in the periods in which they are incurred.

Operating lease payments are recognized as an expense on a straight-line basis over the lease term, except where another systematic basis is more representative of the time pattern in which economic benefits from the leased asset are consumed. Contingent rentals arising under operating leases are recognized as an expense in the period in which they are incurred.

In the event that lease incentives are received to enter into operating leases, such incentives are recognized as a liability. The aggregate benefit of incentives is recognized as a reduction of rental expense on a straight-line basis, except where another systematic basis is more representative of the time pattern in which economic benefits from the leased asset are consumed.

(17) Foreign currencies

The financial statements of each Company entity are presented in the currency of the primary economic environment in which the entity operates (its functional currency). For the purpose of the financial statements, the results of operations and financial position of each Company entity are expressed in Korean won, which is the functional currency of the entity and the presentation currency for the financial statements.

In preparing the financial statements of the entities, transactions in currencies other than the entity's functional currency (foreign currencies) are recognized at the rates of exchange prevailing at the dates of the transactions. At the end of each reporting period, monetary items denominated in foreign currencies are retranslated at the rates prevailing at that date. Non-monetary items carried at fair value that are denominated in foreign currencies, and are retranslated at the rates prevailing at the date when the fair value was determined. Non-monetary items that are measured in terms of historical cost in a foreign currency are not retranslated.

Exchange differences are recognized in profit or loss in the period in which they arise, except for:

- exchange differences on foreign currency borrowings relating to assets under construction for future productive use, which are included in the cost of those assets when they are regarded as an adjustment to interest costs on those foreign currency borrowings;
- exchange differences on transactions entered into in order to hedge certain foreign currency risks (see Note 2 (13) below for hedging accounting policies); and
- exchange differences on monetary items receivable from or payable to a foreign operation for which settlement is neither planned nor likely to occur (therefore forming part of the net investment in the foreign operation), which are recognized initially in other comprehensive income and reclassified from equity to profit or loss on disposal or partial disposal of the net investment.

(18) Retirement benefit costs and termination benefits

For defined benefit retirement benefit plans, the cost of providing benefits is determined using the Projected Unit Credit Method, with actuarial valuations being carried out at the end of each reporting period. Remeasurement, comprising actuarial gains and losses, the effect of the changes to the asset ceiling (if applicable) and the return on plan assets (excluding interest), is reflected immediately in the statement of financial position, with a charge or credit recognized in other comprehensive income in the period in which they occur. Remeasurement recognized in other comprehensive income is reflected immediately in retained earnings and will not be reclassified to profit or loss. Past service cost is recognized in profit or loss in the period of a plan amendment. Net interest is calculated by applying the discount rate at the beginning of the period to the net defined benefit liability or asset. Defined benefit costs are composed of service cost (including current service cost and past service cost, as well as gains and losses on curtailments and settlements), net interest expense (income) and remeasurement.

The Company presents the service cost and net interest expense (income) components in profit or loss and the remeasurement component in other comprehensive income. Curtailment gains and losses are accounted for as past service costs.

The retirement benefit obligation recognized in the statement of financial position represents the actual deficit or surplus in the Company's defined benefit plans. Any surplus resulting from this calculation is limited to the present value of any economic benefits available in the form of refunds from the plans or reductions in future contributions to the plans.

A liability for a termination benefit is recognized at the earlier of when the entity can no longer withdraw the offer of the termination benefit and when the entity recognizes any related restructuring costs.

Discretionary contributions made by employees or third parties reduce service cost upon payment of these contributions to the plan. When the formal terms of the plans specify that there will be contributions from employees or third parties, the accounting depends on whether the contributions are linked to service, as follows:

If the contributions are not linked to services (e.g., contributions are required to reduce a deficit arising from losses on plan assets or from actuarial losses), they are reflected in the remeasurement of the net defined benefit liability (asset). If contributions are linked to services, they reduce service costs. For the amount of contribution that is dependent on the number of years of service, the entity reduces service cost by attributing the contributions to periods of service using the attribution method required by K-IFRS 1019 paragraph 70 for the gross benefits. For the amount of contribution that is independent of the number of years of service, the entity reduces service cost in the period in which the related service is rendered in accordance with K-IFRS 1019 paragraph 70.

(19) Taxation

Income tax expense represents the sum of the tax currently payable and deferred tax.

1) Current tax

The tax currently payable is based on taxable profit for the year. Taxable profit differs from profit as reported in the statement of comprehensive income because of items of income or expense that are taxable or deductible in other years and items that are never taxable or deductible. The Company's liability for current tax is calculated using tax rates that have been enacted or substantively enacted by the end of the reporting period.

2) Deferred tax

Deferred tax is recognized on temporary differences between the carrying amounts of assets and liabilities in the financial statements and the corresponding tax bases used in the computation of taxable profit. Deferred tax liabilities are generally recognized for all taxable temporary differences. Deferred tax assets are generally recognized for all deductible temporary differences to the extent it is probable that taxable profits will be available against which those deductible temporary differences can be utilized. Such deferred tax assets and liabilities are not recognized if the temporary difference arises from goodwill or from the initial recognition (other than in a business combination) of other assets and liabilities in a transaction that affects neither the taxable profit nor the accounting profit.

Deferred tax liabilities are recognized for taxable temporary differences associated with investments in subsidiaries and associates and interests in joint ventures, except where the Company is able to control the reversal of the temporary difference and it is probable that the temporary difference will not reverse in the foreseeable future. Deferred tax assets arising from deductible temporary differences associated with such investments and interests are only recognized to the extent it is probable that there will be sufficient taxable profits against which the benefits of the temporary differences can be utilized and they are expected to reverse in the foreseeable future.

The carrying amount of deferred tax assets is reviewed at the end of each reporting period and reduced to the extent that it is no longer probable that sufficient taxable profits will be available to allow all or part of the asset to be recovered.

Deferred tax assets and liabilities are measured at the tax rates that are expected to apply in the period in which the liability is settled or the asset is realized, based on tax rates (and tax laws) that have been enacted or substantively enacted by the end of the reporting period. The measurement of deferred tax liabilities and assets reflects the tax consequences that would follow from the manner in which the Company expects, at the end of the reporting period, to recover or settle the carrying amount of its assets and liabilities.

Deferred tax assets and liabilities are offset if, and only if, the Company has a legally enforceable right to set off current tax assets against current tax liabilities and the deferred tax assets and liabilities relate to income taxes levied by the same taxation authority on either the same taxable entity or different taxable entities that intend either to settle current tax liabilities and assets on a net basis, or to realize the assets and settle the liabilities simultaneously, in each future period in which significant amounts of deferred tax liabilities or assets are expected to be settled or recovered.

For the purpose of measuring deferred tax liabilities and deferred tax assets for investment properties that are measured using the fair value model, the carrying amounts of such properties are presumed to be recovered entirely through sale, unless the presumption is rebutted; the presumption is rebutted when the investment property is depreciable and is held within a business model whose objective is to consume substantially all of the economic benefits embodied in the investment properties over time, rather than through sale.

3) Current and deferred taxes for the year

Current and deferred taxes are recognized in profit or loss, except when they relate to items that are recognized in other comprehensive income or directly in equity, in which case the current and deferred taxes are also recognized in other comprehensive income or directly in equity, respectively. Where current tax or deferred tax arises from the initial accounting for a business combination, the tax effect is included in the accounting for the business combination.

(20) Fair value

Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date, regardless of whether that price is directly observable or estimated using another valuation technique. In estimating the fair value of an asset or a liability, the Company takes into account the characteristics of the asset or liability if market participants would take those characteristics into account when pricing the asset or liability at the measurement date. Fair value for measurement and/or disclosure purposes in these financial statements is determined on such a basis, except for share-based payment transactions that are within the scope of K-IFRS 1102; leasing transactions that are within the scope of K-IFRS 1017, *Leases*; and measurements that have some similarities to fair value, but are not fair value, such as net realizable value in K-IFRS 1002, *Inventories* or value in use in K-IFRS 1036, *Impairment of Assets*.

In addition, for financial reporting purposes, fair value measurements are categorized into Level 1, 2 or 3 based on the degree to which the inputs to the fair value measurements are observable and the significance of the inputs to the fair value measurement in its entirety, which are described as follows:

- Level 1 inputs are quoted prices (unadjusted) in active markets for identical assets or liabilities that the Company can access at the measurement date;
- Level 2 inputs are inputs, other than quoted prices included within Level 1, that are observable for the asset or liability, either directly or indirectly; and
- Level 3 inputs are unobservable inputs for the asset or liability.

3. CRITICAL ACCOUNTING JUDGMENTS AND KEY SOURCE OF ESTIMATION UNCERTAINTY:

In the preparation of the Company's financial statements, management is required to apply accounting policies and make judgements, estimation and assumptions affecting the carrying amounts of assets, liabilities, income and expenses. Actual results may differ from these estimates. The management's significant judgements about the application of the Company's accounting policies and the main resources of the uncertainty are as follows:

(1) Fair value of Financial Instruments

The Company uses valuation techniques that include inputs that are not based on observable market data to estimate the fair value of certain type of financial instruments. The Company believes that the chosen valuation techniques and assumptions used are appropriate in determining the fair value of financial instruments.

(2) Provisions

As described in Note 20, the Company recognized the provisions-related litigation, etc. These provisions are determined by estimation according to past experiences. Meanwhile, the Company provides performance awards according to management performance that is evaluated by Ministry of Strategy and Finance. As described in Note 20, these performance awards are recognized as employee salary provision.

(3) Employee benefits

The Company's defined benefit obligation is determined based on the actuarial valuation carried out at the end of each annual reporting period. Actuarial assumptions are the Company's best estimates of the variables in determining the cost of providing postretirement benefits, such as discount rates, rates of expected future salary increases and mortality rates. Significant estimation uncertainty is likely to persist in making such assumptions due to the long-term nature of postretirement benefit plan. Additional items are described in Note 19.

(4) Taxation

The Company recognized the current taxation and deferred income tax through the best estimation of expected tax effect that is expected in future as a result of business activities during the year ended December 31, 2017. However, the final taxation may differ with the estimation; this difference may influence taxation and deferred tax assets and liabilities where the final tax effect is decided.

4. OPERATING SEGMENTS:

The Company divides its business into four strategic operating segments.

(1) Operating segments of the Company are as follows:

Operating segments	Description	Customers
Toll business	Highway	Highway user
Incidental business	Expressway rest stop, oil station lease and research service	Expressway rest stop operator, etc.
Supporting business	Consignment management service	Government, etc.
Construction business	Road construction	Government

(2) Information for each segment for the years ended December 31, 2017 and 2016, is as follows (Korean won in millions):

For the year ended December 31, 2017:

	Total revenue	Operating income
Toll business	₩ 4,059,538	₩ 803,148
Incidental business	554,247	168,443
Supporting business	193,812	-
Construction business	3,252,222	-
	₩ 8,059,819	₩ 971,591

For the year ended December 31, 2016:

	Total revenue	Operating income
Toll business	₩ 4,051,652	₩ 559,306
Incidental business	508,342	166,183
Supporting business	278,035	-
Construction business	3,321,007	-
	₩ 8,159,036	₩ 725,489

(3) All of the Company's revenues are generated in Korea.

(4) Information about major customers

The Korean government is a major customer of the supporting and construction operating segments, with revenue of ₩3,446,035 million and ₩3,599,041 million for the years ended December 31, 2017 and 2016, respectively. There are no other major customers representing more than 10% of the Company's revenue.

5. CASH AND CASH EQUIVALENTS:

Cash and cash equivalents of the statements of cash flows include cash and bank deposit, net of bank overdrafts. Cash and cash equivalents as of December 31, 2017 and 2016, are as follows (Korean won in millions):

	December 31, 2017	December 31, 2016
Cash	₩ 267,461	₩ 259,168
Cash equivalents	378,242	507,721
	645,703	766,889
Less: Government grants for consignment management service	(145,686)	(134,129)
	₩ 500,017	₩ 632,760

6. DERIVATIVES:

(1) Composition of derivative instruments as of December 31, 2017 and 2016, is as follows (Korean won in millions):

	December 31, 2017		December 31, 2016	
	Current	Non-current	Current	Non-current
Financial asset at FVTPL:				
Interest rate swap	₩ -	₩ 886	₩ 1,513	₩ -
	₩ -	₩ 886	₩ 1,513	₩ -
Derivative instruments assets:				
Currency swap	₩ -	₩ 7,270	₩ 121,413	₩ 41,886
Interest rate swap	-	25,451	-	24,090
	₩ -	₩ 32,721	₩ 121,413	₩ 65,976
Financial liability at FVTPL:				
Non-derivative financial liability (*)	₩ -	₩ 115,562	₩ -	₩ 121,074
Interest rate swap	-	29,292	-	36,267
	₩ -	₩ 144,854	₩ -	₩ 157,341
Derivative instruments liabilities:				
Currency swaps	₩ 36,476	₩ 117,781	₩ 14,141	₩ 35,302
Interest rate swap	-	34,328	837	43,712
	₩ 36,476	₩ 152,109	₩ 14,978	₩ 79,014

(*) As the Company has entered into interest rate swap contracts to hedge the risk of changes in the fair value of bonds due to changes in interest rate of bonds, the Company has classified these bonds as financial liabilities at FVTPL.

(2) Details of currency swaps as of December 31, 2017, are as follows (in millions of Korean won, EUR, USD, HKD, CHF, CNY and SEK):

	Bank	Contract period	Contract amount			Contract interest rate		Contract exchange rate
			Selling amount		Buying amount	Sell	Buy	
Cash flow hedge	Woori Bank	2012.03.02–2022.03.02	HKD	452	₩ 65,856	4.00%	3.96%	145.70
Cash flow hedge	Deutsche Bank Group	2012.05.07–2024.05.07	EUR	45	67,733	3.88%	3.98%	1,505.17
Cash flow hedge	Deutsche Bank Group	2012.05.07–2027.05.07	EUR	23	34,619	4.00%	4.06%	1,505.17
Cash flow hedge	Nomura Securities Co.	2013.08.05–2018.08.05	USD	100	111,000	2.78%	3.27%	1,110.00
Cash flow hedge	Nomura Securities Co.	2013.09.13–2018.09.13	EUR	75	107,870	2.23%	3.47%	1,438.26
Cash flow hedge	HSBC	2014.12.15–2018.03.15	CHF	20	23,000	3M LIBOR+0.47 %	2.08%	1,150.00
Cash flow hedge	Korea Development Bank	2014.12.15–2018.03.15	CHF	200	230,000	3M LIBOR+0.47 %	2.16%	1,150.00
Cash flow hedge	Nomura Securities Co.	2015.03.18–2027.03.18	CNY	900	157,698	4.45%	1.90%	175.22
Cash flow hedge	NH Investment & Securities Co., Ltd.	2015.03.18–2027.03.18	USD	50	56,150	3.02%	2.42%	1,123.00
Cash flow hedge	Korea EXIM Bank	2015.11.30–2030.11.30	USD	50	58,000	3.21%	2.41%	1,160.00
Cash flow hedge	Nomura Securities Co.	2015.12.08–2026.06.08	USD	100	115,000	3.10%	2.33%	1,150.00
Cash flow hedge	Nomura Securities Co.	2016.04.26–2026.10.26	USD	200	232,000	2.70%	1.84%	1,160.00
Cash flow hedge	Korea EXIM Bank	2016.07.05–2031.07.05	USD	100	116,000	2.57%	1.71%	1,160.00
Cash flow hedge	SC Bank.	2016.10.27–2019.10.28	USD	100	112,300	3M LIBOR+0.70 %	1.48%	1,123.00
Cash flow hedge	Nomura Securities Co.	2016.10.27–2019.10.28	HKD	931	134,808	1.65%	1.51%	145.00
Cash flow hedge	HSBC	2016.12.07–2019.06.07	USD	200	233,600	3M LIBOR+0.78 %	1.74%	1,168.00
Cash flow hedge	Hana Bank.	2017.04.20–2020.04.20	USD	150	172,350	3M LIBOR+0.70 %	1.77%	1,149.00
Cash flow hedge	Korea EXIM Bank	2017.04.20–2020.04.20	USD	150	172,350	3M LIBOR+0.70 %	1.77%	1,149.00
Cash flow hedge	Kookmin Bank	2017.04.20–2020.04.20	USD	100	114,900	3M LIBOR+0.70 %	1.77%	1,149.00
Cash flow hedge	Nomura Securities Co.	2017.04.28–2020.04.28	SEK	720	92,304	2.31%	2.32%	128.20
Cash flow hedge	Korea EXIM Bank.	2017.05.11–2032.05.11	CAD	135	111,725	3.03%	2.32%	835.00
Cash flow hedge	Korea Development Bank	2017.06.07–2024.06.07	CHF	100	112,200	0.25%	2.24%	1,122.00
Cash flow hedge	IBK Bank	2017.06.07–2024.06.07	CHF	50	56,100	0.25%	2.24%	1,122.00
Cash flow hedge	Korea Development Bank.	2017.06.07–2024.06.07	CHF	80	89,760	0.25%	2.24%	1,122.00

(3) Details of interest swaps as of December 31, 2017, are as follows (Korean won in millions):

	Bank	Contract period	Notional amount	Sell	Buy
Fair value hedge	Nonghyup	2007.07.27–2022.07.27	₩ 100,000	5.60%	CD91+0.08%
Cash flow hedge	Nomura Securities Co.	2010.11.29–2020.11.29	100,000	32X [12-month average value of absolute value (5-year CMS market price - closing price)]	4.31%
Cash flow hedge	Morgan Stanley	2010.12.10–2020.12.10	40,000	30× change 1.50% (minimum), 8.50% (maximum)	4.28%
Cash flow hedge	Societe Generale	2010.12.10–2020.12.10	40,000	30× change 1.50% (minimum), 8.50% (maximum)	4.28%
Cash flow hedge	Deutsche Bank Group	2012.09.20–2022.09.20	100,000	One year: 4.00%, 2–10 years: 2.24% + 0.10 × (70%-Average SIFMA/Average USD 3M LIBOR) minimum 0%, maximum 6%	2.97%
Cash flow hedge	Nomura Securities Co.	2013.12.09–2023.12.09	30,000	4.35%× n/N, 30/360	3.81%
Cash flow hedge	Nomura Securities Co.	2014.04.04–2024.04.04	30,000	1 year–2 years: 4.25%, 30/360 3–10 years: 3 %, 30/360 reference average spread for specified periods 0.00% (minimum), 5.50% (maximum) Spread Reference daily spread calculation: 20Y EUR Swap interest rate 0% (minimum), 6% (maximum)	3.56%
Cash flow hedge	Morgan Stanley	2014.09.04–2024.09.04	100,000	1) Before switch options are exercised. One year: 4.00%, 2Y–10Y: Annual Min (4.20%, 3.00×(average spread (20 EUR CMS - 2 EUR CMS))×N/M), (minimum 0.00%) 2) After switch options are exercised. Annual 3.65% (Fixed rate)	3.08%
Cash flow hedge	Deutsche Bank	2015.05.15–2030.05.15	30,000	One year: 4.50%, 2Y–: 8.0% - 0.1 × (average SIFMA/average 3M LIBOR) (Cap 5.50%, Floor 0.01%) or 5% fixed rate (Swap bank switch option)	2.69%
Cash flow hedge	Nomura Securities Co.	2015.08.19–2030.08.19	50,000	One year: 3.80%, 2Y–15Y: 2.11× (USD 30Y CMS -USD 2Y CMS)+0.2% (Cap 5.50%, Floor 0.00%) or 2.8% fixed rate (Swap bank switch option) 2) After switch options are exercised. Annual 2.8% (Fixed rate) – One year after the date of issue, it is possible to exercise switch options annually to the issuer – before exercising switch options, the written notice has to be submitted to Korea Securities Depository	2.46%
Cash flow hedge	Nomura Securities Co.	2015.09.23–2030.09.23	50,000	One year: 4.00%, 4.0%*(KRW 10Y CMS -USD 1Y CMS) (Cap 4.50%, Floor 0.25%) or 3.0% fixed rate (Swap bank switch option) 2) After switch options are exercised. Annual 3.0% (Fixed rate) – One year after the date of issue, it is possible to exercise switch options annually to the issuer – before exercising switch options, the written notice has to be submitted to Korea Securities Depository	2.28%
Cash flow hedge	Nomura Securities Co.	2015.10.28–2030.10.28	50,000	One year: 3.90%, 3.3%*(KRW 10Y - USD 1Y CMS) (Cap 4.50%, Floor 0.00%) or 2.8% fixed rate (Swap bank switch option) 2) After switch options are exercised. Annual 3.0% (Fixed rate) – One year after the date of issue, it is possible to exercise switch options annually to the issuer – before exercising switch options, the written notice has to be submitted to Korea Securities Depository	2.18%
Cash flow hedge	NH Investment & Securities Co., Ltd.	2016.06.23–2031.06.23	30,000	One year: 2.80%, 2.3%*(EUR 30Y CMS - EUR 5Y CMS) (Cap 3.00%, Floor 0.00%)	1.6%
Cash flow hedge	Hana Bank	2016.08.09–2021.08.09	100,000	CD91+0.08%	1.34%
Cash flow hedge	Hana Bank	2016.12.08–2021.12.08	200,000	CD91+0.36%	2.07%

	Bank	Contract period	Notional amount	Sell	Buy
Cash flow hedge	Hana Bank	2017.03.22–2022.03.22	₩ 200	CD91+0.22%	2.00%
Trading	JP Morgan Chase & Co.	2009.05.21–2021.07.21	50,000	CD91+0.08%	4.08%
Trading	Deutsche Bank Group	2009.05.21–2022.07.27	50,000	CD91+0.08%	4.08%
Trading	Societe Generale	2015.07.30–2022.10.30	70,000	5.82%	4.92%+7.85% ×(1-n/N) (n: days of USD CMS 10Y-2Y rate difference ≥0, N: days of interest)
Trading	Societe Generale	2015.12.17–2024.3.17	90,000	5.38%	4.48%+7.76% ×(1-n/N) (n: days of USD CMS 10Y-2Y rate difference≥0, N: days for interest)
Trading	Nomura Securities Co.	2017.01.11–2022.04.11	100,000	5.30%	4.6%+ [a%× (1-n/N)] n: [KRW CMS 10y - USD CMS 10y ≥ -1.25%
Trading	Societe Generale	2016.12.08–2025.03.08	100,000	5.24%	4.54%+a% ×(1-n/N) n: [USDCMS30y-USDCMS2y≥ 0.00%

(4) Derivatives transaction gain (loss) for the years ended December 31, 2017 and 2016, is as follows (Korean won in millions):

	Gain or loss				Accumulated comprehensive income (loss)	
	Gain (loss) on valuation		Gain (loss) on transaction			
	2017	2016	2017	2016	2017	2016
Derivative instrument assets or liabilities (hedging items):						
Currency swap	₩ (209,101)	₩ 86,159	₩ (78,431)	₩ (20,730)	₩ 55,504	₩ (33,750)
Interest rate swap	(5,515)	(2,663)	-	-	16,052	(12,664)
	₩ (214,616)	₩ 83,496	₩ (78,431)	₩ (20,730)	₩ 71,556	₩ (46,414)
Financial asset or liability at FVTPL:						
Currency swap	₩ -	₩ -	₩ (28)	₩ (17)	₩ -	₩ -
Interest rate swap	7,861	(20,270)	(728)	1,131	-	-
Bonds	5,515	2,663	−	−	-	-
	₩ 13,376	₩ (17,607)	₩ (756)	₩ 1,114	₩ -	₩ -

7. TRADE AND OTHER RECEIVABLES:

(1) Trade and other receivables as of December 31, 2017 and 2016, are as follows (Korean won in millions):

As of December 31, 2017:

	Receivables	Allowance for doubtful accounts	Present value of discount	Carrying amount
Current:				
Other receivables	₩ 212,197	₩ (7,165)	₩ (326)	₩ 204,706
Non-current:				
Other receivables	81,126	-	(1,027)	80,099
	₩ 293,323	₩ (7,165)	₩ (1,353)	₩ 284,805

As of December 31, 2016:

	Receivables	Allowance for doubtful accounts	Present value of discount	Carrying amount
Current:				
Other receivables	₩ 170,692	₩ (7,587)	₩ (400)	₩ 162,705
Non-current:				
Other receivables	70,671	-	(1,209)	69,462
	₩ 241,363	₩ (7,587)	₩ (1,609)	₩ 232,167

(2) Details of other receivables as of December 31, 2017 and 2016, are as follows (Korean won in millions):

As of December 31, 2017:

	Receivables	Allowance for doubtful accounts	Present value of discount	Carrying amount
Current:				
Other accounts receivable	₩ 194,393	₩ (7,165)	₩ -	₩ 187,228
Accrued revenue	1,954	-	-	1,954
Short-term deposits	15,850	-	(326)	15,524
	212,197	(7,165)	(326)	204,706
Non-current:				
Long-term deposits	81,126	-	(1,027)	80,099
	₩ 293,323	₩ (7,165)	₩ (1,353)	₩ 284,805

As of December 31, 2016:

	Receivables	Allowance for doubtful accounts	Present value of discount	Carrying amount
Current:				
Other accounts receivable	₩ 147,070	₩ (7,587)	₩ -	₩ 139,483
Accrued revenue	1,868	-	-	1,868
Short-term deposits	21,754	-	(400)	21,354
	170,692	(7,587)	(400)	162,705
Non-current:				
Long-term deposits	70,671	-	(1,209)	69,462
	₩ 241,363	₩ (7,587)	₩ (1,609)	₩ 232,167

(3) Credit risk and allowance of doubtful accounts

The above trade and other receivables consist of other accounts receivable, accrued revenue and deposits carried at amortized cost.

The average granting of credit period for other accounts receivable is one month; so, the Company does not recognize allowance for doubtful accounts of the accounts receivable whose aging is within one month or for which leasehold deposits are pledged. Allowance for doubtful accounts is computed on consideration of unredeemed rates and bad debt rates for five years. The Company recognizes 99% of doubtful allowance of other accounts receivable whose aging is more than 30 months because the Company judges that those accounts receivable are not recoverable according to past experiences.

1) Aging of other accounts receivable as of December 31, 2017 and 2016, is as follows (Korean won in millions):

	December 31, 2017	December 31, 2016
Neither impaired nor overdue receivables	₩ 99,787	₩ 53,119
Overdue but not damaging receivables:		
- 1 month–7 months	311	8,579
- 1–13 months	14,731	6,756
- 13–19 months	7,783	8
- 19–25 months	6,729	31
- 25–31 months	7	9
- 31–37 months	19	23
- More than 37 months	65	33
Individually impaired receivables	-	-
Impairment tested receivables:		
- 1–7 months	24,795	42,402
- 7–13 months	12,022	10,034
- 13–19 months	2,831	1,035
- 19–25 months	4,216	7,587
- 25–31 months	770	2,025
- 31–37 months	6,469	4,767
- More than 37 months	13,858	10,661
Deduction: allowance for doubtful accounts	(7,165)	(7,587)
	₩ 187,228	₩ 139,482

The above details of aging are that of short-term other accounts receivable.

For judging of recoverability of receivables, the Company considers the change in the credit rating of receivables from the beginning date of credit granting. Due to many customers and no interrelationships between them, concentration of credit risk is limited.

2) Changes in allowance for doubtful trade and other receivables for the years ended December 31, 2017 and 2016, are as follows (Korean won in millions):

	2017	2016
Beginning balance	₩ 7,587	₩ 8,907
Bad debt expense (reversal of allowance)	813	(603)
Written off	(1,235)	(717)
Ending balance	₩ 7,165	₩ 7,587

8. AFS FINANCIAL ASSETS:

(1) Changes in AFS financial assets for the years ended December 31, 2017 and 2016, are as follows (Korean won in millions):

For the year ended December 31, 2017:

	January 1, 2017	Acquisition	Disposal	Valuation	Impairment	December 31, 2017
Unmarketable equity securities	₩ 87,908	₩ 4,582	₩ -	₩ 3,396	₩ -	₩ 95,886
Total	₩ 87,908	₩ 4,582	₩ -	₩ 3,396	₩ -	₩ 95,886
Non-current	87,908	4,582	-	3,396	-	95,886

For the year ended December 31, 2016:

	January 1, 2016	Acquisition	Disposal	Valuation	Impairment	December 31, 2016
Unmarketable equity securities	₩ 79,907	₩ 2,252	₩ (116)	₩ 5,865	₩ -	₩ 87,908
Total	₩ 79,907	₩ 2,252	₩ (116)	₩ 5,865	₩ -	₩ 87,908
Non-current	79,907	2,252	(116)	5,865	-	87,908

(2) Equity securities as of December 31, 2017 and 2016, are as follows (Korean won in millions):

As of December 31, 2017:

	Number of shares	Percentage of ownership	Acquisition cost	Carrying amounts	Fair value
Unmarketable equity securities:					
Seoul-Choonchun Highway (*1)	6,476,000	10.00%	₩ 32,380	₩ 45,481	₩ 45,481
The 2nd Seoul-Incheon Linking Highway Co., Ltd. (*2)	1,602,230	4.76%	8,011	8,011	8,011
Seoul-north Highway (*2)	4,876,000	10.00%	24,380	24,380	24,380
DREAMLINE Corporation	181,549	1.60%	44,027	813	813
Beneficiary certificate	-	-	10,814	17,201	17,201
			₩ 119,612	₩ 95,886	₩ 95,886

(*1) AFS financial assets were pledged as collateral against the investees' debts as of December 31, 2017.
(*2) Equity securities whose prices are not quoted in active market, and fair values cannot be reliably measured due to the lack of reliable information, are stated at acquisition cost.

As of December 31, 2016:

	Number of shares	Percentage of ownership	Acquisition cost	Carrying amounts	Fair value
Unmarketable equity securities:					
Seoul-Choonchun Highway (*1)	6,476,000	10.00%	₩ 32,380	₩ 42,304	₩ 42,304
The 2nd Seoul-Incheon Linking Highway Co., Ltd. (*2)	1,602,230	6.23%	8,011	8,011	8,011
Seoul-north Highway (*2)	4,876,000	10.00%	24,380	24,380	24,380
DREAMLINE Corporation (*3)	181,549	1.60%	44,027	-	-
Beneficiary certificate			10,814	13,213	13,213
			₩ 119,612	₩ 87,908	₩ 87,908

(*1) AFS financial assets were pledged as collateral against the investees' debts as of December 31, 2016.
(*2) Equity securities whose prices are not quoted in active market, and fair values cannot be reliably measured due to the lack of reliable information, are stated at acquisition cost.
(*3) As the recoverable amount is less than the acquisition cost, the total impairment loss was recognized before the previous period.

9. LOANS:

Details of loans as of December 31, 2017 and 2016, are as follows (Korean won in millions):

As of December 31, 2017:

	Nominal value		Present value of discount		Carrying amount	
Loans for tuition (*1)	₩	5,681	₩	(659)	₩	5,022
Loans for housing (*2)		31,280		(6,046)		25,234
Loans for rental housing		300		-		300
	₩	37,261	₩	(6,705)	₩	30,556

As of December 31, 2016:

	Nominal value		Present value of discount		Carrying amount	
Loans for tuition (*1)	₩	6,193	₩	(833)	₩	5,360
Loans for housing (*2)		32,115		(6,288)		25,827
Loans for rental housing		374		-		374
	₩	38,682	₩	(7,121)	₩	31,561

(*1) The Company provides loans to its employees, who have worked for more than a year, for the purpose of paying tuition of their children at zero interest rate. Loans are payable in four years (total of 16 installments), with a two-year grace period after the graduation.
(*2) The Company provides loans for housing to its employees who do not own house at market interest rate. Loans are payable in 20 years (equal installment repayment), with a five-year grace period.

10. INVENTORIES:

Inventories as of December 31, 2017 and 2016, are as follows (Korean won in millions):

	December 31, 2017				December 31, 2016			
	Acquisition cost		Carrying amounts		Acquisition cost		Carrying amounts	
Merchandise	₩	1,413	₩	1,413	₩	1,621	₩	1,621
Supplies		15,886		15,886		14,883		14,883
Others		391		391		369		369
	₩	17,690	₩	17,690	₩	16,873	₩	16,873

11. NON-FINANCIAL ASSETS:

Non-financial assets as of December 31, 2017 and 2016, are as follows (Korean won in millions):

	December 31, 2017				December 31, 2016			
	Current		Non-current		Current		Non-current	
Prepaid expenses	₩	5,130	₩	7,159	₩	4,538	₩	7,629
Other non-financial assets		-		1,676		-		1,676
	₩	5,130	₩	8,835	₩	4,538	₩	9,305

12. INVESTMENTS IN ASSOCIATES AND JOINT VENTURE:

(1) Investments in associates and joint venture as of December 31, 2017 and 2016, are as follows (Korean won in millions, except percentage of ownership):

As of December 31, 2017:

Company	Major business activity	Location of incorporation	Percentage of ownership	Acquisition cost	Carrying amount
Associates:					
Korea Construction Management Corp.	Building, civil engineering service	Korea	42.50%	₩ 9,822	₩ 4,961
Expressway Solar Power Co., Ltd.	Expressway solar power projects	Korea	29.00%	1,856	2,463
Highwaysolar Co., Ltd.	New renewable energy service	Korea	29.00%	653	744
Subtotal				12,331	8,168
Joint venture:					
Busan-Ulsan Expressway Co., Ltd. (*)	Road and facility operating service	Korea	51.00%	839	-
Subtotal				839	-
Total				₩ 13,170	₩ 8,168

As of December 31, 2016:

Company	Major business activity	Location of incorporation	Percentage of ownership	Acquisition cost	Carrying amount
Associates:					
Korea Construction Management Corp.	Building, civil engineering service	Korea	42.50%	₩ 9,822	₩ 5,944
Expressway Solar Power Co., Ltd.	Expressway solar power projects	Korea	29.00%	1,856	2,343
Highwaysolar Co., Ltd.	New renewable energy service	Korea	29.00%	653	710
Subtotal				12,331	8,997
Joint venture:					
Busan-Ulsan Expressway Co., Ltd. (*)	Road and facility operating service	Korea	51.00%	839	-
Subtotal				839	-
Total				₩ 13,170	₩ 8,997

(*) The Company's investment is accounted for as a joint venture because all financial and operating policies require joint approval by the Company and the other investee.

(2) Changes in investments in associates and joint venture for the years ended December 31, 2017 and 2016, are as follows (Korean won in millions):

For the year ended December 31, 2017:

	January 1, 2017	Acquisition (disposal)	Gain (loss) on valuation	Change in equity	Dividend	December 31, 2017
Associates:						
Korea Construction Management Corp.	₩ 5,944	₩ -	₩ (1,016)	₩ 33	₩ -	₩ 4,961
Expressway Solar Power Co., Ltd.	2,343	-	120	-	-	2,463
Highway Solar Corp.	710	-	34	-	-	744
Subtotal	8,997	-	(862)	33	-	8,168
Joint venture:						
Busan-Ulsan Expressway Co., Ltd. (*)	-	-	-	-	-	-
Subtotal	-	-	-	-	-	-
Total	₩ 8,997	₩ -	₩ (862)	₩ 33	₩ -	₩ 8,168

(*) The balance of investments in joint venture of Busan-Ulsan Expressway Co., Ltd. is zero due to the cumulative losses. The Company suspended applying the equity method accordingly. As a result, the Company did not recognize the changes in equity investment, all of which is share of loss from investment in joint venture, amounting to ₩137,739 million as of December 31, 2017. The Company provided its stocks as collateral for investee's debts.

For the year ended December 31, 2016:

	January 1, 2016	Acquisition (disposal)	Gain (loss) on valuation	Change in equity	Dividend	December 31, 2016
Associates:						
Korea Construction Management Corp.	₩ 5,751	₩ -	₩ 453	₩ 31	₩ (291)	₩ 5,944
Expressway Solar Power Co., Ltd.	2,100	-	243	-	-	2,343
Highway Solar Corp.	1,259	(606)	50	7	-	710
Subtotal	9,110	(606)	746	38	(291)	8,997
Joint venture:						
Busan-Ulsan Expressway Co., Ltd. (*)	-	-	-	-	-	-
Subtotal	-	-	-	-	-	-
Total	₩ 9,110	₩ (606)	₩ 746	₩ 38	₩ (291)	₩ 8,997

(*) The balance of investments in joint venture of Busan-Ulsan Expressway Co., Ltd. is zero due to the cumulative losses. The Company suspended applying the equity method accordingly. As a result, the Company did not recognize the changes in equity investment, all of which is share of loss from investment in joint venture, amounting to ₩122,546 million as of December 31, 2016. The Company provided its stocks as collateral for investee's debts.

(3) Financial information of associates and joint venture is as follows (Korean won in millions):

As of and for the year ended December 31, 2017:

	Assets	Liabilities	Revenue	Net income (loss) for the year
Associates:				
Korea Construction Management Corp.	₩ 35,776	₩ 3,638	₩ 41,075	₩ (2,045)
Expressway Solar Power Co., Ltd.	19,143	10,651	3,018	643
Highway Solar Corp.	9,808	7,243	1,454	118
Joint venture:				
Busan-Ulsan Expressway Co., Ltd.	689,311	959,441	61,733	(30,597)

As of and for the year ended December 31, 2016:

	Assets	Liabilities	Revenue	Net income (loss) for the year
Associates:				
Korea Construction Management Corp.	₩ 38,304	₩ 3,656	₩ 43,852	₩ 154
Expressway Solar Power Co., Ltd.	20,790	12,710	3,395	960
Highway Solar Corp.	10,361	7,914	1,398	171
Joint venture:				
Busan-Ulsan Expressway Co., Ltd.	726,596	966,881	55,146	(30,037)

13. PROPERTY AND EQUIPMENT:

(1) Property and equipment as of December 31, 2017 and 2016, are as follows (Korean won in millions):

As of December 31, 2017:

	Acquisition cost	Government grant	Accumulated depreciation	Carrying amount
Land	₩ 126,602	₩ -	₩ -	₩ 126,602
Buildings	832,254	(276)	(243,651)	588,327
Structures	89,854	(223)	(48,171)	41,460
Machinery	98,979	-	(73,965)	25,014
IT equipment	516,657	-	(406,206)	110,451
Vehicles	126,713	(71)	(79,854)	46,788
Furniture and fixtures	91,876	(11)	(51,171)	40,694
Tools and equipment	26,561	-	(19,980)	6,581
Construction in progress	12,504	-	-	12,504
	₩ 1,922,000	₩ (581)	₩ (922,998)	₩ 998,421

As of December 31, 2016:

	Acquisition cost	Government grant	Accumulated depreciation	Carrying amount
Land	₩ 89,539	₩ -	₩ -	₩ 89,539
Buildings	815,726	(260)	(215,331)	600,135
Structures	86,030	(240)	(45,552)	40,238
Machinery	94,562	(2)	(71,408)	23,152
IT equipment	510,359	-	(400,647)	109,712
Vehicles	117,552	(26)	(77,559)	39,967
Furniture and fixtures	87,477	(18)	(48,722)	38,737
Tools and equipment	25,825	-	(18,082)	7,743
Construction in progress	7,231	-	-	7,231
	₩ 1,834,301	₩ (546)	₩ (877,301)	₩ 956,454

(2) Changes in property and equipment for the years ended December 31, 2017 and 2016, are as follows (Korean won in millions):

For the year ended December 31, 2017:

	January 1, 2017	Acquisitions	Disposals	Depreciation	Others (*1)	December 31, 2017
Land	₩ 89,539	₩ 3,633	₩ -	₩ -	₩ 33,430	₩ 126,602
Buildings	600,395	16,915	(1,324)	(28,722)	1,339	588,603
(Government grant)	(260)	(26)	-	10	-	(276)
Structures	40,477	3,646	-	(2,477)	37	41,683
(Government grant)	(239)	-	-	16	-	(223)
Machinery	23,154	8,734	(44)	(6,885)	55	25,014
(Government grant)	(2)	-	-	2	-	-
IT equipment	109,712	27,429	(112)	(28,024)	1,446	110,451
Vehicles	39,994	18,349	(2)	(11,483)	-	46,858
(Government grant)	(27)	(56)	-	13	-	(70)
Furniture and fixtures	38,754	13,598	(4)	(11,708)	65	40,705
(Government grant)	(17)	-	-	6	-	(11)
Tools and equipment	7,743	807	-	(1,969)	-	6,581
Construction in progress	7,231	8,215	-	-	(2,942)	12,504
	₩ 956,454	₩ 101,244	₩ (1,486)	₩ (91,221)	₩ 33,430	₩ 998,421

(*1) Other changes are due to reclassification of construction in progress, investment property and expressway operating rights.

For the year ended December 31, 2016:

		January 1, 2016		Acquisitions (*1)		Disposals		Depreciation		Others (*2)		December 31, 2016
Land	₩	94,898	₩	-	₩	(5,359)	₩	-	₩	-	₩	89,539
Buildings		598,568		31,393		(5,697)		(27,885)		4,016		600,395
(Government grant)		(270)		-		-		10		-		(260)
Structures		34,153		3,994		(635)		(2,380)		5,345		40,477
(Government grant)		(256)		-		-		17		-		(239)
Machinery		22,960		5,846		(57)		(6,506)		911		23,154
(Government grant)		(4)		-		-		2		-		(2)
IT equipment		90,273		32,775		(44)		(24,008)		10,716		109,712
Vehicles		27,552		20,868		(11)		(9,174)		759		39,994
(Government grant)		(36)		(1)		-		10		-		(27)
Furniture and fixtures		22,584		19,378		(7)		(7,838)		4,637		38,754
(Government grant)		(23)		-		-		6		-		(17)
Tools and equipment		6,480		2,959		-		(1,696)		-		7,743
Construction in progress		6,751		25,195		-		-		(24,715)		7,231
	₩	903,630	₩	142,407	₩	(11,810)	₩	(79,442)	₩	1,669	₩	956,454

(*1) The amount of acquisition includes gain on assets contributed of ₩11 million.
(*2) Other changes are due to reclassification of construction in progress and investment property.

(3) Buildings, structures and other assets are insured against fire and casualty losses by AIG Korea Inc., and the Company carries general insurance of MG Non-Life Insurance Co., Ltd. for vehicles.

14. INVESTMENT PROPERTY:

(1) Investment property as of December 31, 2017 and 2016, is as follows (Korean won in millions):

As of December 31, 2017:

		Acquisition cost		Accumulated depreciation		Carrying amount
Land	₩	236,084	₩	-	₩	236,084
Buildings		1,001,071		(354,752)		646,319
Structures		517,678		(280,278)		237,400
Construction in progress		174,138		-		174,138
	₩	1,928,971	₩	(635,030)	₩	1,293,941

As of December 31, 2016:

		Acquisition cost		Accumulated depreciation		Carrying amount
Land	₩	148,901	₩	-	₩	148,901
Buildings		906,446		(322,048)		584,398
Structures		477,708		(261,135)		216,573
Construction in progress		191,719		-		191,719
	₩	1,724,774	₩	(583,183)	₩	1,141,591

(2) Changes in investment property for the years ended December 31, 2017 and 2016, are as follows (Korean won in millions):

For the year ended December 31, 2017:

		January 1, 2017		Acquisitions (*1)		Disposals		Depreciation		Other (*2)		December 31, 2017
Land	₩	148,901	₩	-	₩	-	₩	-	₩	87,183	₩	236,084
Buildings		584,398		63,013		(4,105)		(29,638)		32,651		646,319
Structures		216,573		34,135		(650)		(19,383)		6,725		237,400
Construction in progress		191,719		86,467		-		-		(104,048)		174,138
	₩	1,141,591	₩	183,615	₩	(4,755)	₩	(49,021)	₩	22,511	₩	1,293,941

(*1) The amount of acquisition includes gain on assets contributed of ₩31,242 million.
(*2) Other change is due to reclassification of construction in progress and expressway operating rights and to the property and equipment.

For the year ended December 31, 2016:

	January 1, 2016	Acquisitions (*1)	Disposals	Depreciation	Other (*2)	December 31, 2016
Land	₩ 147,434	₩ 1,467	₩ -	₩ -	₩ -	₩ 148,901
Buildings	566,165	27,984	-	(29,996)	20,245	584,398
Structures	208,472	18,000	(63)	(17,997)	8,161	216,573
Construction in progress	155,686	66,108	-	-	(30,075)	191,719
	₩ 1,077,757	₩ 113,559	₩ (63)	₩ (47,993)	₩ (1,669)	₩ 1,141,591

(*1) The amount of acquisition includes gain on assets contributed of ₩7,702 million.
(*2) Other change is due to reclassification of construction in progress and to the property and equipment.

(3) The amounts recognized in income and expenses from investment property for the years ended December 31, 2017 and 2016, are as follows (Korean won in millions):

	2017	2016
Rental income	₩ 234,636	₩ 219,610
Direct operating expense	(80,781)	(68,760)
	₩ 153,855	₩ 150,850

(4) The Company directly owns the investment property.

15. INTANGIBLE ASSETS:

(1) Intangible assets as of December 31, 2017 and 2016, are as follows (Korean won in millions):

As of December 31, 2017:

	Acquisition cost	Government grants	Accumulated amortization	Accumulated impairment	Carrying amount
Software	₩ 157,509	₩ -	₩ (115,808)	₩ -	₩ 41,701
Industrial property rights	1,024	-	(335)	-	689
Development cost	386	-	(386)	-	-
-Construction in progress	5,966,106	-	-	(262,588)	5,703,518
Expressway operating rights	79,024,181	-	(26,970,454)	-	52,053,727
Others	8,045	-	-	-	8,045
	₩ 85,157,251	₩ -	₩ (27,086,983)	₩ (262,588)	₩ 57,807,680

As of December 31, 2016:

	Acquisition cost	Government grants	Accumulated amortization	Accumulated impairment	Carrying amount
Software	₩ 141,259	₩ -	₩ (103,925)	₩ -	₩ 37,334
Industrial property rights	910	-	(286)	-	624
Development cost	386	-	(386)	-	-
-Construction in progress	6,617,268	-	-	(262,588)	6,354,680
Expressway operating rights	75,054,683	-	(25,187,974)	-	49,866,709
Others	8,045	-	-	-	8,045
	₩ 81,822,551	₩ -	₩ (25,292,571)	₩ (262,588)	₩ 56,267,392

(2) Changes in intangible assets for the years ended December 31, 2017 and 2016, are as follows (Korean won in millions):

For the year ended December 31, 2017:

	January 1, 2017	Acquisitions (*1)	Disposals	Amortization	Other (*2)	December 31, 2017
Software	₩ 37,334	₩ 11,172	₩ (852)	₩ (11,991)	₩ 6,038	₩ 41,701
Industrial property rights	624	115	-	(64)	14	689
Construction in progress	6,354,680	2,652,391	-	-	(3,303,553)	5,703,518
Expressway operating rights	49,866,709	730,321	(2,394)	(1,782,469)	3,241,560	52,053,727
Others	8,045	-	-	-	-	8,045
	₩ 56,267,392	₩ 3,393,999	₩ (3,246)	₩ (1,794,524)	₩ (55,941)	₩ 57,807,680

(*1) Acquisition of construction in progress includes ₩129,194 million of capitalized interest.
(*2) Other changes are due to reclassification of construction in progress.

For the year ended December 31, 2016:

	January 1, 2016	Acquisitions (*1)	Disposals	Amortization	Other (*2)	December 31, 2016
Software	₩ 26,175	₩ 9,609	₩ -	₩ (9,772)	₩ 11,322	₩ 37,334
Industrial property rights	555	1	-	(45)	113	624
Construction in progress	7,766,220	2,877,140	-	-	(4,288,680)	6,354,680
Expressway operating rights	47,018,459	652,055	-	(2,081,050)	4,277,245	49,866,709
Others	6,312	1,733	-	-	-	8,045
	₩ 54,817,721	₩ 3,540,538	₩ -	₩ (2,090,867)	₩ -	₩ 56,267,392

(*1) Acquisition of construction in progress includes ₩203,341 million of capitalized interest.
(*2) Other changes are due to reclassification of construction in progress.

(3) Major individual intangible assets as of December 31, 2017 and 2016, are as follows (Korean won in millions):

	Detail	December 31, 2017	December 31, 2016
Expressway operating rights	Right to highway management	₩ 52,053,727	₩ 49,866,709

16. TRADE AND OTHER PAYABLES:

Trade and other payables as of December 31, 2017 and 2016, are as follows (Korean won in millions):

	December 31, 2017		December 31, 2016	
	Current	Non-current	Current	Non-current
Accounts payable	₩ 439,677	₩ -	₩ 513,483	₩ -
Accrued expenses	205,741	323,867	418,580	124,877
Leasehold deposits	48,449	271,948	21,767	276,406
Other deposits	2,776	-	952	-
	₩ 696,643	₩ 595,815	₩ 954,782	₩ 401,283

17. BORROWINGS AND BONDS:

(1) Borrowings and bonds as of December 31, 2017 and 2016, are as follows (Korean won in millions):

	December 31, 2017		December 31, 2016	
Current:				
Current portion of bonds	₩	2,801,207	₩	3,429,972
Less: discount on bonds		(105)		(1,352)
Current portion of asset-backed debt (other financial liabilities)		-		28,000
Subtotal		2,801,102		3,456,620
Noncurrent:				
Long-term borrowings		600,000		400,000
Bonds		22,032,663		21,610,256
Less: discount on bonds		(6,303)		(4,976)
Financial liability at FVTPL		115,581		121,096
Less: discount on bonds		(19)		(23)
Subtotal		22,741,922		22,126,353
Total	₩	25,543,024	₩	25,582,973

(2) The repayment schedule of borrowings and bonds (except for asset-backed debt) as of December 31, 2017 and 2016, is as follows (Korean won in millions):

As of December 31, 2017:

	Borrowings		Bonds		Total	
Within 1 year	₩	-	₩	2,801,207	₩	2,801,207
1 year–5 years		600,000		9,785,129		10,385,129
More than 5 years		-		12,363,116		12,363,116
	₩	600,000	₩	24,949,452	₩	25,549,452

As of December 31, 2016:

	Borrowings		Bonds		Total	
Within 1 year	₩	-	₩	3,429,973	₩	3,429,973
1 year–5 years		400,000		10,249,374		10,649,374
More than 5 years		-		11,481,978		11,481,978
	₩	400,000	₩	25,161,325	₩	25,561,325

(3) Details of bonds as of December 31, 2017 and 2016, are as follows (in millions of Korean won, USD, JPY, HKD, EUR, CHF and CNY):

Series	Annual interest rate (%)	Maturity	December 31, 2017 Foreign currency	December 31, 2017 Local currency	December 31, 2016 Foreign currency	December 31, 2016 Local currency
331st	6.54	2017.09.16	-	₩ -	-	₩ 80,000
346th	6.35	2017.12.16	-	-	-	100,000
407th	5.20	2017.01.12	-	-	-	80,000
408th	5.35	2027.02.14	-	180,000	-	180,000
409th	5.16	2017.02.23	-	-	-	160,000
410th	5.29	2027.02.27	-	80,000	-	80,000
411th	5.39	2037.02.27	-	50,000	-	50,000
413th	5.10	2017.03.21	-	-	-	100,000
414th	5.13	2017.03.28	-	-	-	150,000
416th	4.6%+［a%×(1-n/N)］n:［KRWCMS10y-USDCMS10y≥-1.25%	2022.04.11	-	100,000	-	100,000
419th	CD91+0.08%	2022.07.27	-	115,581	-	121,096
420th	5.75	2017.08.14	-	-	-	80,000
421st	CD91+0.25%	2017.09.19	-	-	-	50,000
425th	4.92% 7.85% × (1-n / N) (n: US CMS10 years– 2 years interest rate difference ≥0, N: interest period)	2022.10.30	-	70,000	-	70,000
432nd	5.50	2018.02.27	-	80,000	-	80,000
434th	5.58	2018.03.12	-	120,000	-	120,000
436th	5.75	2018.03.20	-	90,000	-	90,000
438th	5.65	2018.04.04	-	60,000	-	60,000
439th	5.46	2018.04.24	-	120,000	-	120,000
443rd	6.33	2018.06.27	-	100,000	-	100,000
447th	6.87	2018.10.02	-	120,000	-	120,000
449th	7.13	2018.10.09	-	150,000	-	150,000
450th	7.17	2018.10.15	-	100,000	-	100,000
461st	5.85	2019.02.24	-	110,000	-	110,000
463rd	5.23	2019.03.13	-	120,000	-	120,000
464th	4.480% 7.760% × (1-n / N) n: US CMS10 years– 2 years interest rate difference ≥0 days, N: interest period)	2024.03.17	-	90,000	-	90,000
466th	5.45	2029.04.02	-	150,000	-	150,000
467th	5.17	2019.04.16	-	100,000	-	100,000
468th	5.35	2039.04.21	-	60,000	-	60,000
470th	4.99	2019.04.29	-	90,000	-	90,000
471st	5.32	2019.05.27	-	100,000	-	100,000
473rd	5.60	2019.06.12	-	190,000	-	190,000
474th	5.48	2019.06.23	-	120,000	-	120,000
476th	5.41	2019.07.07	-	70,000	-	70,000
479th	5.60	2019.07.23	-	190,000	-	190,000
480th	5.65	2019.08.06	-	150,000	-	150,000
483rd	5.62	2019.11.04	-	80,000	-	80,000
485th	5.28	2017.02.19	-	-	-	110,000
486th	4.54%+［a%×(1-n/N)］ n:［USDCMS30y-USDCMS2y≥0.00%	2025.03.08	-	100,000	-	100,000
487th	5.15	2017.02.19	-	120,000	-	120,000
490th	5.19	2025.03.08	-	-	-	140,000
491st	5.24	2020.05.26	-	100,000	-	100,000
492nd	5.01	2017.06.08	-	-	-	150,000
493rd	5.12	2020.06.16	-	140,000	-	140,000
494th	5.13	2020.06.28	-	150,000	-	150,000
495th	5.07	2020.07.06	-	120,000	-	120,000
496th	5.21	2025.07.13	-	₩ 140,000	-	₩ 140,000

Series	Annual interest rate (%)	Maturity	December 31, 2017		December 31, 2016	
			Foreign currency	Local currency	Foreign currency	Local currency
497th	5.25	2030.07.20	-	₩ 90,000	-	₩ 90,000
498th	5.12	2025.07.27	-	100,000	-	100,000
500th	4.98	2040.08.26	-	120,000	-	120,000
501st	4.65	2020.09.07	-	120,000	-	120,000
502nd	4.36	2017.09.15	-	-	-	100,000
503rd	4.57	2025.09.29	-	130,000	-	130,000
505th	4.58	2025.10.25	-	130,000	-	130,000
506th	4.74	2020.11.15	-	150,000	-	150,000
507th	4.45	2017.11.22	-	-	-	200,000
509th	4.31	2020.11.29	-	100,000	-	100,000
511th	4.40	2018.12.07	-	50,000	-	50,000
512th	4.28	2020.12.10	-	80,000	-	80,000
515th	4.91	2030.12.17	-	100,000	-	100,000
516th	4.75	2018.01.21	-	200,000	-	200,000
517th	4.66	2018.02.28	-	150,000	-	150,000
518th	4.64	2021.03.14	-	150,000	-	150,000
520th	4.65	2021.04.18	-	150,000	-	150,000
521st	4.49	2018.04.28	-	70,000	-	70,000
522nd	4.62	2026.05.20	-	120,000	-	120,000
523rd	4.39	2021.05.27	-	80,000	-	80,000
524th	4.39	2021.06.14	-	150,000	-	150,000
525th	4.40	2021.06.21	-	130,000	-	130,000
526th	4.52	2026.06.28	-	130,000	-	130,000
528th	4.32	2021.07.26	-	190,000	-	190,000
529th	4.08	2021.08.16	-	70,000	-	70,000
530th	4.27	2031.08.23	-	200,000	-	200,000
531st	3.92	2021.09.16	-	120,000	-	120,000
532nd	4.31	2031.09.23	-	180,000	-	180,000
534th	4.40	2026.10.25	-	100,000	-	100,000
535th	4.15	2021.11.08	-	200,000	-	200,000
536th	3.93	2018.11.24	-	200,000	-	200,000
538th	4.08	2021.11.30	-	170,000	-	170,000
539th	3.94	2018.12.06	-	100,000	-	100,000
540th	4.01	2021.12.15	-	100,000	-	100,000
541st	4.04	2022.01.18	-	100,000	-	100,000
542nd	4.13	2027.01.31	-	150,000	-	150,000
543rd	4.25	2027.03.21	-	250,000	-	250,000
544th	4.14	2022.03.27	-	100,000	-	100,000
545th	4.01	2017.03.27	-	-	-	50,000
546th	4.00	2022.04.12	-	150,000	-	150,000
547th	3.86	2017.04.19	-	-	-	150,000
548th	3.89	2019.04.24	-	100,000	-	100,000
549th	3.99	2027.05.11	-	100,000	-	100,000
550th	3.83	2022.05.22	-	100,000	-	100,000
551st	4.05	2032.05.25	-	150,000	-	150,000
552nd	3.53	2017.06.04	-	-	-	100,000
553rd	3.90	2027.06.15	-	70,000	-	70,000
554th	4.02	2032.06.27	-	150,000	-	150,000
555th	3.25	2022.07.24	-	150,000	-	150,000
556th	3.10	2027.08.30	-	100,000	-	100,000
557th	3.12	2017.09.20	-	-	-	150,000
558th	2.97	2022.09.20	-	100,000	-	100,000
559th	3.14	2022.09.25	-	200,000	-	200,000
560th	3.48	2062.09.26	-	100,000	-	100,000
561st	3.11	2017.12.07	-	-	-	50,000
562nd	3.21	2022.12.11	-	150,000	-	150,000
563rd	3.37	2027.12.18	-	190,000	-	190,000
564th	3.22	2028.01.22	-	150,000	-	150,000
565th	3.13	2023.01.28	-	150,000	-	150,000
566th	2.96	2018.03.20	-	100,000	-	100,000
567th	3.28	2033.02.13	-	150,000	-	150,000
568th	3.17	2028.02.27	-	100,000	-	100,000
569th	3.03	2023.03.21	-	150,000	-	150,000
570th	3.16	2033.03.27	-	150,000	-	150,000
573rd	3.25	2023.06.05	-	100,000	-	100,000
574th	3.42	2025.06.13	-	100,000	-	100,000
575th	3.55	2018.06.26	-	150,000	-	150,000
576th	3.53	2020.07.25	-	150,000	-	150,000
577th	3.68	2020.08.22	-	150,000	-	150,000

Series	Annual interest rate (%)	Maturity	December 31, 2017		December 31, 2016	
			Foreign currency	Local currency	Foreign currency	Local currency
578th	3.76	2023.09.05	-	₩ 100,000	-	₩ 100,000
579th	3.56	2023.09.26	-	50,000	-	50,000
580th	3.62	2023.10.02	-	60,000	-	60,000
581st	3.46	2020.10.07	-	60,000	-	60,000
582nd	3.73	2028.10.10	-	100,000	-	100,000
583rd	3.58	2020.10.16	-	140,000	-	140,000
584th	3.47	2018.11.14	-	100,000	-	100,000
586th	3.65	2019.11.29	-	100,000	-	100,000
587th	3.65	2018.12.06	-	150,000	-	150,000
588th	3.81	2023.12.09	-	30,000	-	30,000
589th	3.76	2020.12.12	-	80,000	-	80,000
590th	3.52	2019.01.19	-	100,000	-	100,000
591st	3.38	2019.02.06	-	100,000	-	100,000
592nd	3.68	2024.02.13	-	100,000	-	100,000
593rd	3.32	2019.02.20	-	100,000	-	100,000
594th	3.40	2020.02.27	-	80,000	-	80,000
595th	3.35	2019.03.07	-	100,000	-	100,000
596th	3.64	2024.03.13	-	100,000	-	100,000
597th	3.43	2021.03.20	-	100,000	-	100,000
598th	2.97	2017.03.26	-	-	-	60,000
599th	3.65	2024.03.27	-	60,000	-	60,000
600th	3.65	2024.04.02	-	50,000	-	50,000
601st	3.56	2024.04.04	-	30,000	-	30,000
602nd	2.96	2017.04.10	-	-	-	120,000
603rd	3.66	2024.04.16	-	120,000	-	120,000
604th	3.41	2020.04.23	-	100,000	-	100,000
605th	3.24	2029.07.16	-	50,000	-	50,000
606th	3.08	2024.09.04	-	100,000	-	100,000
607th	2.95	2029.10.02	-	100,000	-	100,000
608th	3.00	2029.10.15	-	100,000	-	100,000
609th	2.96	2034.10.30	-	170,000	-	170,000
610th	2.69	2024.11.06	-	250,000	-	250,000
611th	2.86	2026.11.13	-	100,000	-	100,000
612th	2.69	2022.11.20	-	100,000	-	100,000
613th	2.53	2019.12.11	-	150,000	-	150,000
614th	2.78	2024.12.24	-	50,000	-	50,000
615th	2.46	2025.02.13	-	190,000	-	190,000
616th	2.55	2030.02.27	-	200,000	-	200,000
617th	2.45	2025.03.06	-	100,000	-	100,000
618th	2.09	2020.03.16	-	140,000	-	140,000
619th	2.33	2030.04.16	-	100,000	-	100,000
620th	2.36	2025.04.24	-	90,000	-	90,000
622nd	2.80	2030.05.14	-	170,000	-	170,000
623rd	2.69	2030.05.14	-	30,000	-	30,000
625th	2.56	2025.05.28	-	70,000	-	70,000
626th	2.64	2025.06.19	-	130,000	-	130,000
627th	2.57	2025.07.22	-	150,000	-	150,000
628th	2.13	2020.07.30	-	100,000	-	100,000
631st	2.46	2025.02.13	-	50,000	-	50,000
632nd	2.37	2025.08.19	-	80,000	-	80,000
633rd	2.55	2035.09.15	-	130,000	-	130,000
634th	2.28	2035.09.15	-	50,000	-	50,000
635th	2.24	2025.09.24	-	50,000	-	50,000
636th	2.18	2035.09.15	-	50,000	-	50,000
637th	2.40	2025.11.12	-	150,000	-	150,000
638th	2.12	2020.11.25	-	50,000	-	50,000
639th	2.49	2030.11.30	-	200,000	-	200,000
640th	2.09	2020.12.14	-	180,000	-	180,000
641st	2.35	2030.12.16	-	120,000	-	120,000
642nd	1.98	2036.02.18	-	190,000	-	190,000
643rd	1.74	2021.03.04	-	100,000	-	100,000
644th	2.01	2046.05.25	-	150,000	-	150,000
645th	1.60	2031.06.23	-	30,000	-	30,000
646th	1.54	2036.07.20	-	150,000	-	150,000
647th	1.31	2019.08.19	-	150,000	-	150,000
648th	1.57	2046.08.26	-	100,000	-	100,000
649th	1.44	2019.09.29	-	190,000	-	190,000
650th	1.52	2021.10.17	-	110,000	-	110,000
651st	1.85	2046.10.24	-	130,000	-	130,000

Series	Annual interest rate (%)	Maturity	December 31, 2017 Foreign currency		December 31, 2017 Local currency	December 31, 2016 Foreign currency		December 31, 2016 Local currency
652nd	1.90	2046.11.10		-	₩ 140,000		-	₩ 140,000
653rd	2.06	2021.11.24		-	200,000		-	200,000
654th	2.12	2021.12.08		-	160,000		-	160,000
655th	2.3	2047.02.17		-	150,000		-	-
656th	2.02	2022.02.27		-	140,000		-	-
657th	2.35	2047.03.17		-	110,000		-	-
658th	2.16	2024.03.29		-	50,000		-	-
659th	2.24	2027.03.29		-	20,000		-	-
660th	2.03	2022.04.18		-	100,000		-	-
661st	2.38	2037.04.19		-	110,000		-	-
662nd	2.31	2047.06.21		-	120,000		-	-
663rd	2.42	2037.08.24		-	140,000		-	-
664th	2.33	2027.08.31		-	70,000		-	-
665th	2.09	2022.09.07		-	60,000		-	-
666th	2.37	2032.09.08		-	160,000		-	-
667th	2.32	2027.09.15		-	160,000		-	-
668th	2.35	2047.09.21		-	150,000		-	-
669th	2.4	2037.09.27		-	100,000		-	-
670th	2.47	2037.10.12		-	150,000		-	-
671st	2.64	2037.11.03		-	150,000		-	-
672nd	2.63	2027.11.10		-	90,000		-	-
673rd	2.57	2022.11.16		-	110,000		-	-
674th	2.32	2020.11.20		-	100,000		-	-
675th	2.66	2047.11.24		-	170,000		-	-
676th	2.54	2047.12.08		-	100,000		-	-
7th foreign bond	4.00	2022.03.02	HKD	452	61,956	HKD	452	70,435
8th foreign bond	1.03	2017.03.13		-	-	JPY	4,000	41,472
9th foreign bond	3.88	2024.05.07	EUR	45	57,566	EUR	45	57,042
10th foreign bond	4.00	2027.05.07	EUR	23	29,423	EUR	23	29,155
11th foreign bond	1.88	2017.10.23		-	-	USD	500	604,250
12th foreign bond	2.78	2018.08.05	USD	100	107,140	USD	100	120,850
13th foreign bond	2.23	2018.09.13	EUR	75	95,944	EUR	75	95,070
14th foreign bond	1.63	2017.04.28		-	-	USD	500	604,250
16th foreign bond	3M CHF + LIBOR+47 bps	2018.03.15	CHF	220	240,838	CHF	220	259,893
17th foreign bond	4.45	2018.03.18	CNY	900	147,285	CNY	900	155,934
18th foreign bond	3.02	2027.03.18	USD	50	53,570	USD	50	60,425
19th foreign bond	3.21	2030.11.30	USD	50	53,570	USD	50	60,425
20th foreign bond	3.10	2026.06.08	USD	100	107,140	USD	100	120,850
21st foreign bond	2.70	2026.10.26	USD	200	214,280	USD	200	241,700
22nd foreign bond	2.57	2031.07.05	USD	100	107,140	USD	100	120,850
23rd foreign bond	3M USD LIBOR+0.70%	2019.10.28	USD	100	107,140	USD	100	120,850
24th foreign bond	1.65	2019.10.18	HKD	931	127,612	HKD	931	145,078
25th foreign bond	3M USD LIBOR+0.78%	2019.06.07	USD	200	214,280	USD	200	241,700
26th foreign bond	3M LIBOR+0.70%	2020.04.20	CHF	100	428,560		-	-

Series	Annual interest rate (%)	Maturity	December 31, 2017 Foreign currency		December 31, 2017 Local currency	December 31, 2016 Foreign currency	December 31, 2016 Local currency
27th foreign bond	2.31	2032.04.28	CHF	50	₩ 93,528	-	₩ -
28th foreign bond	3.03	2032.05.11	CHF	80	115,113	-	-
29th foreign bond	0.25	2024.06.07	CHF	230	251,786	-	-
					24,949,452		25,161,325
Less: discount on bonds					(6,428)		(6,352)
Total bonds					24,943,024		25,154,973
Less: current portion of bonds					(2,801,207)		(3,429,972)
Less: current portion of discount on bonds					105		1,353
Less: financial liabilities at FVTPL					(115,381)		(121,096)
Less: current portion of discount on bonds					19		22
					₩ 22,026,360		₩ 21,605,280

(4) Details of long-term borrowings as of December 31, 2017 and 2016, are as follows (in millions of Korean won):

Financial institution	Annual interest rate	December 31, 2017	December 31, 2016
BTMS (Mitsubishi Tokyo Bank)	1.40%	₩ 100,000	₩ 100,000
KEB Hana Bank	1.34%	100,000	100,000
KEB Hana Bank	2.07%	200,000	200,000
KEB Hana Bank	2.00%	200,000	-
		600,000	400,000
Less: current portion		-	-
		₩ 600,000	₩ 400,000

18. OTHER FINANCIAL LIABILITIES:

Other financial liabilities as of December 31, 2017 and 2016, are as follows (Korean won in millions):

	December 31, 2017 Current	December 31, 2017 Non-current	December 31, 2016 Current	December 31, 2016 Non-current
Asset-backed debt	₩ -	₩ -	₩ 28,000	₩ -

19. EMPLOYEE BENEFITS:

(1) Defined contribution plans

The Company operates defined contribution plans. According to these plans, the Company's sole obligation is to pay contributions as much as calculated under the plan's benefit formula by a certain percentage of salaries. For the years ended December 31, 2017 and 2016, the Company contributed ₩13,597 million and ₩14,521 million, respectively.

	December 31, 2017	December 31, 2016
Costs of sales	₩ 9,345	₩ 10,062
Direct costs	1,469	1,472
Selling and administrative expenses (retirement benefit)	2,300	2,525
Selling and administrative expenses (other)	483	462
	₩ 13,597	₩ 14,521

(2) Defined benefit plans

The Company operates defined contribution plans. The most recent actuarial valuation of defined benefit obligation and plan assets was carried out by DLOG, an actuarial consulting firm, on January 17, 2018. The related current service cost and past service cost are measured using the projected unit credit method.

1) The component of employee benefits liabilities as of December 31, 2017 and 2016, is as follows (Korean won in millions):

		December 31, 2017		December 31, 2016
Present value of defined benefit obligation	₩	147,133	₩	118,918
Fair value of plan assets		(105,529)		(64,087)
Net defined benefit liabilities	₩	41,604	₩	54,831

2) Changes in present value of defined benefit obligation for the years ended December 31, 2017 and 2016, are as follows (Korean won in millions):

		2017		2016
Beginning balance	₩	118,918	₩	94,004
Current service costs		19,861		17,591
Interest expense (*)		3,110		2,393
Remeasurements		10,262		8,108
Benefits paid		(5,018)		(3,178)
Ending balance	₩	147,133	₩	118,918

(*) Interest rate applied for defined benefit liabilities is the return on high-quality corporate bonds that are rated AAA.

3) Changes in fair value of plan assets for the years ended December 31, 2017 and 2016, are as follows (Korean won in millions):

		2017		2016
Beginning balance	₩	64,087	₩	49,711
Interest income (*)		1,478		1,146
Remeasurements		(157)		68
Benefits paid by the plan		(3,879)		(2,838)
Contributions into the plan		44,000		16,000
Ending balance	₩	105,529	₩	64,087

(*) Interest rate applied for plan assets is the return on high-quality corporate bonds that are rated AAA.

4) Expenses recognized in profit or loss for the years ended December 31, 2017 and 2016, are as follows (Korean won in millions):

		2017		2016
Current service costs	₩	19,861	₩	17,591
Interest expense on liabilities		3,110		2,393
Interest income on plan assets		(1,478)		(1,146)
Ending balance	₩	21,493	₩	18,838

Expenses presented above were recognized in the financial statements as follows (Korean won in millions):

		2017		2016
Cost of sales	₩	12,367	₩	11,016
Direct costs		2,522		2,241
Selling and administrative expenses (retirement benefit)		5,743		4,814
Selling and administrative expenses (other)		861		767
	₩	21,493	₩	18,838

5) Remeasurements recognized in other comprehensive income for the years ended December 31, 2017 and 2016, are as follows (Korean won in millions):

	2017		2016	
Actuarial losses	₩	(10,262)	₩	(8,108)
Return on plan assets		(157)		68
	₩	(10,419)	₩	(8,040)

6) The Company plans to contribute ₩10,000 million to defined benefit plan in the next period.

20. PROVISIONS:

(1) Provisions as of December 31, 2017 and 2016, are as follows (Korean won in millions):

	December 31, 2017				December 31, 2016			
	Current		Non-current		Current		Non-current	
Provisions for litigation	₩	-	₩	34,965	₩	-	₩	6,461
Provisions for short-term employee benefits		83,642				82,920		
	₩	83,642	₩	34,965	₩	82,920	₩	6,461

(2) Changes in provisions for the years ended December 31, 2017 and 2016, are as follows (Korean won in millions):

	2017				2016			
	Provisions for litigation		Provisions for short-term employee benefits		Provisions for litigation		Provisions for short-term employee benefits	
Beginning balance	₩	6,461	₩	82,920	₩	4,608	₩	79,512
Increase		34,789		83,642		2,464		82,920
Utilization		-		(82,920)		-		(79,512)
Reversal		(6,285)		-		(611)		-
Ending balance	₩	34,965	₩	83,642	₩	6,461	₩	82,920

21. GOVERNMENT GRANTS:

(1) Accounting for government grants

Government grants whose primary condition is that the Company purchases; constructs; or, otherwise, acquires assets are deducted in calculating the carrying amount of the asset in accordance with Article 44-3 of the Korean Government-owned and Quasi-government Accounting Standards.

(2) Government grants deducted from the carrying amount of assets as of December 31, 2017 and 2016, are as follows (Korean won in millions):

	December 31, 2017		December 31, 2016	
Buildings	₩	276	₩	260
Structures		223		240
Machinery		-		2
Vehicles		71		27
Furniture and fixtures		11		17
	₩	581	₩	546

(3) Changes in government grants for the years ended December 31, 2017 and 2016, are as follows (Korean won in millions):

	2017			
	January 1, 2017	Acquisition of assets and others	Deduction of depreciation and others	December 31, 2017
Buildings	₩ 260	₩ 26	₩ (10)	₩ 276
Structures	240	-	(17)	223
Machinery	2	-	(2)	-
Vehicles	26	56	(11)	71
Furniture and fixtures	18	-	(7)	11
	₩ 546	₩ 82	₩ (47)	₩ 581

	2016			
	January 1, 2016	Acquisition of assets and others	Deduction of depreciation and others	December 31, 2016
Buildings	₩ 270	₩ -	₩ (10)	₩ 260
Structures	256	-	(16)	240
Machinery	4	-	(2)	2
Vehicles	36	1	(11)	26
Furniture and fixtures	24	-	(6)	18
	₩ 590	₩ 1	₩ (45)	₩ 546

22. NON-FINANCIAL LIABILITIES:

Non-financial liabilities as of December 31, 2017 and 2016, are as follows (Korean won in millions):

	December 31, 2017		December 31, 2016	
	Current	Non-current	Current	Non-current
Advances	₩ 30,169	₩ -	₩ 22,326	₩ -
Unearned revenues	3,214	64,239	1,348	68,499
Withholdings	49,511	-	47,596	-
Other non-financial liabilities	77	-	77	-
	₩ 82,971	₩ 64,239	₩ 71,347	₩ 68,499

23. CONSIGNMENT MANAGEMENT SERVICE:

(1) In accordance with Article 12 of Korea Expressway Corporation Act, the Company constructs, maintains and repairs expressways and other works related to expressways on behalf of the government and local governments.

(2) In accordance with Article 44-3 of Korean Government-owned and Quasi-government Accounting Regulations and Standards, the Company recognizes the fund received from government, but unused at the year-end for consignment management service as a deduction to cash and cash equivalents.

(3) Funds unspent or funds to be returned related to consignment management service as of December 31, 2017 and 2016, are as follows (Korean won in millions):

	Received from	December 31, 2017	December 31, 2016
Government grants for consignment management service	Government	₩ 42,644	₩ 51,590
Government grants for consignment management service	Public institutions	103,042	82,540
		₩ 145,686	₩ 134,130

(4) Changes in funds unspent or funds to be returned related to consignment management service for the years ended December 31, 2017 and 2016, are as follows (Korean won in millions):

For the year ended December 31, 2017:

		January 1, 2017	Increase	Decrease	Others	December 31, 2017
Government grants for consignment management service	Government	₩ 51,590	₩ 62,613	₩ 71,559	₩ -	₩ 42,644
Government grants for consignment management service	Public institutions	82,540	106,731	86,229	-	103,042
		₩ 134,130	₩ 169,344	₩ 157,788	₩ -	₩ 145,686

For the year ended December 31, 2016:

		January 1, 2016	Increase	Decrease	Others	December 31, 2016
Government grants for consignment management service	Government	₩ 42,941	₩ 64,168	₩ 55,519	₩ -	₩ 51,590
Government grants for consignment management service	Public institutions	41,703	79,686	38,849	-	82,540
		₩ 84,644	₩ 143,854	₩ 94,368	₩ -	₩ 134,130

(5) Revenue and expenses recognized related to consignment management service for the years ended December 31, 2017 and 2016, are as follows (Korean won in millions):

	2017		2016	
	Revenue	Expense	Revenue	Expense
Construction	₩ 151,374	₩ 151,374	₩ 123,465	₩ 123,465
Purchase of lots for expressways	38,657	38,657	128,336	128,336
Research on expressways	-	-	20,534	20,534
Management of Incheon Bridge	3,655	3,655	5,244	5,244
Safety inspection service for non-management authority	126	126	456	456
	₩ 193,812	₩ 193,812	₩ 278,035	₩ 278,035

24. SHARE CAPITAL:

(1) Details of capital stock as of December 31, 2017 and 2016, are as follows (Korean won in millions):

	December 31, 2017		December 31, 2016	
	Government	Non-Government	Government	Non-Government
Common stock	₩ 27,691,845	₩ 4,593,400	₩ 26,331,249	₩ 4,593,400

(2) Changes in the number of shares for the years ended December 31, 2017 and 2016, are as follows (In shares):

	2017	2016
Beginning number of shares	3,092,464,873	2,955,018,173
Issuance of stock	136,059,600	137,446,700
Ending number of shares	3,228,524,473	3,092,464,873

25. RETAINED EARNINGS AND DIVIDENDS:

(1) Composition of retained earnings as of December 31, 2017 and 2016, is as follows (Korean won in millions):

	December 31, 2017	December 31, 2016
Legal reserve	₩ 388,105	₩ 361,174
Other legal reserve	805,968	767,556
Unappropriated retained earnings	117,415	118,949
	₩ 1,311,488	₩ 1,247,679

(*) The Korea Expressway Corporation Act requires the Company to appropriate, as a legal reserve, at least 20% of net income for each period, until the reserve equals 50% of outstanding capital stock. The legal reserve may not be utilized for cash dividends, but may be used to offset a future deficit, if any, or may be transferred to capital stock.

(2) Composition of other legal reserve as of December 31, 2017 and 2016, are as follows (Korean won in millions):

	December 31, 2017	December 31, 2016
Reserve for business expansion	₩ 805,968	₩ 767,556

(3) Changes in retained earnings for the years ended December 31, 2017 and 2016, are as follows (Korean won in millions):

	2017	2016
Beginning balance	₩ 1,247,679	₩ 1,159,026
Net income attributable to controlling interests	135,497	135,108
Dividends	(37,110)	(38,415)
Remeasurement	(10,419)	(8,040)
Amortization of share discount	(24,159)	-
Ending balance	₩ 1,311,488	₩ 1,247,679

(4) Dividend declared is as follows (Korean won in millions, except dividend per share in won):

	2017	2016
Dividend declared (₩14 and ₩12 per share in 2017 and 2016, respectively)	₩ 45,199	₩ 37,110

(5) Changes in remeasurement of defined benefit plan for the years ended December 31, 2017 and 2016, are as follows (Korean won in millions):

	2017	2016
Beginning balance	₩ (60,653)	₩ (52,613)
Changes	(10,418)	(8,040)
Ending balance	₩ (71,071)	₩ (60,653)

26. STATEMENTS OF APPROPRIATION OF RETAINED EARNINGS:

The Company's statements of appropriation of retained earnings for the years ended December 31, 2017 and 2016, are as follows (Korean won in millions):

		2017		2016
I. Unappropriated retained earnings				
Balance at beginning of year	₩	-	₩	-
Remeasurements of defined benefit plan		(10,419)		(8,040)
Net income		135,497		134,651
		125,078		126,611
II. Transfer from voluntary reserves		-		-
III. Total (I + II)		125,078		126,611
IV. Appropriation of retained earnings				
Legal reserve		27,099		26,930
Other legal reserve		52,780		38,412
Amortization of share discount		-		24,159
Dividends		45,199		37,110
		125,078		126,611
V. Unappropriated retained earnings to be carried over to subsequent year	₩	-	₩	-

27. OTHER EQUITY COMPONENTS:

(1) Composition of other equity components as of December 31, 2017 and 2016, is as follows (Korean won in millions):

		December 31, 2017		December 31, 2016
Accumulated other comprehensive loss:				
Gain on valuation of AFS financial assets	₩	13,584	₩	10,187
Loss on valuation of cash flow hedge		(6,992)		(91,667)
Gain on valuation of investments in associates and joint venture		3,647		3,614
Subtotal		10,239		(77,866)
Others		(3)		(3)
Total	₩	10,236	₩	(77,869)

(2) Changes in accumulated other comprehensive income (loss) for the years ended December 31, 2017 and 2016, are as follows (Korean won in millions):

		2017		2016
Beginning balance	₩	(77,865)	₩	(34,065)
Gain on valuation of AFS financial assets		3,396		5,865
Gain (loss) on valuation of cash flow hedge		84,675		(48,108)
Gain on valuation of investments in associates and joint venture		33		37
Non-controlling interests		-		(1,598)
Ending balance	₩	10,239	₩	(77,869)

28. REVENUE:

Details of revenue from continuing operations, except other income, other profit and finance income for the years ended December 31, 2017 and 2016, are as follows (Korean won in millions):

	2017	2016
Revenue from product sales:		
Sales of oil	₩ 183,004	₩ 157,840
Subtotal	183,004	157,840
Revenue from services:		
Operation of toll expressways	4,056,401	4,044,168
Operation of other expressways	3,137	7,484
Rental income from service areas	183,112	174,081
Rental income from gas station	54,382	49,263
Other incidental businesses	19,808	17,833
Management of privately funded expressways	44,610	42,542
Indemnity for loss of land	1,716	5,434
Operation of information center	29,108	26,599
Others	38,507	34,751
Subtotal	4,430,781	4,402,155
Construction contract revenue:		
Construction business	3,252,222	3,321,006
Subtotal	3,252,222	3,321,006
Revenue from consignment:		
Supporting business	42,438	154,570
Consignment business	151,374	123,465
Subtotal	193,812	278,035
Total	₩ 8,059,819	₩ 8,159,036

29. SELLING AND ADMINISTRATIVE EXPENSES:

(1) Details of selling and administrative expenses for the years ended December 31, 2017 and 2016, are as follows (Korean won in millions):

	2017	2016
Contribution to the employee welfare fund	₩ 6,389	₩ 2,906
Salaries	92,567	90,660
Accrual for retirement and severance benefit	8,043	7,339
Termination payment	240	494
Welfare	11,946	15,037
Insurance	112	203
Depreciation	18,772	16,798
Amortization	11,001	8,665
Bad debt expenses	1,557	831
Service fees	9,371	8,911
Advertising	2,255	2,933
Training	5,060	4,637
Vehicles maintenance	460	518
Publication	407	334
Business promotion	181	168
Rent	2,513	2,442
Communications	944	789
Taxes and dues	1,774	1,893
Supplies	1,390	1,388
Utilities	2,284	2,356
Repairs	5,792	5,121
Development expenses	6,221	5,867
Travel	1,462	1,520
Clothes	207	295
Survey and analysis	936	965
Other	48,992	45,595
	₩ 240,876	₩ 228,665

(2) Details of other selling and administrative expenses for the years ended December 31, 2017 and 2016, are as follows (Korean won in millions):

	2017	2016
Research salaries	₩ 17,792	₩ 17,164
Research expenses	28,041	25,622
Other	3,156	2,809
	₩ 48,989	₩ 45,595

30. OTHER INCOME AND EXPENSES:

(1) Details of other income and expenses for the years ended December 31, 2017 and 2016, are as follows (Korean won in millions):

		2017		2016
Other income:				
Reversal of other provisions	₩	6,284	₩	611
Reversal of other allowance for doubtful accounts		1,788		1,434
Gain from assets contributed		31,242		7,713
Compensation and reparation revenues		3,807		5,320
Rental income		37,086		34,148
Other income		32,506		23,979
	₩	112,713	₩	73,205
Other expenses:				
Contribution to other provisions	₩	34,789	₩	2,465
Other bad debt expenses		2,600		11
Compensation and reparation expenses		29,337		14,983
Donations		6,065		34,531
Other expenses		21,870		21,628
	₩	94,661	₩	73,618

(2) Details of other income for the years ended December 31, 2017 and 2016, are as follows (Korean won in millions):

		2017		2016
Reverse of short-term employ benefits (paid annual leave)	₩	6,793	₩	2,380
Cause deductible income		4,850		5,696
Value-added tax refund tax amount		3		1
Traffic information business income		60		106
Other incomes		20,800		15,796
	₩	32,506	₩	23,979

(3) Details of other expenses for the years ended December 31, 2017 and 2016, are as follows (Korean won in millions):

		2017		2016
Short-term employ benefits (paid annual leave)	₩	11,949	₩	8,048
Attributable fee		6,489		7,772
VAT amount		1		1,674
Parking lot communication facility use charges		9		-
Other expenses		3,422		4,134
	₩	21,870	₩	21,628

31. OTHER GAIN AND LOSS:

(1) Details of other gain and loss for the years ended December 31, 2017 and 2016, are as follows (Korean won in millions):

	2017	2016
Gain on disposals of property and equipment	₩ 1,612	₩ 293,253
Gain on disposals of intangible assets	24,372	36,070
Gain on insurance settlements	-	259
Gain on foreign currency transactions	117	176
Other gain	822	865
Loss on disposals of property and equipment	(205)	(348)
Loss on disposals of intangible assets	(16)	-
Loss on disposals of investment property	(99)	(62)
Loss on foreign currency transactions	(512)	(35)
Other loss	(37,126)	(31,154)
	₩ (11,035)	₩ 299,024

(2) Details of other gain for the years ended December 31, 2017 and 2016, are as follows (Korean won in millions):

	2017	2016
Gain on disposal of wastes	₩ 822	₩ 865

(3) Details of other loss for the years ended December 31, 2017 and 2016, are as follows (Korean won in millions):

	2017	2016
Loss on disasters	₩ 37,126	₩ 31,154

32. FINANCE INCOME:

(1) Details of finance income for the years ended December 31, 2017 and 2016, are as follows (Korean won in millions):

	2017	2016
Interest income	₩ 9,647	₩ 11,332
Dividends income	756	391
Gain on disposal of financial assets	3,365	3,595
Gain on valuation of financial assets at FVTPL	16,509	4,021
Gain on valuation of derivative instruments	5,278	93,599
Gain on foreign currency translations	214,354	7,527
Gain on foreign currency transactions	78,435	15,742
	₩ 328,344	₩ 136,207

(2) Details of interest income included in finance income for the years ended December 31, 2017 and 2016, are as follows (Korean won in millions):

	2017	2016
Cash and cash equivalents	₩ 6,109	₩ 7,432
Maturity financial assets	10	15
Loans and receivables	1,142	1,382
Trade and other receivables	2,386	2,503
	₩ 9,647	₩ 11,332

33. FINANCE COSTS:

(1) Details of finance costs for the years ended December 31, 2017 and 2016, are as follows (Korean won in millions):

	2017	2016
Interest expense	₩ 798,368	₩ 799,075
Loss on disposal of financial assets	4,121	2,481
Loss on valuation of financial assets at FVTPL	3,133	21,628
Loss on valuation of derivative instruments	214,379	7,440
Loss on transactions of derivative instruments	78,431	20,730
Loss on hedged item related to fair value hedge	5,515	2,663
Loss on foreign currency translations	5,505	93,605
	₩ 1,109,452	₩ 947,622

(2) Details of interest expense included in finance costs for the years ended December 31, 2017 and 2016, are as follows (Korean won in millions):

	2017	2016
Trade and other payables	₩ 15,467	₩ 13,071
Financial liabilities at FVTPL	2,109	1,579
Short-term borrowings	1,114	87
Long-term borrowings	10,004	1,607
Bonds	897,413	981,726
Other financial liabilities	1,256	4,148
Others	199	199
	927,562	1,002,417
Less: capitalization of borrowing costs	(129,194)	(203,342)
	₩ 798,368	₩ 799,075

34. INCOME TAX EXPENSE(BENEFIT):

(1) The components of income tax expense (benefit) for the years ended December 31, 2017 and 2016, are as follows (Korean won in millions):

	2017		2016	
Current tax expense	₩	61,144	₩	78,323

(2) Relation between income before income tax expense and income tax expense (benefit) for the years ended December 31, 2017 and 2016, is as follows (Korean won in millions):

	2017		2016	
Income before income tax expense	₩	196,640	₩	213,431
Tax rate		24.20%		24.20%
Income tax using the Company's statutory tax rate		47,587		51,650
Adjustment:				
Effect of step-up tax rate		(462)		(462)
Current adjustments for prior periods		-		-
Non-deductible expense and non-taxable revenue		728		8,705
Change effect on deferred income taxes of prior temporary differences and others		13,291		18,430
Subtotal		13,557		26,673
Income tax expense (benefit)	₩	61,144	₩	78,323
Average effective tax rate		31.09%		36.70%

(3) As of December 31, 2017 and 2016, the Company has not recognized the deferred tax assets of net deductible temporary differences and others, as it is not probable that taxable profit will be available against which the temporary differences and others can be utilized.

35. NATURE OF EXPENSES:

Details of nature of expenses for the years ended December 31, 2017 and 2016, are as follows (Korean won in millions):

	Change in inventories		Selling and administrative expenses		Cost		Total	
	2017	2016	2017	2016	2017	2016	2017	2016
Change in inventories	₩ (817)	₩ 3,334	₩ -	₩ -	₩ -	₩ -	₩ (817)	₩ 3,334
Used inventories	438,727	494,424	-	-	-	-	438,727	494,424
Contribution to the employee welfare fund	-	-	6,389	2,906	-	-	6,389	2,906
Salaries	-	-	92,567	90,660	273,279	265,753	365,846	356,413
Retirement and severance benefit	-	-	8,043	7,339	21,402	21,077	29,445	28,416
Compensation for removal	-	-	240	494	1,266	1,196	1,506	1,690
Welfare	-	-	11,946	15,037	38,584	47,648	50,530	62,685
Insurance	-	-	112	203	173	149	285	352
Depreciation	-	-	18,772	16,798	121,470	110,637	140,242	127,435
Amortization	-	-	11,001	8,665	1,783,523	2,082,202	1,794,524	2,090,867
Recovery of doubtful accounts	-	-	1,557	831	-	-	1,557	831
Service fees	-	-	9,371	8,911	385,859	384,553	395,230	393,464
Advertisement	-	-	2,255	2,933	8,317	8,454	10,572	11,387
Training	-	-	5,060	4,637	1,438	1,262	6,498	5,899
Vehicles maintenance	-	-	460	518	20,862	19,516	21,322	20,034
Publication	-	-	407	334	1,888	2,760	2,295	3,094
Business promotion	-	-	181	168	288	302	469	470
Rent	-	-	2,513	2,442	1,524	913	4,037	3,355
Communication	-	-	944	789	2,471	2,481	3,415	3,270
Taxes and dues	-	-	1,774	1,893	26,992	21,038	28,766	22,931
Supplies	-	-	1,390	1,388	3,652	3,078	5,042	4,466
Utilities	-	-	2,284	2,356	65,906	56,928	68,190	59,284
Repairs	-	-	5,792	5,121	334,748	299,258	340,540	304,379
Development expenses	-	-	6,221	5,867	2,397	1,911	8,618	7,778
Travel	-	-	1,462	1,520	2,542	2,473	4,004	3,993
Clothes	-	-	207	295	1,349	1,437	1,556	1,732
Survey and analysis	-	-	936	965	1,005	749	1,941	1,714
Sales promotion expenses	-	-	-	-	884	897	884	897
Other selling and administrative expenses	-	-	48,992	45,595	-	-	48,992	45,595
Other cost of sales	-	-	-	-	3,307,622	3,370,452	3,307,622	3,370,452
	₩ 437,910	₩ 497,758	₩ 240,876	₩ 228,665	₩ 6,409,441	₩ 6,707,124	₩ 7,088,227	₩ 7,433,547

36. EARNINGS PER SHARE:

There are no dilutive securities, and earnings per share for the years ended December 31, 2017 and 2016, are as follows (Korean won):

	2017	2016
Income attributable to owners of the Company	₩ 135,496,635,250	₩ 135,107,521,122
Weighted-average number of common shares outstanding (shares)	3,167,792,664	3,034,730,912
Basic earnings per share	₩ 43	₩ 45

37. FINANCIAL INSTRUMENTS BY CATEGORIES:

(1) Financial assets and liabilities by categories as of December 31, 2017 and 2016, are as follows (Korean won in millions):

As of December 31, 2017:

Current financial assets	Financial assets at FVTPL Held for trading	Loans and receivables	AFS financial assets	Held-to-maturity investments	Derivatives designated as hedge	Total
Cash and cash equivalents	₩ -	₩ 500,018	₩ -	₩ -	₩ -	₩ 500,018
Loans and receivables	-	2,081	-	-	-	2,081
Others	-	5,011	-	-	-	5,011
Subtotal	-	507,110	-	-	-	507,110
Trade and other receivables	-	204,706	-	-	-	204,706
Total	₩ -	₩ 711,816	₩ -	₩ -	₩ -	₩ 711,816

Non-current financial assets	Financial assets at FVTPL Held for trading	Loans and receivables	AFS financial assets	Held-to-maturity investments	Derivatives designated as hedge	Total
Financial assets at FVTPL	₩ 886	₩ -	₩ -	₩ -	₩ -	₩ 886
Derivative assets	-	-	-	-	32,721	32,721
AFS assets	-	-	95,886	-	-	95,886
Loans and receivables	-	28,475	-	-	-	28,475
Subtotal	886	28,475	95,886	-	32,721	157,968
Trade and other receivables	-	80,099	-	-	-	80,099
Total	₩ 886	₩ 108,574	₩ 95,886	₩ -	₩ 32,721	₩ 238,067

Current financial liabilities	Financial liabilities at FVTPL Held for trading	Financial liabilities at FVTPL Designated as at FVTPL	Financial liabilities measured at amortized cost	Derivatives designated as hedge	Total
Bonds	₩ -	₩ -	₩ 2,801,102	₩ -	₩ 2,801,102
Derivative liabilities			-	36,476	36,476
Subtotal	-	-	2,801,102	36,476	2,837,578
Trade and other payables	-	-	696,643	-	696,643
Total	₩ -	₩ -	₩ 3,497,745	₩ 36,476	₩ 3,534,221

Non-current financial liabilities	Financial liabilities at FVTPL Held for trading	Financial liabilities at FVTPL Designated as at FVTPL	Financial liabilities measured at amortized cost	Derivatives designated as hedge	Total
Financial liabilities at FVTPL	₩ 29,292	₩ 115,562	₩ -	₩ -	₩ 144,854
Long-term borrowings	-	-	600,000	-	600,000
Bonds	-	-	22,026,360	-	22,026,360
Derivative liabilities	-	-	-	152,109	152,109
Subtotal	29,292	115,562	22,626,360	152,109	22,923,323
Trade and other payables	-	-	595,815	-	595,815
Total	₩ 29,292	₩ 115,562	₩ 23,222,175	₩ 152,109	₩ 23,519,138

As of December 31, 2016:

Current financial assets	Financial assets at FVTPL Held for trading	Loans and receivables	AFS financial assets	Held-to-maturity investments	Derivatives designated as hedge	Total
Cash and cash equivalents	₩ -	₩ 632,760	₩ -	₩ -	₩ -	₩ 632,760
Assets at FVTPL	1,513	-	-	-	-	1,513
Derivative assets	-	-	-	-	121,412	121,412
Loans and receivables	-	2,310	-	-	-	2,310
Others	-	4,111	-	-	-	4,111
Subtotal	1,513	639,181	-	-	121,412	762,106
Trade and other receivables	-	162,705	-	-	-	162,705
Total	₩ 1,513	₩ 801,886	₩ -	₩ -	₩ 121,412	₩ 924,811

Non-current financial assets	Financial assets at FVTPL Held for trading	Loans and receivables	AFS financial assets	Held-to-maturity investments	Derivatives designated as hedge	Total
Derivative assets	₩ -	₩ -	₩ -	₩ -	₩ 65,976	₩ 65,976
AFS assets	-	-	87,908	-	-	87,908
Long-term financial instruments	-	3	-	-	-	3
Loans and receivables	-	29,251	-	-	-	29,251
Subtotal	-	29,254	87,908	-	65,976	183,138
Trade and other receivables	-	69,462	-	-	-	69,462
Total	₩ -	₩ 98,716	₩ 87,908	₩ -	₩ 65,976	₩ 252,600

Current financial liabilities	Financial liabilities at FVTPL		Financial liabilities measured at amortized cost	Derivatives designated as hedge	Total
	Held for trading	Designated as at FVTPL			
Bonds	₩ -	₩ -	₩ 3,428,620	₩ -	₩ 3,428,620
Derivative liabilities			-	14,978	14,978
Others	-	-	28,000	-	28,000
Subtotal	-	-	3,456,620	14,978	3,471,598
Trade and other payables	-	-	954,782	-	954,782
Total	₩ -	₩ -	₩ 4,411,402	₩ 14,978	₩ 4,426,380

Non-current financial liabilities	Financial liabilities at FVTPL		Financial liabilities measured at amortized cost	Derivatives designated as hedge	Total
	Held for trading	Designated as at FVTPL			
Financial liabilities at FVTPL	₩ 36,267	₩ 121,074	₩ -	₩ -	₩ 157,341
Long-term borrowings	-	-	400,000	-	400,000
Bonds	-	-	21,605,280	-	21,605,280
Derivative liabilities	-	-	-	79,014	79,014
Subtotal	36,267	121,074	22,005,280	79,014	22,241,635
Trade and other payables	-	-	401,282	-	401,282
Total	₩ 36,267	₩ 121,074	₩ 22,406,562	₩ 79,014	₩ 22,642,917

(2) Gain and loss from financial instruments by categories for the years ended December 31, 2017 and 2016, are as follows (Korean won in millions):

	2017	2016
Cash and cash equivalents:		
Interest income	₩ 6,109	₩ 7,432
Financial assets at FVTPL:		
Gain (loss) on disposal, net	1,225	2,153
Gain (loss) on valuation, net	-	(1,036)
Loans and receivables:		
Interest income	3,539	3,885
AFS financial assets:		
Dividends	756	391
Comprehensive income (loss)	3,396	5,865
Derivatives designated as hedge:		
Loss on transaction, net	(78,431)	(20,730)
Gain (loss) on valuation, net	(1,902)	67,426
Comprehensive income	7,587	716
Financial liabilities at FVTPL:		
Interest expenses (*)	2,109	1,579
Gain (loss) on transaction, net	(1,981)	3,889
Loss on valuation, net	13,376	(22,567)
Other financial liabilities measured at amortized cost:		
Interest expense (*)	796,259	797,497
Loss on foreign currency transactions, net	78,435	15,741
Loss on foreign currencies translation, net	208,848	(86,078)
Derivative liabilities designated as hedge:		
Gain (loss) on valuation, net	(212,713)	16,070
Comprehensive gain (loss)	63,970	(47,131)

(*) Amount before deducting the capitalization of borrowing costs.

38. RISK MANAGEMENT:

(1) Risk management policy

The Company manages various risks that can arise from each business, and the main targets are credit risk, market risk, interest risk, liquidity risk, etc. These risks are recognized, measured and reported according to basic policies established by the Company.

(2) Capital risk management

The Company's capital management purpose is to maintain a strong capital base, so as to maintain investor, creditor and market confidence, and to sustain future development of the business. The Company's capital management is to maintain as a going concern and minimize the cost of capital, so as to maximize shareholder's profit. The management of the Company also monitors periodically the level of capital structure and maintains the optimal capital structure.

The Company manages the capital structure of the Company based on net debt-to-adjusted equity ratio. The Company has a target-gearing ratio of 45%–50%, determined as the proportion of net debt to equity and maintaining credit rating of AAA. The Company maintains credit rating of AAA in 2017.

As of December 31, 2017 and 2016, computation of net debt-to-adjusted equity ratio is as follows (Korean won in millions):

	December 31, 2017	December 31, 2016
Total debt	₩ 25,543,024	₩ 25,582,973
Less: cash and cash equivalents	(500,018)	(632,760)
Net debt	25,043,006	24,950,213
Total equity	33,606,968	32,070,103
	₩ 58,649,974	₩ 57,020,316
Net debt-to-adjusted equity ratio	42.70%	43.76%

(3) Financial risk management

1) Purpose of financial risk management

The Board of Directors has overall responsibility for the establishment and oversight of the Company's risk management framework. The Board of Directors has established the Risk Management Committee, which is responsible for developing and monitoring the Company's risk management policies. The committee reports regularly to the Board of Directors on its activities.

The Company's risk management policies are established to identify and analyze the risks faced by the Company, to set appropriate risk limits and controls and to monitor risks and adherence to limits. Risk management policies and systems are reviewed regularly to reflect changes in market conditions and the Company's activities. The Company, through its training and management standards and procedures, aims to develop a disciplined and constructive control environment in which all employees understand their roles and obligations.

The Company's Audit Committee oversees how management monitors compliance with the Company's risk management policies and procedures, and reviews the adequacy of the risk management framework in relation to the risks faced by the Company. The Company's Audit Committee is assisted in its oversight role by Internal Audit. Internal Audit undertakes both regular and ad hoc reviews of risk management controls and procedures, the results of which are reported to the Audit Committee.

2) Credit risk

① The carrying amount of financial assets represents the maximum credit exposure. The maximum exposure to credit risk as of December 31, 2017 and 2016, are as follows (Korean won in millions):

	December 31, 2017	December 31, 2016
Financial assets at FVTPL	₩ 886	₩ 1,513
Loans and receivables	320,372	267,842
Cash and cash equivalents	500,018	632,760
Interest rate swap	25,451	24,090
Currency swap	7,270	163,299
	₩ 853,997	₩ 1,089,504

② Impairment loss

Allowance for doubtful receivables is used to record impairment loss before the Company can have assurance of uncollectibility of assets. If the Company determined that assets cannot be recovered, allowance for doubtful receivables is removed from financial assets. Impairment analysis of trade and other financial assets are described in Note 7.

3) Liquidity risk

① The contractual maturities of financial liabilities as of December 31, 2017 and 2016, excluding the impact of netting agreements, are as follows (Korean won in millions):

As of December 31, 2017:

	Carrying amount	Contractual cash flow	Within 6 months	6–12 months	1 year–2 years	2–5 years	More than 5 years
Non-derivative financial liabilities:							
Trade and other payables	₩ 1,292,458	₩ 1,322,406	₩ 539,822	₩ 158,834	₩ 184,730	₩ 439,020	₩ -
Unsecured bonds	24,943,024	24,949,452	1,628,123	1,173,084	2,859,032	6,926,097	12,363,116
Other long-term debt	600,000	600,000	-	-	100,000	500,000	-
	₩ 26,835,482	₩ 26,871,858	₩ 2,167,945	₩ 1,331,918	₩ 3,143,762	₩ 7,865,117	₩ 12,363,116

As of December 31, 2016:

	Carrying amount	Contractual cash flow	Within 6 months	6–12 months	1 year–2 years	2–5 years	More than 5 years
Non-derivative financial liabilities:							
Trade and other payables	₩ 1,356,064	₩ 1,393,964	₩ 668,017	₩ 287,377	₩ 110,893	₩ 327,677	₩ -
Unsecured bonds	25,154,973	25,161,325	2,015,722	1,414,250	2,841,747	7,407,628	11,481,978
Other long-term debt	428,000	428,000	22,000	6,000	-	400,000	-
	₩ 26,939,037	₩ 26,983,289	₩ 2,705,739	₩ 1,707,627	₩ 2,952,640	₩ 8,135,305	₩ 11,481,978

It is not expected that the cash flows included in the maturity analysis could occur significantly earlier or at significantly different amounts.

② The periods in which the cash flows associated with cash flow hedges are expected to occur as of December 31, 2017 and 2016, are as follows (Korean won in millions):

As of December 31, 2017:

	Carrying amount	Expected cash flow	Within 6 months	6–12 months	1 year–2 years	2–5 years	More than 5 years
Currency swap:							
Assets	₩ 7,270	₩ 7,270	₩ -	₩ -	₩ -	₩ -	₩ 7,270
Liabilities	(154,257)	(154,257)	(18,706)	(17,770)	(30,286)	(32,343)	(55,152)
Interest rate swap:							
Assets	26,337	26,337	-	-	-	24,903	1,434
Liabilities	(63,620)	(63,620)	-	-	-	(19,248)	(44,372)

As of December 31, 2016:

	Carrying amount	Expected cash flow	Within 6 months	6–12 months	1 year–2 years	2–5 years	More than 5 years
Currency swap:							
Assets	₩ 163,299	₩ 163,299	₩ 80,923	₩ 40,489	₩ 14,327	₩ 24,458	₩ 3,102
Liabilities	(49,444)	(49,444)	(14,141)	-	(15,292)	-	(20,011)
Interest rate swap:							
Assets	24,090	24,090	-	-	-	1,738	22,352
Liabilities	(44,549)	(44,549)	(838)	(207)	-	(8,180)	(35,324)

4) Currency risk

① Exposure to currency risk

The Company's exposure to foreign currency risk as of December 31, 2017 and 2016, is as follows (Korean won in millions):

As of December 31, 2017:

	USD	EUR	JPY	HKD	CHF	CNH
Liabilities:						
Bonds	₩ 1,392,820	₩ 182,933	₩ 189,568	₩ 492,624	₩ 147,285	₩ 93,528

As of December 31, 2016:

	USD	EUR	JPY	HKD	CHF	CNH
Liabilities:						
Bonds	₩ 3,504,650	₩ 181,267	₩ 41,472	₩ 215,513	₩ 259,893	₩ 155,934

Exchange rates applied as of and for the years ended December 31, 2017 and 2016, are as follows (Korean won):

	Average rate		Reporting date spot rate	
	2017	2016	December 31, 2017	December 31, 2016
USD	₩ 1,130.84	₩ 1,160.50	₩ 1,071.40	₩ 1,208.50
EUR	1,276.39	1,283.30	1,279.25	1,267.60
JPY	10.09	10.68	9.49	10.37
HKD	145.13	149.51	137.07	155.83
CHF	1,148.72	1,177.36	1,094.72	1,181.33
CNH	167.46	174.40	163.65	173.26
SEK	132.45	-	129.90	-
CAD	871.68	-	852.69	-

② Sensitivity analysis

A strengthening of the Korean won, as indicated below, against the USD, EUR, JPY, HKD, CHF, CNH, SEK and CAD at December 31, 2017 and 2016, would have increased (decreased) equity and profit or loss by the amounts shown below. This analysis is based on foreign currency exchange rate variances that the Company considered reasonably possible at the reporting date. The analysis assumes that all other variables, in particular interest rates, remain constant and ignores any impact of forecasted sales and purchases. The Company's sensitivity to a 10% increase in Korean won (functional currency of the Company) against the foreign currencies as of December 31, 2017 and 2016, is as follows (Korean won in millions):

	December 31, 2017		December 31, 2016	
	Equity	Profit or loss	Equity	Profit or loss
USD	₩ (139,282)	₩ (139,282)	₩ (350,465)	₩ (350,465)
EUR	(18,293)	(18,293)	(18,127)	(18,127)
JPY	-	-	(4,147)	(4,147)
HKD	(18,957)	(18,957)	(21,551)	(21,551)
CHF	(49,262)	(49,262)	(25,989)	(25,989)
CNH	(14,729)	(14,729)	(15,593)	(15,593)
SEK	(9,353)	(9,353)	-	-
CAD	(11,511)	(11,511)	-	-

5) Interest rate risk

① The Company's interest-bearing financial liabilities as of December 31, 2017 and 2016, are as follows (Korean won in millions):

	December 31, 2017	December 31, 2016
Fixed-rate instruments:		
Financial liabilities	₩ 25,083,099	₩ 24,887,460
Variable-rate instruments:		
Financial liabilities	459,925	695,513

② Cash flow sensitivity analysis for variable-rate instruments

A change of 100 basis points ("bps") in interest rates as of December 31, 2017 and 2016, would have increased (decreased) equity and profit or loss by the amounts shown below. This analysis assumes that all other variables, in particular foreign currency rates, remain constant. The analysis is performed on the same basis for 2016 (Korean won in millions):

	Profit or loss		Equity	
	100 bp increase	100 bp decrease	100 bp increase	100 bp decrease
As of December 31, 2017:				
Variable-rate instruments	₩ (4,599)	₩ 4,599	₩ (4,599)	₩ 4,599
As of December 31, 2016:				
Variable-rate instruments	₩ (6,955)	₩ 6,955	₩ (6,955)	₩ 6,955

6) Major assets and liabilities with uncertainties in underlying assumptions

A sensitivity analysis on the Company's defined benefit obligation assuming a 1% increase or 1% decrease in various assumptions as of December 31, 2017 and 2016, are as follows (Korean won in millions):

Assumptions	Accounts	December 31, 2017		December 31, 2016	
		1% increase	1% decrease	1% increase	1% decrease
Future salary increases	Defined benefit obligation	₩ 20,502	₩ (17,536)	₩ 17,185	₩ (14,651)
Discount rate	Defined benefit obligation	(17,126)	20,364	(14,319)	17,084

(4) Fair value measurements

The fair value of financial instruments traded in active markets is calculated based on the notified market price as of December 31, 2017 and 2016. Published market prices of financial assets that the Company retains are bid prices.

The fair value of financial instruments that are not traded in an active market is determined using valuation techniques. The Company uses a variety of assessment techniques and establishes a hypothesis based on current market conditions as of December 31, 2017 and 2016.

The Company's fair value assessment techniques are using recent transactions between independent parties that have reasonable judgement and willingness to deal with, referring the other financial instrument's present value that is substantially equal, discounting estimated cash flow method, option-pricing model, etc. For example, the fair value of interest rate swaps is calculated as the present value of estimated future cash flows, and the fair value of foreign exchange forward contracts is calculated by applying notice forward rate for the year ended December 31, 2017.

- Debt instruments, including bonds
The fair value of debt instruments, such as corporate bonds, has been determined by applying the discounted cash flow method. The discount rate used to discount cash flows was determined by swap rate and credit spreads as a base that are published in market for debenture having similar credit rating and period like fair value measurement debt securities.

As the inputs of the discount rate have a significant impact on the fair value of corporate bonds, including debt instruments derived on the basis of the available information observed in the market, the Company has classified the fair value measurement of corporate bonds, including debt instruments, in the Level 2 of the fair value hierarchy.

- Unmarketable shares
The fair value of unlisted shares is measured using cash flow discount model in order to estimate the future cash flows business plans and sales growth based on the industry situation and pretax operating margin using assumptions that are not based on observable market price or percentage of such weighted-average cost of capital assumption or estimations. The weighted-average cost of capital used to discount the future cash flow was estimated by utilizing the data of similar listed companies applying the capital asset pricing model. The Company has determined that as major assumptions and estimates mentioned above have a significant the impact on the fair value of unlisted shares, the Company classifies the fair value measurement of unlisted shares in the three-level fair value hierarchy.

1) Fair values versus carrying amounts

The fair values of financial assets and liabilities, together with the carrying amounts shown in the statement of financial position, as of December 31, 2017 and 2016, are as follows (Korean won in millions):

	December 31, 2017		December 31, 2016	
	Carrying amount	Fair value	Carrying amount	Fair value
Assets carried at fair value:				
Current financial assets at FVTPL	₩ -	₩ -	₩ 1,513	₩ 1,513
Current derivative financial assets	-	-	121,413	121,413
Non-current financial assets at FVTPL	885	885	-	-
Non-current AFS financial assets	95,887	95,887	87,908	87,908
Non-current derivative financial assets	32,721	32,721	65,976	65,976
	₩ 129,493	₩ 129,493	₩ 276,810	₩ 276,810
Assets carried at amortized cost:				
Cash and cash equivalents	₩ 500,017	₩ 500,017	₩ 632,760	₩ 632,760
Short-term loans and receivables	2,081	2,081	2,310	2,310
Current other financial assets	5,011	5,011	4,111	4,111
Trade and other receivables	204,706	204,706	162,705	162,705
Long-term financial instruments	-	-	3	3
Long-term loans and receivables	28,475	28,475	29,251	29,251
Long-term trade and other receivables	80,099	80,099	69,462	69,462
	₩ 820,389	₩ 820,389	₩ 900,602	₩ 900,602

	December 31, 2017		December 31, 2016	
	Carrying amount	Fair value	Carrying amount	Fair value
Liabilities carried at fair value:				
Current derivative financial liabilities	₩ 36,476	₩ 36,476	₩ 14,978	₩ 14,978
Non-current financial liabilities at FVTPL	144,854	144,854	157,341	157,341
Non-current derivative financial liabilities	152,109	152,109	79,014	79,014
	₩ 333,439	₩ 333,439	₩ 251,333	₩ 251,333
Liabilities carried at amortized cost:				
Trade and other payables	₩ 696,643	₩ 696,643	₩ 954,782	₩ 954,782
Current portion of bonds	2,801,102	2,801,102	3,428,620	3,428,620
Other current financial liabilities	-	-	28,000	28,000
Long-term trade and other payables	595,815	595,815	401,282	401,282
Long-term borrowings	600,000	600,000	400,000	400,000
Bonds	22,026,360	22,026,360	21,605,280	21,605,280
	₩ 26,719,920	₩ 26,719,920	₩ 26,817,964	₩ 26,817,964

2) Fair value hierarchy

The different levels of fair values of financial assets and liabilities have been defined as follows:

- ✓ Level 1: quoted prices (unadjusted) in active markets for identical assets or liabilities.
- ✓ Level 2: inputs, other than quoted prices included within Level 1, that are observable for the asset or liability, either directly (i.e., as prices) or indirectly (i.e., derived from prices).
- ✓ Level 3: inputs for the asset or liability that are not based on observable market data (unobservable inputs).

Financial instruments that are measured subsequent to initial recognition at fair value, by fair value hierarchy levels, as of December 31, 2017 and 2016, are as follows (Korean won in millions):

	Level 1	Level 2	Level 3	Total
As of December 31, 2017:				
Non-current financial assets at FVTPL	₩ -	₩ 886	₩ -	₩ 886
AFS financial assets	-	-	46,294	46,294
Non-current derivative financial assets	-	32,721	-	32,721
Current derivative financial liabilities	-	36,476	-	36,476
Non-current financial liabilities at FVTPL	-	144,854	-	144,854
Non-current derivative financial liabilities	-	152,109	-	152,109
As of December 31, 2016:				
Current financial assets at FVTPL	₩ -	₩ 1,513	₩ -	₩ 1,513
AFS financial assets	-	-	42,304	42,304
Current derivative financial assets	-	121,413	-	121,413
Non-current derivative financial assets	-	65,976	-	65,976
Current derivative financial liabilities	-	14,978	-	14,978
Non-current financial liabilities at FVTPL	-	157,341	-	157,341
Non-current derivative financial liabilities	-	79,014	-	79,014

The assumption and method used for the valuation of AFS financial assets measured at fair value as of December 31, 2017, are as follows:

① Assumption

	Valuation method	Discount rate	Remark
Seoul-Choonchun Highway	Discounted cash flow method	6.20%	Expected future free cash flows
DREAMLINE Corporation	Discounted cash flow method	6.05%	Expected future free cash flows

② Method

	Book value before valuation	Valuation gain (before income tax)	Book value	Fair value
Seoul-Choonchun Highway	₩ 42,304	₩ 3,177	₩ 45,481	₩ 45,481
DREAMLINE Corporation	-	814	814	814

39. RELATED-PARTY TRANSACTIONS:

(1) Details of the Company's related parties as of December 31, 2017, are as follows:

	Name
Ultimate controlling party	Ministry of Land, Infrastructure and Transport
Associates	Korea Construction Management Corporation, Expressway Solar Power Co., Ltd. and Highwaysolar Co., Ltd.
Joint venture	Busan-Ulsan Expressway Co., Ltd.

(2) Transactions between the Company and related parties

1) Revenue and expenses transactions with related parties for the years ended December 31, 2017 and 2016, are as follows (Korean won in millions):

Company	Transactions	2017	2016
Busan-Ulsan Expressway Co., Ltd.	Sales	₩ 19,306	₩ 19,178
Korea Construction Management Corporation	Sales	1	-
	Cost of sales	1,326	1,091
Expressway Solar Power Co., Ltd.	Sales	1,321	1,318
Highway Solar Co., Ltd.	Sales	652	547

2) Receivables and payables with related parties as of December 31, 2017 and 2016, are as follows (Korean won in millions):

Company	Receivables and payables	December 31, 2017	December 31, 2016
Busan-Ulsan Expressway Co., Ltd.	Other accounts receivable	₩ 6	₩ 6
	Other accounts payable	194	194
Korea Construction Management Corporation	Other accounts payable	135	135
Expressway Solar Power Co., Ltd.	Other accounts receivable	28	28
Highway Solar Co., Ltd.	Other accounts receivable	13	13

There has been no impairment loss from the above receivables with related parties for the years ended December 31, 2017 and 2016.

3) Ministry of Land, Infrastructure and Transport participated in the capital increase of ₩1,360,596 million and ₩1,374,467 million for the years ended December 31, 2017 and 2016, respectively.

4) The remuneration of directors and executive officers, who are the key management personnel of the Company, for the years ended December 31, 2017 and 2016, is as follows (Korean won in millions):

	2017	2016
Salaries	₩ 1,039	₩ 1,228
Accrual for retirement and severance benefits	56	59
	₩ 1,095	₩ 1,287

40. NON-CASH-GENERATING TRANSACTIONS:

(1) The main non-cash-generating investing activities and financing activities for the years ended December 31, 2017 and 2016, are as follows (Korean won in millions):

	2017	2016
Reclassification of bonds to current portion	₩ 2,841,170	₩ 3,429,972
Reclassification of construction in progress (property and equipment)	2,942	24,715
Reclassification of construction in progress (investment property)	104,049	30,074
Reclassification of intangible assets under development	3,303,553	4,277,245

(2) The adjustments of liabilities arising from financial activities for the year ended December 31, 2017, are as follows (Korean won in millions):

	Beginning balance	Cash flow	Non-cash-generating changes			Ending balance
			Transfer	Change of exchange rate	Other	
Current portion of bonds	₩ 3,428,620	₩ (3,429,972)	₩ 2,841,170	₩ (40,534)	₩ 1,818	₩ 2,801,102
Other financial liabilities	28,000	(28,000)	-	-	-	-
Long-term borrowings	400,000	200,000	-	-	-	600,000
Bonds	21,605,280	3,429,324	(2,841,170)	(168,314)	1,240	22,026,360
Total	₩ 25,461,900	₩ 171,352	₩ -	₩ (208,848)	₩ 3,058	₩ 25,427,462

41. CONTINGENCIES:

(1) Details of major pending lawsuits as a defendant as of December 31, 2017, are as follows (Korean won in millions):

Court	Details	Litigation price	Progress
Seoul Central District Court	Claim for additional construction cost	₩ 18,325	Trial court
Seoul Central District Court	Claim for damages	15,925	Trial court
Seoul High Court	Claim for reimbursement	10,887	Trial court
		₩ 45,137	

Including above lawsuits, the Company is involved in 226 lawsuits amounting to ₩330,171 million as a defendant and recognized the provision for litigation of ₩34,965 million. Except for this, no other provision was recognized as the Company was not able to predict reasonably any impact on the financial statements as of December 31, 2017.

(2) Significant agreements with financial institutions as of December 31, 2017 are as follows (Korean won in millions):

Financial institution	Details	Limit amount	Execution Amount
Hana Bank	Working capital loan	₩ 200,000	-
	Bill acceptance	500,000	500,000
BTMU	Loan	100,000	100,000

(3) As of December 31, 2017, Seoul Guarantee Insurance provides performance guarantees of ₩117,784 million.

(4) As of December 31, 2017, except for providing a portion of AFS financial assets and investments in associates and joint venture as collateral (described in Notes 8 and 12), the Company has not provided any guarantees to the third parties.

42. APPROVAL OF FINANCIAL STATEMENTS:

The Company's financial statements were approved at the board of directors' meeting on March 12, 2018, and are to be approved finally at the general meeting of shareholders on March 27, 2018.

Deloitte.

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Independent Auditors' Review Report on Internal Accounting Control System ("IACS")

English Translation of a Report Originally Issued in Korean

To the Shareholders and the Board of Directors of
Korea Expressway Corporation:

We have reviewed the accompanying Report on the Management's Assessment of IACS (the "Management's Report") of Korea Expressway Corporation (the "Company") as of December 31, 2017. The Management's Report, and the design and operation of IACS are the responsibility of the Company's management. Our responsibility is to review the Management's Report and issue a review report based on our procedures. The Company's management stated in the accompanying Management's Report that "based on the assessment of the IACS, the Company's IACS has been appropriately designed and is operating effectively as of December 31, 2017, in all material respects, in accordance with the IACS Framework."

We conducted our review in accordance with the IACS Review Standards established by the Korean Institute of Certified Public Accountants. Those standards require that we plan and perform a review, the objective of which is to obtain a lower level of assurance than an audit, of the Management's Report in all material respects. A review includes obtaining an understanding of a company's IACS and making inquiries regarding the Management's Report and, when deemed necessary, performing a limited inspection of underlying documents and other limited procedures.

The Company's IACS represents internal accounting policies and a system to manage and operate such policies to provide reasonable assurance regarding the reliability of financial statements prepared, in accordance with Korean International Financial Reporting Standards, for the purpose of preparing and disclosing reliable accounting information. Because of its inherent limitations, IACS may not prevent or detect a material misstatement of the financial statements. Also, projections of any evaluation of effectiveness of IACS to future periods are subject to the risk that controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate.

Based on our review, nothing has come to our attention that causes us to believe that the Management's Report referred to above is not fairly stated, in all material respects, in accordance with the IACS Framework established by the Korea Listed Companies Association.

Our review is based on the Company's IACS as of December 31, 2017, and we did not review its IACS subsequent to December 31, 2017. This report has been prepared pursuant to the Acts on External Audit for Stock Companies in the Republic of Korea and may not be appropriate for other purposes or for other users.

Deloitte Anjin LLC

March 21, 2018

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